

# The Street

## Are Military Bases a Hotbed for Business?

By [Laurie Kulikowski](#) - 11/17/11 - 07:45 AM EST

NEW YORK ([MainStreet](#)) -- When U.S. troops need Proactiv acne treatment while living on a military base, they can get it through a vending machine. When Air Force pilots want a coffee at **Dunkin' Donuts** ([DD](#)) or to buy a videogame at **Game Stop** ([GME](#)), stores are on base for them to shop.

Military installations are a small yet growing avenue for businesses to expand. And, some say, a perfect avenue for a budding business to garner customers in a controlled environment.

There is an increasing push by the government to "provide more convenient and higher-quality service on military bases for their service members," says Chris Adkins, vice president of franchise development for The UPS Store, a subsidiary of **UPS** ([UPS](#)). "The military is very open to outsourcing as a way to provide these services."



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The sentiment fits well with UPS' store expansion plans in nontraditional locations, including hotels, convention centers and college campuses. The company has more than 4,700 retail locations in the U.S. and Canada -- 34 on military bases. Three more UPS locations are set to open on base by the end of the year. Adkins says that on average, the company opens five to six stores per year on military bases.

UPS is one of several franchisors looking to incentivize [veterans](#) to open stores.

"Our goal is to be where our customers need us, and U.S. service members and their families require our services," Adkins says. "We have a proven concept that has worked on many bases, so we are a known entity within the military retail supply organizations."

The UPS Store also plans to approach individual Marine and Navy installations to provide similar services, he says.

### **Creating a mini-America**

"We intend to create mini-America for the soldiers wherever they are positioned in the U.S. or overseas," says Denise Gumbert, director of services and vending at The [Army and Air Force Exchange Service](#), the primary retail distributor for Army and Air Force bases.

"There's lots of opportunity for companies to do business with us [and a] great opportunity for small businesses and small enterprises entering a new arena," Gumbert says.

The Exchange, as it's known, has the dual mission of providing "authorized patrons with articles of merchandise and services" and generating "nonappropriated fund earnings as a supplemental source of funding for military Family and Morale, Welfare and Recreation programs," according to its Web site.

It says it relies on a "large network of suppliers to provide the merchandise our customers want and expect. ... We are constantly looking to expand our selection by establishing partnerships with new companies and small-business owners."

AAFES operates 180 main stores and more than 2,000 fast food restaurants (in addition to outside vendors and franchises) at more than 3,100 facilities worldwide, the Web site says. The Marines, Coast Guard and Navy each have their own Exchange, but AAFES runs the largest.

The Exchange runs two primary forms of for-profit retail. In the direct model, the Exchange buys products from vendors that are sold to military customers and approved civilians (you must have an ID card) through the big-box retailer. In the franchise model, either the Exchange will buy the inventory and run the franchise or look to a third-party to run it for them, Gumbert says.

The Exchange is also responsible for gas stations, movie theaters, convenience stores, vending machines and temporary kiosks within malls, among other things, Gumbert says.

Small businesses are encouraged to get certified as a vendor at their local installation. Opening an establishment on base is easier and costs less because owners do not have to build a location.

"If someone has a business, we're keen to hear about it. If we can't operate it, we'll advise them to alternative methods because we like to see small businesses grow," Gumbert says.

## Challenges

But there are challenges that come with working with the military.

First, there is always the potential for military bases to close or be realigned.

Under the Department of Defense's Base Realignment and Closure program of 2005, which just completed its assignment as of Sept. 15, 2011, more than 800 locations across the U.S. were affected, including 24 installations that were closed and another 24 that were majorly realigned, a spokeswoman for the Office of the Secretary of Defense confirmed.

The BRAC Commission had recommended a next round of closures in 2015.

A second issue is that the Exchange offers discounts and benefits to military customers when selling products. "We mirror a lot of challenges faced by the commercial industry, but we like to produce a benefit to the military customer on pricing or some sort of strategic savings," Gumbert says. "It's challenging for many vendors to have to follow installation rules and regulations."

Because the market is smaller -- civilians who are not permitted on base cannot use the commercial retail stores and services -- it also requires "developing stronger relationships with our customers and the base leadership," says The UPS Store's Adkins.

That's a feat that was proven by a group of graduate students at Pepperdine University's Graziadio School of Business and Management. The students recently worked with the company [HeadBlade](#), makers of a men's razor for the scalp, that wanted to market its product to military personnel overseas, particularly in Iraq and Afghanistan. Students were charged with investigating the market opportunity and delivering recommendations as to how to successfully sell the product.

Military customers are "incredibly loyal," according to John Buckingham, the Graziadio marketing professor who led the initiative. "They're loyal to their country and [that] extends to their brand of product. They are a lot more loyal than an average consumer than the rest of America."

"The upside is if you can get in to their distribution, it could be a home run, because there are not a lot of people who are focused and really understand the military channel of distribution," he says.

The students were able to come up with several marketing tactics for the company including a strategy known as "cause marketing," Buckingham says.

"We advertised that once the military personnel buy, [Headblade] would make a donation to military care packages, which was a huge. It resonated with the target market," Buckingham says.

[Charley's Grilled Subs](#) is a 443-franchise company that has had locations on military bases for a dozen years. It recently opened its 100th location on a military base.

"A lot of what we do is based on the military's need," says Mike Cassar, Charley's vice president of marketing. "They have only so much space on their base to have different food vendors. They're looking to fill very specific needs."

But reputation also counts for a lot.

"We earn that right by working hard to uphold brand and quality and more often than not you've got a lot of youth on these military bases -- they want that taste of home," Cassar says. The expectations military customers have are higher than the average consumer, he says.

They also earn the right to expand because, as a franchise, the system has been proven to be successful and easily repeated. "They're not seeking to change it at all. What they want to do is put it to use," Cassar says.

*Written by Laurie Kulikowski in New York.*

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