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PERSONNEL AND
READINESS

INFORMATION MEMO

May 25, 2004 2:45PM

FOR: DEPUTY SECRETARY OF DEFENSE

FROM: David S. C. Chu, USD (PERSONNEL & READINESS)

David S. C. Chu 11 June 04

SUBJECT: Unified Exchange Task Force – quarterly update

- To forward for your information the fourth quarterly update on the Task Force's progress.

RECOMMENDATION: None. For information only.

COORDINATION: None.

ATTACHMENT(S):
As stated

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6/7/04

Executive Summary
Unified Exchange Task Force Quarterly Report
June 2004

This report is submitted in accordance with PDUSD (Personnel & Readiness (P&R)) guidance to provide you a quarterly progress report on the Unified Exchange Task Force. This is the fourth quarterly update.

During the House Armed Services Committee Total Force Subcommittee hearing March 3, 2004, the Exchange Commanders expressed concern regarding the time and staff commitment the Exchange Services must devote to the planning process. Mr. Mike Downs, BG USMC (Ret) Commander, Marine Corps Exchange was especially critical of the Department's plans and direction. The testimony seriously eroded congressional support for exchange consolidation. To specifically address these matters, the PDUSD(P&R) called for a 30-day strategic pause in implementation planning, (5 Apr to 3 May).

During the strategic pause, the PDUSD (P&R) directed the Task Force to develop a concept of operations designed to maximize the efficient use of exchange resources and further communicate the envisioned end state of the implementation planning process. A draft of the concept of operations was shared with the Exchange Services' leadership. All comments have been received and was discussed during the planning committee meeting on June 9, 2004.

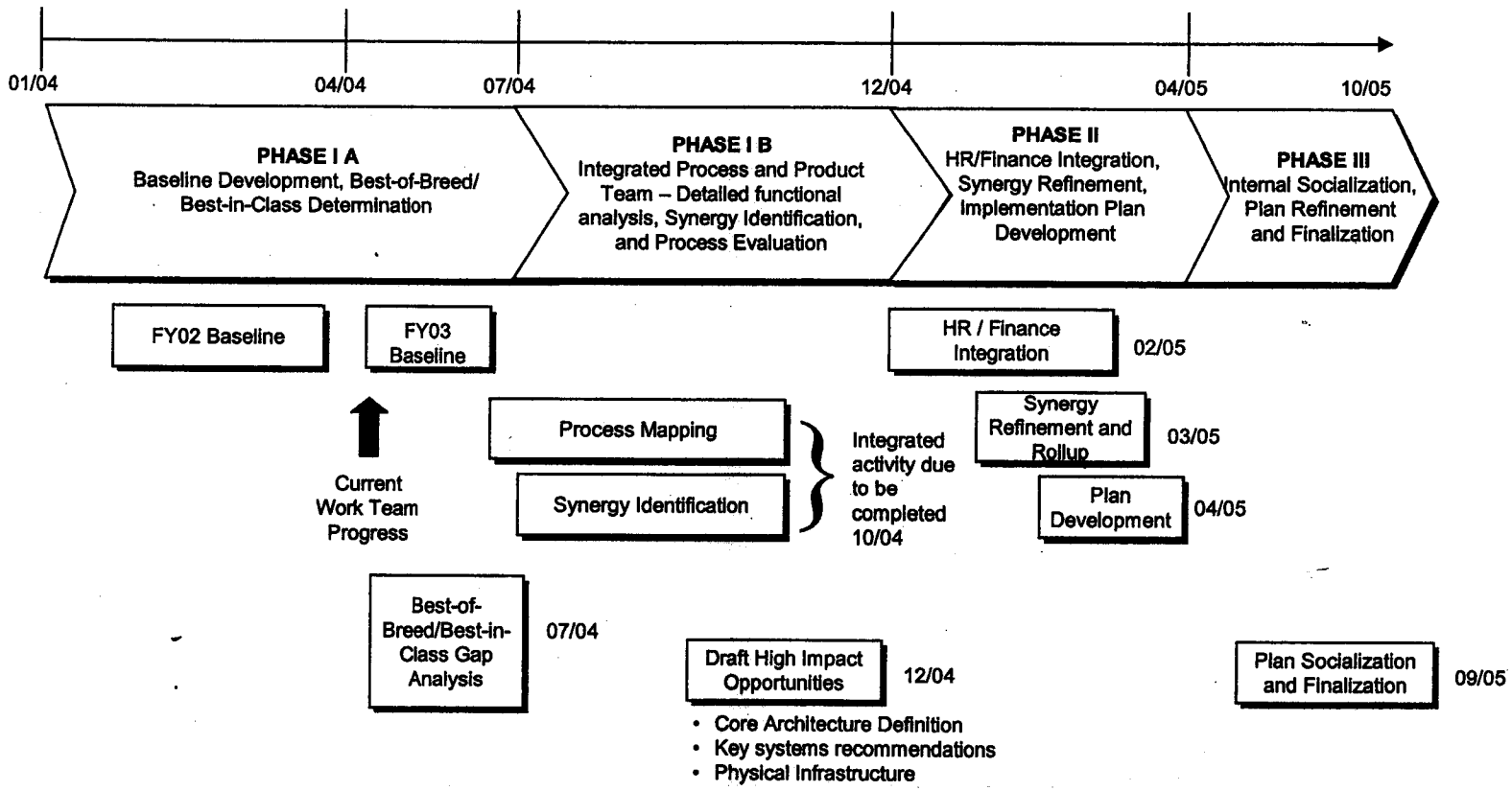
The planning process is now focused on the exchange business functions that appear to offer the majority of opportunities for streamlining and cost-cutting. The functions -- information technology, logistics, and merchandising -- are the central components of exchange service supply chain management. In addition, the Task Force has modified its planning approach to reduce the number of Exchange staff required to draft the implementation plan. As a result of these adjustments, the planning timeline has been extended. The implementation plan (timeline attached) is scheduled for delivery to Congress in October 2005.

Although baseline data was originally due in February, the revised deadline is June 30, 2004. The baseline task is four months beyond what was projected due to challenges in collecting and normalizing the data as well as a resistance to change posture by the Exchanges. The baseline extension was granted when Exchange leaders rejected the use of FY02 data in favor of FY03 data.

The Exchanges continue to express a lack of willingness to integrate, based on perceptions that a business case has not been articulated, that top line sales may erode, and that MWR dividends may be reduced. The Task Force remains confident that these

important issues will be adequately addressed in the planning process. If, however, the Task Force is unable to resolve these matters to the satisfaction of the Exchange leadership, the PDUSD(P&R) is concerned that your guidance to integrate the Exchanges will not be achieved. Charlie Abell met with Secretary of the Navy Gordon England seeking his support for exchange consolidation and his assistance in getting the Commanders of the Navy and Marine Corps exchanges to cooperate with the Task Force efforts to develop consolidation plans and the supporting business case.

The Exchange leadership and staff members are working jointly with the Task Force to develop the implementation plan and they continue to meet on a monthly basis to address ongoing issues. The Exchanges' will continue to participate in the planning and the Task Force is committed to identifying and resolving issues as they arise.

Our dialog with Congress remains open, but key members continue to openly express skepticism and a reluctance to support the changes to legislation necessary for consolidation. Members and staff are being lobbied heavily not to alter the status quo. Many outside of the Department cannot (or will not) accept the fact that the status quo actually endangers the exchange benefit and, as a result, the Services' MWR programs.

Unified Exchange Task Force Planning Timeline