



Highlights of [GAO-03-160](#), a report to the Ranking Minority Member, Committee on Small Business and Entrepreneurship, U.S. Senate

Why GAO Did This Study

Some grocery supermarket companies have been charging food product manufacturers “slotting fees” to place products in stores and have involved large product manufacturers in making decisions about what products to sell. These practices have raised concerns about anticompetitive behavior and may be adversely affecting small businesses. GAO was asked (1) if the Defense Commissary Agency is using these practices in managing military commissaries; (2) what proportion of products sold by commissaries are produced by small businesses; and (3) if small businesses face barriers in selling products through commissaries and how opportunities for small business could be improved.

What GAO Recommends

GAO is recommending that the Department of Defense study the benefits and costs of developing private label products for sale through commissaries. GAO also suggests that the department consult with the Small Business Administration on the removal of a legal hurdle that that may deter some small businesses from dealing with commissaries.

www.gao.gov/cgi-bin/getrpt?GAO-03-160.

To view the full report, click on the link above. For more information, contact Lawrence Dyckman at 202-512-9692 or dyckmani@gao.gov.

DEFENSE COMMISSARIES

Additional Small Business Opportunities Should Be Explored

What GAO Found

The Defense Commissary Agency does not charge slotting fees, and agency staff, not product manufacturers, decide which products to sell and where they will be placed on commissary shelves.

GAO estimates that slightly more than half of the companies producing products that the agency sold are small businesses. According to GAO estimates, these businesses produced about 24 percent, or about 10,900 of 45,200 products sold by commissaries from August 2000 through May 2001, generating about 7 percent of commissary sales during the period.

Federal law requires that a name brand product must have been sold on a regional basis through grocery stores or other retail operations before the agency may purchase it for resale without competition. This requirement apparently poses a legal hurdle to small businesses whose name brand product distribution may be limited because the agency cannot accept their products for resale.

GAO identified two ways in which opportunities for small businesses might be increased. First, the legal hurdle to purchasing name brand products that have limited distribution could be removed. Agency officials are capable of deciding which products to sell without this requirement.

Second, the agency could sell private label products, such as the Kroger Company’s “Big K” brand or Safeway Stores’ “Safeway Select” brand and obtain these products from both large and small businesses. In 2001, private label products constituted over 20 percent of industry unit sales and 16 percent of dollar sales. Private label products are sold at lower prices than brand name products and could potentially increase savings for commissary customers. Agency officials recognize there could be some potential benefits if the agency were to offer private label products. However, the officials said it would be difficult to initiate and operate a private label program. Further, they are concerned that if the agency attempted to sell private label products, its current suppliers would increase their prices and withdraw some of the support they now provide commissaries, perhaps reducing the overall benefits of commissary shopping. GAO noted that the agency has not done a thorough study of the potential for private label products to serve commissary customers. The agency’s Director agreed with GAO that a study of the benefits and costs of developing private label products would be reasonable to undertake to determine if such a program could enhance the commissary benefit.

The Department of Defense concurred with GAO’s recommendations and plans to implement them.