

**PENNSYLVANIA FOOD  
MERCHANTS ASSOCIATION**

**AREA 3 REBUTTAL EXHIBITS**

**COST REPLACEMENT HEARING**

**JANUARY 8, 2014**

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## **INTRODUCTION**

The Pennsylvania Food Merchants Association (hereafter "PFMA") conducted an analysis of in-store handling costs related to fluid milk. This study was supervised by Thomas J. Price, CPA. The study was conducted utilizing stores located in the Pennsylvania Milk Marketing Board (hereafter "PMMB") Area 3 being studied. Raw data was obtained by PMMB and PFMA. PFMA has analyzed the raw data.

## **DEFINITIONS**

In-store handling costs - In-store handling costs are defined as costs incurred from the time store personnel receive milk deliveries until the milk product is purchased and checked out at the check-out counter.

The total in-store handling cost is comprised of four separate components, which are personnel costs, building costs, equipment costs, and other operating costs.

Personnel costs - Costs relative to personnel, including salaries, wages, payroll taxes, fringe benefits and group insurance.

Building costs - Costs are comprised of rent, depreciation, and repairs.

Equipment costs - Costs are comprised of rent, depreciation, and repairs.

Other operating costs - Costs are comprised of utilities, telephone, insurance, advertising, bags, supplies, vehicle expense, business taxes, license fees, professional services, bad checks, cash loss, inventory and cash adjustments, G&A allocated from central headquarters, and miscellaneous expenses.

## **CROSS-SECTION**

Stores included in the study are the same stores utilized by the PMMB in its cross-section. These stores are deemed to be representative of stores in PMMB Area 3 (see Table 1).

## **SCOPE OF WORK**

Financial and other store information was accumulated for use with the worksheet illustrated in Table 2. The financial information analyzed for each store, using the month of November 1999, was prepared in accordance with generally accepted accounting principles. The month of November is considered to be a representative month for the industry.

## **METHOD OF CALCULATION**

Financial information was collected and analyzed on a store-by-store basis. The total milk handling expense per quart was calculated to be the Total Milk Expense (which is calculated by multiplying the total store expenses by the ratio of adjusted milk sales to adjusted total sales) divided by total quarts (see Tables 3 and 4).

## **CURRENT COST BASED ON CONSUMER PRICE INDEX**

The cost of handling milk in retail outlets is constantly changing as the personnel, building, equipment and other costs are all subject to change over time. The changes in costs are both a normal and ongoing part of doing business as a retail outlet. We have used the Consumer Price Index for All Urban Consumers (CPI-U) to calculate the change in costs over time and recommend that the CPI-U be used to adjust the in-store handling cost on a monthly basis. We have presented this calculation for the period from October 2012 to October 2013 (see Table 5). The CPI is the most widely used measure of price change. It is both a timely and reliable source of price change data.

The CPI is released monthly about two weeks after the end of the month. Therefore, it should be updated monthly to provide a current and accurate calculation of the cost of handling milk. In Area 3, the PMMB has adopted a policy to adjust the cost using a three-month delay. This means that the index for October would be used to calculate the December cost. The delay is acceptable to allow for timely, accurate calculations each month by the staff of the PMMB.

## **DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK**

The graph (see Table 6) presents the gross margin by department of a variety of retail stores ranging from single store companies to multi-store companies for the 2013 reporting period representing a geographical area covering 34 states. Data was taken from the 2013 “Independent Grocers Financial Survey” report compiled by the National Grocers Association. Information from the study is presented with the gross margins realized by Area 3 retailers purchasing and selling at the minimum wholesale and retail prices.

## TABLE 1

### STORES INCLUDED IN THE AREA 3 SURVEY FOR IN-STORE HANDLING COSTS

Mr. Z's # 91

Turkey Hill # 165

Dandy Mini Mart # 27

Turkey Hill # 213

Liberty Exxon

Mt. Pocono Shur Save

Hometown IGA

Mifflinville Market

Coastal Store # 7418

**TABLE 2**

**IN-STORE HANDLING COST SURVEY, AREA 3:  
2000 HOME OFFICE WORKSHEET**

Labor:

    Wages: \_\_\_\_\_

    Payroll Tax: \_\_\_\_\_

    Insurance: \_\_\_\_\_

    Benefits: \_\_\_\_\_

Total Labor: \_\_\_\_\_

Equipment:

    Rental: \_\_\_\_\_

    Repairs: \_\_\_\_\_

    Depreciation: \_\_\_\_\_

Total Equipment: \_\_\_\_\_

Buildings:

    Rental: \_\_\_\_\_

    Repairs: \_\_\_\_\_

    Depreciation: \_\_\_\_\_

Total Buildings: \_\_\_\_\_

Other Expenses:

    Utilities: \_\_\_\_\_

    Telephone: \_\_\_\_\_

    Insurance: \_\_\_\_\_

    Advertising: \_\_\_\_\_

    Trash Removal: \_\_\_\_\_

    Bags & Supplies: \_\_\_\_\_

    Vehicle & Travel Expense: \_\_\_\_\_

    Business Taxes (Not Income): \_\_\_\_\_

    License Fees: \_\_\_\_\_

    Professional Services: \_\_\_\_\_

    Inventory & Cash Adjustments: \_\_\_\_\_

    Miscellaneous (Laundry, Dues): \_\_\_\_\_

    Administration: \_\_\_\_\_

    Home Office: \_\_\_\_\_

Total Other Expenses: \_\_\_\_\_

Grand Total: \_\_\_\_\_

Milk Sales in Dollars: \_\_\_\_\_

Total Sales in Dollars: \_\_\_\_\_

Quart Equivalents: \_\_\_\_\_

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Store Name and Number: \_\_\_\_\_

Manager: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone #: \_\_\_\_\_

### TABLE 3

#### PENNSYLVANIA FOOD MERCHANTS ASSOCIATION MILK MARKETING AREA 3

#### CALCULATION OF TOTAL IN-STORE MILK HANDLING EXPENSE PER QUART

Personnel Costs	\$ xx,xxx	
Building Costs	\$ xx,xxx	
Equipment Costs	\$ xx,xxx	
Other Operating Costs	<u>\$ xx,xxx</u>	
TOTAL IN-STORE HANDLING COSTS:		<u><u>\$ xxx,xxx</u></u>
November 1999 Milk Sales	\$ xxx,xxx	
DIVIDED BY:		
November 1999 Total Sales	<u>\$ x,xxx,xxx</u>	
MILK REVENUE RATIO:		<u><u>\$ .xxxx</u></u>
Total In-Store Handling Costs	\$ xxx,xxx	
MULTIPLIED BY:		
Milk Revenue Ratio	<u>\$ .xxxx</u>	
TOTAL IN-STORE MILK HANDLING EXPENSE:		<u><u>\$ xxx</u></u>
Total In-Store Milk Handling Expense	\$ xxx	
DIVIDED BY:		
November 1999 Quarts Sold	<u>x,xxx</u>	
TOTAL IN-STORE MILK HANDLING EXPENSE PER QUART:		<u><u>\$ .xxxx</u></u>

**TABLE 4**

**PENNSYLVANIA MILK MARKETING BOARD  
MILK MARKETING AREA 3**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE MONTH OF NOVEMBER 1999**

	<u>Total Revenue</u>	<u>Milk Revenue</u>	<u>Personnel Expense</u>	<u>Building Expense</u>	<u>Equipment Expense</u>	<u>Other Expense</u>	<u>Total Expenses</u>	<u>Monthly Quarts</u>
Cross-Section Totals	<u>3,374,139</u>	<u>71,615</u>	<u>324,613</u>	<u>91,232</u>	<u>11,771</u>	<u>203,061</u>	<u>630,677</u>	<u>107,542</u>
Total Revenue	3,374,139							
Total Milk Revenue	<u>71,615</u>							
Milk Revenue Ratio	<u>2.12%</u>							
Personnel	324,613							
Building	91,232							
Equipment	11,771							
Other	<u>203,061</u>							
Total Expenses	<u>630,677</u>							
Milk Expenses	13,370							
Total Quarts	<u>107,542</u>							
Milk Expense per Quart	<u>0.1243</u>							
Per PMMB Order	<u>0.0909</u>							

**TABLE 5****PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 3****COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE TWELVE MONTHS ENDED OCTOBER 2013**

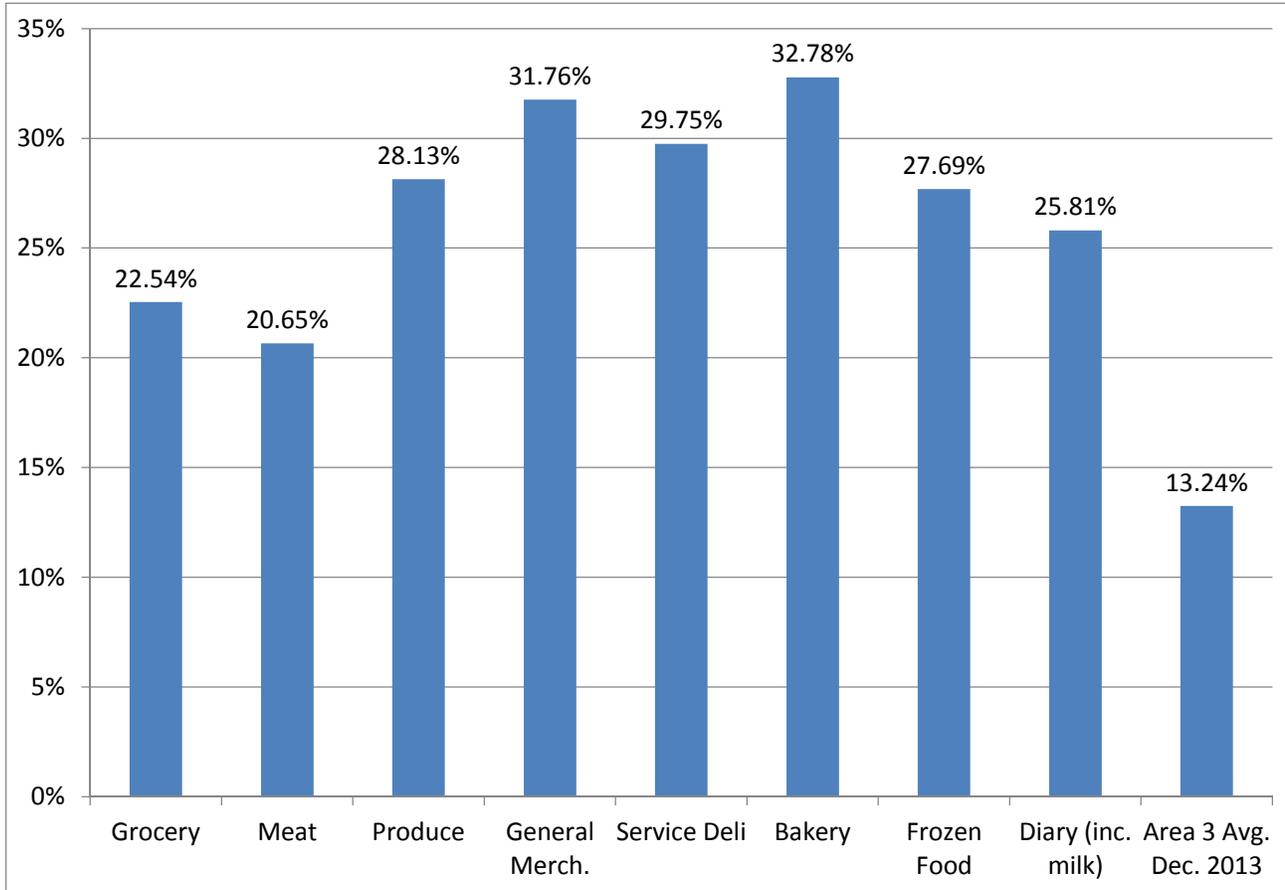
	<u>MONTH</u>		<u>CPI INDEX</u>		<u>In-Store Handling Cost Per PMMB Order A- 954</u>
<b>Milk expense per quart at last cost replacement hearing:</b>	October	2012	231.317		\$ 0.1249
<b>Divided by CPI-U Index</b>	November	2012	230.221	=	\$ 0.1243
<b>Multiplied by CPI-U index</b>	December	2012	229.601	=	\$ 0.1240
	January	2013	230.280	=	\$ 0.1243
	February	2013	232.166	=	\$ 0.1254
	March	2013	232.773	=	\$ 0.1257
	April	2013	232.531	=	\$ 0.1256
	May	2013	232.945	=	\$ 0.1258
	June	2013	233.504	=	\$ 0.1261
	July	2013	233.596	=	\$ 0.1261
	August	2013	233.877	=	\$ 0.1263
	September	2013	234.149	=	\$ 0.1264
	October	2013	233.546	=	\$ 0.1261

**TABLE 6**

**PENNSYLVANIA MILK MARKETING BOARD  
MILK MARKETING AREA 3**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK  
DECEMBER 2013**

**DEPARTMENTS OF INDEPENDENT RETAILERS**



Calculation for "Area 3 Avg. Dec. 2013"

Current Wholesale Price (per quart)	1.067		
Deepest Discount (13%)	<u>(0.1387)</u>		
Current Cost Less Discount	0.9283	Current Retail Price	1.07
			<u>(0.9283)</u>
		Gross Profit	0.1417
		Gross Profit %	13.24%

## TABLE 7

### **Thomas J. Price, CPA** *Curriculum Vitae*

#### **EDUCATION**

Bloomsburg University – B.S. Degree in Accounting (1981)

#### **EMPLOYMENT**

Herbein + Company, Inc.

October 1994 to Present:  
Partner

July 1989 to December 1991:  
Manager of Accounting and Auditing Department

July 1986 to July 1989:  
Supervisor of Accounting and Auditing Department

July 1984 to June 1986:  
Senior of Accounting and Auditing Department

December 1982 to July 1984:  
In-Charge of Accounting and Auditing Department

June 1981 to December 1982:  
Staff Accountant

#### **PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS**

CPA – Commonwealth of Pennsylvania (February 1984)

Member – American Institute of Certified Public Accountants

Member – Pennsylvania Institute of Certified Public Accountants

Member – Reading Chapter of Certified Public Accountants

Finance Chairman – Frieden's Lutheran Church

Board Member – Frieden's Lutheran Church

Board Member – Thrivent Financial for Lutherans

#### **SPECIFIC RELATED EMPLOYMENT EXPERIENCE**

Assisted In the original development of the methodology of analyzing in-store handling costs.

Supervised in-store handling costs studies for Pennsylvania Food Merchants for the period 1987 to 1998.

I have spent over 32 years providing various accounting and tax services for retail manufacturing and service businesses including food industry manufacturers and distributors.