

**PENNSYLVANIA FOOD  
MERCHANTS ASSOCIATION**

**AREA 2 REBUTTAL EXHIBITS**

**COST REPLACEMENT HEARING**

**DECEMBER 3, 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 in 2007. The study was conducted utilizing stores located in the Pennsylvania Milk Marketing Board (hereafter "PMMB") Area 2 being studied. Raw data was obtained by PMMB and PFMA. PFMA has analyzed the raw data. Several stores selected by the staff of the PMMB declined to share their information with the PFMA. The information from these stores is presented as "Other Stores" in Table 4. This information was derived from the exhibit produced by the staff of the PMMB and individual store information from these stores has never been seen or utilized by the PFMA. However, this information has been analyzed as a whole by the PFMA and used in the calculation of the in-store handling cost. The current Cost Replacement Hearing exhibits data has been supervised by Thomas J. Price, CPA.

## **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 2 (see Table 1).

## **SCOPE OF WORK**

September 2007 financial information was accumulated for each store in the cross-section and prepared in accordance with generally accepted accounting principles. The month of September is considered to be a representative month for the industry. Table 2 presents the worksheet used to collect store data and Table 3 presents the formula used to calculate the in-store handling cost for the entire cross-section of surveyed stores.

## **METHOD OF CALCULATION**

Financial information was collected and analyzed on a store-by-store basis with the exception of the stores that declined to share their information with the PFMA. In their case the information was obtained from the exhibit produced by the staff of the PMMB. 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).

Due to the recent high levels in the state minimum retail price of milk, milk sales have been indexed to a level considered more normal relative to store sales. The calculation of this index is presented in Table 6. Additionally, milk sales in the cross-section stores selling above the state minimum retail price have been restated to the minimum retail price based on the actual volume and packages sold by the stores. Both the indexing to the normal selling price and the restatement to the minimum retail price are considered necessary to avoid capturing costs due to the recent high retail prices.

## **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. This calculation is presented for the period from October 2013 to September 2014 (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 within two weeks after the end of the month. Therefore, it should be updated monthly to insure a current and accurate calculation of the cost of handling milk. In Area 2 the PMMB has adopted a policy to adjust the cost using a two-month delay. This means that the index for September 2014 would be used to calculate the November 2014 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 7) 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 38 states and 2 Canadian provinces. Data was taken from the 2014 “Independent Grocers Financial Survey” report compiled by the National Grocers Association. Information from the study is presented with the gross margins realized by Area 2 retailers purchasing and selling at the minimum wholesale and retail prices.

## TABLE 1

### STORES INCLUDED IN THE AREA 2 SURVEY FOR IN-STORE HANDLING COSTS

CVS, Bangor

Rite Aid, Nazareth

Boyer's Market, Douglassville

Turkey Hill, Mohnton

Turkey Hill, Emmaus

Turkey Hill, Reading

Giant, Reading

Giant, Coplay

Ahart's Market, Allentown

Hess Express, Allentown

Hess Express, Douglassville

**TABLE 2**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 2**

**IN-STORE HANDLING COST SURVEY, AREA 2,  
STORE INFORMATION WORKSHEET**

Labor:		
Wages:	_____	
Payroll Tax:	_____	
Insurance:	_____	
Benefits:	_____	
Total Labor:		=====
Equipment:		
Rental:	_____	
Repairs:	_____	
Depreciation:	_____	
Total Equipment:		=====
Buildings:		
Rental:	_____	
Repairs:	_____	
Depreciation:	_____	
Total Buildings:		=====
Other Expense:		
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 Expense:		=====
Grand Total:		=====
Milk Sales in Dollars:		=====
Total Sales in Dollars:		=====
Quart Equivalents:		=====
<hr/>		
Store Name and Number:	_____	
Manager:	_____	
Address:	_____	
Telephone #:	_____	

**TABLE 3**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 2**

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

<b>Personnel Costs</b>	\$ xx,xxx
<b>Building Costs</b>	\$ xx,xxx
<b>Equipment Costs</b>	\$ xx,xxx
<b>Other Operating Costs</b>	<u>\$ xx,xxx</u>
<b>TOTAL EXPENSES:</b>	<u><u>\$ xxx,xxx</u></u>
<b>September 2007 Actual Milk Sale:</b>	\$ xxx,xxx
<b>Less: Adjustment to September 2007 minimum price</b>	<u>(\$ xxx,xxx)</u>
<b>September 2007 milk sales at minimum price</b>	\$ xxx,xxx
<b>MULTIPLIED BY:</b>	
<b>Index to restate sales at normal level:</b>	<u>xx.x%</u>
<b>ADJUSTED MILK SALES</b>	\$ xxx,xxx
<b>DIVIDED BY:</b>	
<b>September 2007 Adjusted Total Sales:</b>	<u>\$ x,xxx,xxx</u>
<b>MILK REVENUE RATIO:</b>	<u><u>xx.x%</u></u>
<b>TOTAL EXPENSES</b>	\$ xxx,xxx
<b>MULTIPLIED BY:</b>	
<b>MILK REVENUE RATIO</b>	<u>xx.x%</u>
<b>TOTAL MILK HANDLING EXPENSE:</b>	\$ xxx,xxx
<b>DIVIDED BY:</b>	
<b>September 2007 Quarts Sold</b>	<u>xxx,xxx</u>
<b>IN-STORE MILK HANDLING EXPENSE (PER QUART):</b>	<u><u>\$ .xxxx</u></u>

**TABLE 4**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 2**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE MONTH OF SEPTEMBER 2007**

	<u>Stores Studied</u>	<u>Other Stores</u>	<u>Total</u>	<u>Average</u>
<b>Milk Revenue</b>				
Milk sales	\$ 163,954			
Reduction to minimum price	<u>(4,905)</u>			
Sales at minimum price	159,049			
Index to normal level (table 6) 78.0%	<u>\$ (34,991)</u>			
<b>Adjusted Milk Revenue:</b>	<u>\$ 124,058</u>	+ <u>\$ 2,496</u>	= <u>\$ 126,554</u>	/11= <u>\$ 11,505</u>
<b>Total Revenue</b>				
Total sales	\$ 7,663,403			
Reduction to minimum price	<u>(4,905)</u>			
Sales at minimum price	\$ 7,658,498			
Less index to normal level	<u>\$ (34,991)</u>			
<b>Adjusted Total Revenue:</b>	<u>\$ 7,623,507</u>	+ <u>\$ 2,124,138</u>	= <u>\$ 9,747,645</u>	/11= <u>\$ 886,150</u>
<b>Adjusted Milk Revenue:</b>		\$ 126,554		
Divided by		/		
<b>Adjusted Total Revenue:</b>		9,747,645	=	1.30% <b>Milk Revenue Ratio</b>
<b>Milk Handling Expense</b>				
<b>Expenses:</b>				
Personnel expenses	\$ 818,997			
Building expenses	151,262			
Equipment expenses	24,324			
Other expenses	<u>532,746</u>			
<b>Total Expenses:</b>	<u>\$ 1,527,329</u>	<u>\$ 246,183</u>	\$ 1,773,512	/11= \$ 161,228
	x <b>Milk Revenue Ratio</b>		x 1.30%	x 1.30%
<b>Total Milk Handling Expense:</b>			= <u>\$ 23,056</u>	= <u>\$ 2,096</u>
<b>Total Milk Handling Expense:</b>			\$ 23,056	\$ 2,096
Divided by			/	
<b>Total Quarts</b>	169,460 +	3,399	= <u>172,859</u>	/11= <u>15,714</u>
<b>In-Store Milk Handling Expense (per quart)</b>			= <u>\$ 0.1334</u>	= <u>\$ 0.1334</u>

**OGO No. A-953, effective July 1, 2008**

**TABLE 5**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 2**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE ELEVEN MONTHS ENDED OCTOBER 2014**

	<u>Month</u>	<u>CPI Index</u>		<u>Per OGO No. A-951</u>
<b>Milk expense per quart per last cost replacement hearing:</b>	October 2013	233.546		\$ 0.1495
<b>Divided by CPI-U Index:</b>	November 2013	233.069		\$ 0.1492
<b>Multiplied by CPI-U index:</b>	December 2014	233.049	=	\$ 0.1492
	January 2014	233.916	=	\$ 0.1497
	February 2014	234.781	=	\$ 0.1503
	March 2014	236.293	=	\$ 0.1512
	April 2014	237.072	=	\$ 0.1517
	May 2014	237.900	=	\$ 0.1523
	June 2014	238.343	=	\$ 0.1525
	July 2014	238.250	=	\$ 0.1525
	August 2014	237.852	=	\$ 0.1522
	September 2014	238.031	=	\$ 0.1523

**TABLE 6**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 2**

**INDEXING OF SEPTEMBER 2007 MINIMUM  
RETAIL PRICES TO NORMAL LEVELS**

<u>Month</u>	<u>Whole</u>	<u>2%</u>	<u>1%</u>	<u>Nonfat</u>	<u>12mo 2% avg</u>	<u>5yr 2% avg</u>	<u>CPI Index</u>	<u>5yr 2% CPI</u>
Sep-02	2.60	2.50	2.42	2.35	2.57		181.00	2.50
Oct-02	2.58	2.48	2.41	2.34	2.55		181.30	2.50
Nov-02	2.58	2.49	2.41	2.35	2.53		181.30	2.50
Dec-02	2.65	2.58	2.47	2.40	2.52		180.90	2.50
Jan-03	2.63	2.55	2.43	2.35	2.52		181.70	2.51
Feb-03	2.57	2.48	2.37	2.28	2.52		183.10	2.53
Mar-03	2.55	2.47	2.36	2.28	2.51		184.20	2.54
Apr-03	2.56	2.49	2.38	2.31	2.51		183.80	2.54
May-03	2.59	2.51	2.40	2.32	2.51	2.46	183.50	2.53
Jun-03	2.61	2.52	2.41	2.33	2.51	2.47	183.70	2.54
Jul-03	2.59	2.50	2.39	2.31	2.51	2.47	183.90	2.54
Aug-03	2.63	2.55	2.44	2.35	2.51	2.48	184.60	2.55
Sep-03	2.94	2.85	2.73	2.65	2.54	2.48	185.20	2.56
Oct-03	2.99	2.91	2.80	2.72	2.58	2.49	185.00	2.56
Nov-03	2.96	2.87	2.76	2.67	2.61	2.50	184.50	2.55
Dec-03	2.96	2.87	2.75	2.67	2.63	2.51	184.30	2.55
Jan-04	2.78	2.69	2.57	2.48	2.64	2.51	185.20	2.56
Feb-04	2.78	2.68	2.54	2.44	2.66	2.51	186.20	2.57
Mar-04	2.75	2.63	2.47	2.35	2.67	2.51	187.40	2.59
Apr-04	2.92	2.77	2.56	2.41	2.70	2.52	188.00	2.60
May-04	3.47	3.29	3.06	2.88	2.76	2.53	189.10	2.61
Jun-04	3.54	3.36	3.12	2.95	2.83	2.55	189.70	2.62
Jul-04	3.28	3.13	2.93	2.78	2.88	2.57	189.40	2.62
Aug-04	3.02	2.87	2.66	2.51	2.91	2.58	189.50	2.62
Sep-04	2.98	2.85	2.67	2.55	2.91	2.58	189.90	2.62
Oct-04	3.14	2.96	2.82	2.70	2.91	2.59	190.90	2.64
Nov-04	3.08	2.90	2.76	2.63	2.92	2.59	191.00	2.64
Dec-04	3.11	2.93	2.79	2.66	2.92	2.61	190.30	2.63
Jan-05	3.29	3.07	2.90	2.75	2.95	2.62	190.70	2.63
Feb-05	3.06	2.92	2.80	2.70	2.97	2.63	191.80	2.65
Mar-05	3.20	3.04	2.91	2.79	3.01	2.65	193.30	2.67
Apr-05	3.10	2.93	2.81	2.69	3.02	2.66	194.60	2.69
May-05	3.17	3.01	2.88	2.77	3.00	2.67	194.40	2.69
Jun-05	3.08	2.94	2.83	2.73	2.96	2.68	194.50	2.69
Jul-05	3.10	2.95	2.84	2.74	2.95	2.69	195.40	2.70
Aug-05	3.13	2.96	2.82	2.70	2.96	2.70	196.40	2.71
Sep-05	3.09	2.92	2.79	2.67	2.96	2.71	198.80	2.75
Oct-05	3.14	2.97	2.83	2.70	2.96	2.72	199.20	2.75
Nov-05	3.21	3.04	2.90	2.78	2.97	2.74	197.60	2.73
Dec-05	3.14	2.98	2.86	2.75	2.98	2.74	196.80	2.72
Jan-06	3.14	3.01	2.90	2.80	2.97	2.75	198.30	2.74
Feb-06	3.14	3.01	2.90	2.80	2.98	2.76	198.70	2.74

**TABLE 6**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 2**

**INDEXING OF SEPTEMBER 2007 MINIMUM  
RETAIL PRICES TO NORMAL LEVELS**

<u>Month</u>	<u>Whole</u>	<u>2%</u>	<u>1%</u>	<u>Nonfat</u>	<u>12mo 2% avg</u>	<u>5yr 2% avg</u>	<u>CPI Index</u>	<u>5yr 2% CPI</u>
Mar-06	3.06	2.94	2.84	2.75	2.97	2.76	199.80	2.76
Apr-06	2.97	2.85	2.76	2.68	2.97	2.77	201.50	2.78
May-06	2.95	2.84	2.75	2.67	2.95	2.77	202.50	2.80
Jun-06	2.94	2.83	2.74	2.65	2.94	2.77	202.90	2.80
Jul-06	3.00	2.89	2.80	2.72	2.94	2.78	203.50	2.81
Aug-06	2.98	2.87	2.78	2.70	2.93	2.78	203.90	2.82
Sep-06	2.96	2.85	2.76	2.68	2.92	2.78	202.90	2.80
Oct-06	3.09	2.97	2.86	2.77	2.92	2.79	201.80	2.79
Nov-06	3.07	2.95	2.85	2.75	2.92	2.79	201.50	2.78
Dec-06	3.07	2.95	2.85	2.76	2.91	2.79	201.80	2.79
Jan-07	3.19	3.06	2.96	2.88	2.92	2.80	202.416	2.80
Feb-07	3.17	3.05	2.96	2.88	2.92	2.81	203.499	2.81
Mar-07	3.23	3.11	3.02	2.93	2.94	2.82	205.352	2.84
Apr-07	3.29	3.17	3.07	2.98	2.96	2.83	206.686	2.85
May-07	3.40	3.27	3.16	3.07	3.00	2.84	207.949	2.87
Jun-07	3.55	3.41	3.30	3.20	3.05	2.86	208.352	2.88
Jul-07	3.78	3.63	3.51	3.41	3.11	2.88	208.299	2.88
Aug-07	3.86	3.72	3.60	3.51	3.18	2.90	207.917	2.87
Sep-07	3.87	3.73	3.61	3.51	3.25	2.92	208.490	2.88
Oct-07	3.84	3.71	3.60	3.51	3.31	2.94	208.936	2.89
Nov-07	3.84	3.72	3.62	3.53	3.38	2.96	210.177	2.90
Dec-07	3.85	3.73	3.63	3.55	3.44	2.98	210.036	2.90

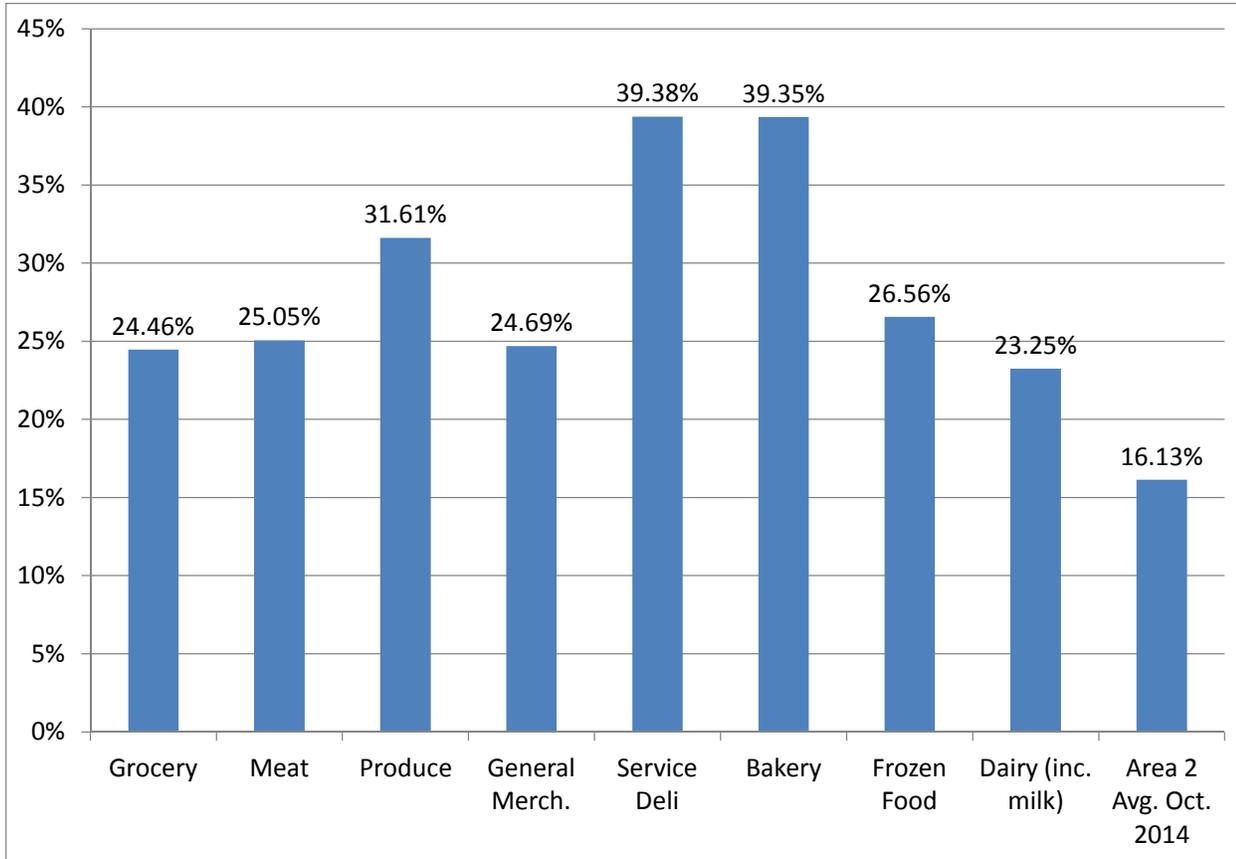
Sep-07 5 yr. average	2.92	=	<u>78.0%</u> Index used in Table 4
Sep-07 Current price	3.73		
Sep-06 12 mo. average	2.92	=	<u>78.0%</u>
Sep-07 Current price	3.73		

**TABLE 7**

**PENNSYLVANIA MILK MARKETING BOARD  
MILK MARKETING AREA 2**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK  
OCTOBER 2014**

**DEPARTMENTS OF INDEPENDENT RETAILERS**



Calculation for "Area 2 Avg. Oct. 2014"

Current Wholesale Price (per quart)	1.1344		
Deepest Discount (13.50%)	<u>(0.1531)</u>		
Current Cost Less Discount	0.9813	Current Retail Price	1.17
			<u>(0.9813)</u>
		Gross Profit	0.1887
		Gross Profit %	16.13%

## TABLE 8

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

#### **EDUCATION**

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

#### **EMPLOYMENT**

Herbein + Company, Inc.

January 1992 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 – Friedens Lutheran Church

Board Member – Friedens Lutheran Church

#### **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.

Has spent over 31 years providing various accounting and tax services for retail manufacturing and service businesses including food industry manufacturers and distributors.