

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION**

**AREA 5 REBUTTAL EXHIBITS**

**COST REPLACEMENT HEARING**

**NOVEMBER 5, 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 2008. The study was conducted utilizing stores located in the Pennsylvania Milk Marketing Board (hereafter “PMMB”) Area 5 being studied. Raw data was obtained by PMMB and PFMA. PFMA has analyzed the raw data. The 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 cost categories, which are personnel costs, building costs, equipment costs, and other operating costs.

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

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

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

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 5 (see Table 1).

## **SCOPE OF WORK**

Financial and other store information was accumulated for analysis using the worksheet illustrated in Table 2. The financial information analyzed for each store, using the month of January, 2008 was prepared in accordance with generally accepted accounting principles. The month of January 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 sum of the cross-section stores is presented in Table 3. The in-store handling cost has two (2) components, a milk handling expense component and a checkout expense component. Each component is calculated by apply allocations based on store area used to store, display and sell milk as well as an allocation of checkout costs based on milk sales as a percentage of total sales.

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. The restatement to the minimum retail price is considered necessary to avoid capturing costs due to any of the stores selling milk at levels higher than the state allowed minimum 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. We have presented this calculation for the period from November 2013 to August 2014 (see [Table 4](#)). 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 (2) 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 5, the PMMB has adopted a policy to adjust the cost using a two (2) month delay. This means that the index for August would be used to calculate the October 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 5](#)) 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 5 retailers purchasing and selling at the minimum wholesale and retail prices.

**TABLE 1**

**STORES INCLUDED IN THE AREA 5 SURVEY  
FOR IN-STORE HANDLING COSTS**

Giant Eagle, Shadyside Market District, Pittsburgh

Giant Eagle, Robinson Township, Pittsburgh

McGinnis Sisters Special Food Store, Monroeville

Dairy Store, Pittsburgh

Donofrio Food Center, Hermitage

CoGo's Store #321, Bethel Park

CoGo's Store #801, Pittsburgh

7-11 HandiMart, Wexford

**TABLE 2**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 5**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
KIRKLAND METHOD - EXAMPLE STORE**

**IN-STORE HANDLING COST - INPUT INFORMATION**

TOTAL SQ. FT. OF BUILDINGS	78,000	A
TOTAL SQ. FT. OF MILK DISPLAYS	60	B
TOTAL SQ. FT. DRY STORAGE FOR MILK	40	C
TOTAL SQ. FT. CHECK-OUT SPACE	2,200	D
TOTAL SQ. FT. MILK COLD STORAGE	130	E
TOTAL STORE LABOR HOURS (MONTHLY)	30,000	F
TOTAL MILK HANDLING HOURS (MONTHLY)	600	G
TOTAL CHECK-OUT HOURS (MONTHLY)	3,500	H
QUARTS DELIVERED (MONTHLY)	130,000	J
UNITS DELIVERED (MONTHLY)	43,000	K
UNITS SCANNED (MONTHLY)	2,300,000	L
TOTAL DOLLAR SALES (MONTHLY)	\$ 6,000,000	M
TOTAL MILK SALES IN \$'S (MONTHLY)	\$ 125,000	N
MILK LABOR COSTS - INCLUDING FRINGES	\$ 9,000	O
CHECKOUT LABOR COSTS	\$ 28,000	P
EQUIPMENT COSTS (MONTHLY)	\$ 42,000	Q
BUILDING COSTS (MONTHLY)	\$ 20,000	R
OTHER COSTS (MONTHLY)	\$ 1,400,000	S
TOTAL OPERATING EXPENSES	\$ 1,499,000	T

**IN-STORE HANDLING COST - COMPUTATION FORMULA**

	Expense			Sq. Ft. Allocation		Sales Allocation		Milk Handling Expense		Checkout Expense
<b>PERSONNEL EXPENSE:</b>										
CHECKOUT EXPENSE	\$ 28,000	P	X	1.000000		X 0.018696	K/L =			\$ 523.48
MILK HANDLING EXPENSE	\$ 9,000	O	X	1.000000		X 1.000000	=	\$ 9,000.00		
<b>BUILDING EXPENSE:</b>										
CHECKOUT EXPENSE	\$ 20,000	R	X	0.028205	D/A	X 0.018696	K/L =			\$ 10.55
MILK HANDLING EXPENSE	\$ 20,000	R	X	0.002949	(B+C+E)/A	X 1.000000	=	\$ 58.97		
<b>EQUIPMENT EXPENSE:</b>										
CHECKOUT EXPENSE	\$ 42,000	Q	X	0.028205	D/A	X 0.018696	K/L =			\$ 22.15
MILK HANDLING EXPENSE	\$ 42,000	Q	X	0.002949	(B+C+E)/A	X 1.000000	=	\$ 123.85		
<b>OTHER EXPENSE:</b>										
CHECKOUT EXPENSE	\$ 1,400,000	S	X	0.028205	D/A	X 0.018696	K/L =			\$ 738.24
MILK HANDLING EXPENSE	\$ 1,400,000	S	X	0.002949	(B+C+E)/A	X 1.000000	=	\$ 4,128.21		
<b>TOTAL EXPENSES:</b>										
CHECKOUT EXPENSE										\$ 1,294.42
MILK HANDLING EXPENSE								\$ 13,311.03		
<b>DIVIDED BY:</b>										
UNITS DELIVERED										K 43,000
QUARTS DELIVERED								J 130,000		
<b>CHECKOUT COST PER CONTAINER:</b>										
<b>MILK HANDLING COST PER QUART:</b>										
								\$ 0.1024		\$ 0.0301
<b>TOTAL COST PER QUART CONTAINER:</b>										
						J+K		\$ 0.1325	Per Container	\$ 0.1325
<b>TOTAL COST PER HALF GALLON CONTAINER:</b>										
						(J*2)+K		\$ 0.2349	Per Quart	\$ 0.1174
<b>TOTAL COST PER GALLON CONTAINER:</b>										
						(J*4)+K		\$ 0.4397		\$ 0.1099
<b>AVERAGE COST PER QUART - ALL CONTAINERS</b>										
										\$ 0.1200

**TABLE 3**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 5**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE MONTH OF JANUARY, 2008  
KIRKLAND METHOD - ALL CROSS-SECTION STORES**

**IN-STORE HANDLING COST - INPUT INFORMATION**

TOTAL SQ. FT. OF BUILDINGS	228,102
TOTAL SQ. FT. OF MILK DISPLAYS	305
TOTAL SQ. FT. DRY STORAGE FOR MILK	187
TOTAL SQ. FT. CHECK-OUT SPACE	5,530
TOTAL SQ. FT. MILK COLD STORAGE	348
TOTAL STORE LABOR HOURS (MONTHLY)	97,058
TOTAL MILK HANDLING HOURS (MONTHLY)	1,113
TOTAL CHECK-OUT HOURS (MONTHLY)	20,515
QUARTS DELIVERED (MONTHLY)	321,778
UNITS DELIVERED (MONTHLY)	114,596
TOTAL DOLLAR SALES (MONTHLY)	\$ 15,328,663
TOTAL MILK SALES IN \$\$S (MONTHLY)	\$ 291,590
MILK LABOR COSTS - INCLUDING FRINGES	\$ 14,317
CHECKOUT LABOR COSTS	\$ 216,546
EQUIPMENT COSTS (MONTHLY)	\$ 90,324
BUILDING COSTS (MONTHLY)	\$ 459,879
OTHER COSTS (MONTHLY)	\$ 3,633,896
TOTAL OPERATING EXPENSES	\$ 4,414,962

**IN-STORE HANDLING COST - COMPUTATION FORMULA**

	Expense		Sq. Ft. Allocation		Sales Allocation		Milk Handling Expense		Checkout Expense
<b>PERSONNEL EXPENSE:</b>									
CHECKOUT EXPENSE	\$ 216,546	X	1.000000	X	0.020468	=			\$ 4,432.18
MILK HANDLING EXPENSE	\$ 14,317	X	1.000000	X	1.000000	=	\$ 14,316.89		
<b>BUILDING EXPENSE:</b>									
CHECKOUT EXPENSE	\$ 459,879	X	0.023946	X	0.020468	=			\$ 225.39
MILK HANDLING EXPENSE	\$ 459,879	X	0.004035	X	1.000000	=	\$ 1,855.82		
<b>EQUIPMENT EXPENSE:</b>									
CHECKOUT EXPENSE	\$ 90,324	X	0.023239	X	0.020468	=			\$ 42.96
MILK HANDLING EXPENSE	\$ 90,324	X	0.003857	X	1.000000	=	\$ 348.40		
<b>OTHER EXPENSE:</b>									
CHECKOUT EXPENSE	\$ 3,633,896	X	0.024062	X	0.020468	=			\$ 1,789.67
MILK HANDLING EXPENSE	\$ 3,633,896	X	0.003764	X	1.000000	=	\$ 13,678.32		
<b>TOTAL EXPENSES:</b>									
CHECKOUT EXPENSE									\$ 6,490.20
MILK HANDLING EXPENSE							\$ 30,199.43		
<b>DIVIDED BY:</b>									
UNITS DELIVERED									114,596
QUARTS DELIVERED							321,778		
<b>CHECKOUT COST PER CONTAINER:</b>									\$ 0.0566
<b>MILK HANDLING COST PER QUART:</b>							\$ 0.0939		
<b>TOTAL COST PER QUART CONTAINER:</b>							\$ 0.1505		\$ 0.1505
<b>TOTAL COST PER HALF GALLON CONTAINER:</b>							\$ 0.2443		\$ 0.1222
<b>TOTAL COST PER GALLON CONTAINER:</b>							\$ 0.4320		\$ 0.1080
<b>AVERAGE COST PER QUART - ALL CONTAINERS</b>									\$ 0.1269

## TABLE 4

### PENNSYLVANIA FOOD MERCHANTS ASSOCIATION PENNSYLVANIA MILK MARKETING BOARD AREA 5

#### COST FOR HANDLING MILK IN RETAIL OUTLETS FOR THE NINE MONTHS ENDED AUGUST 2014

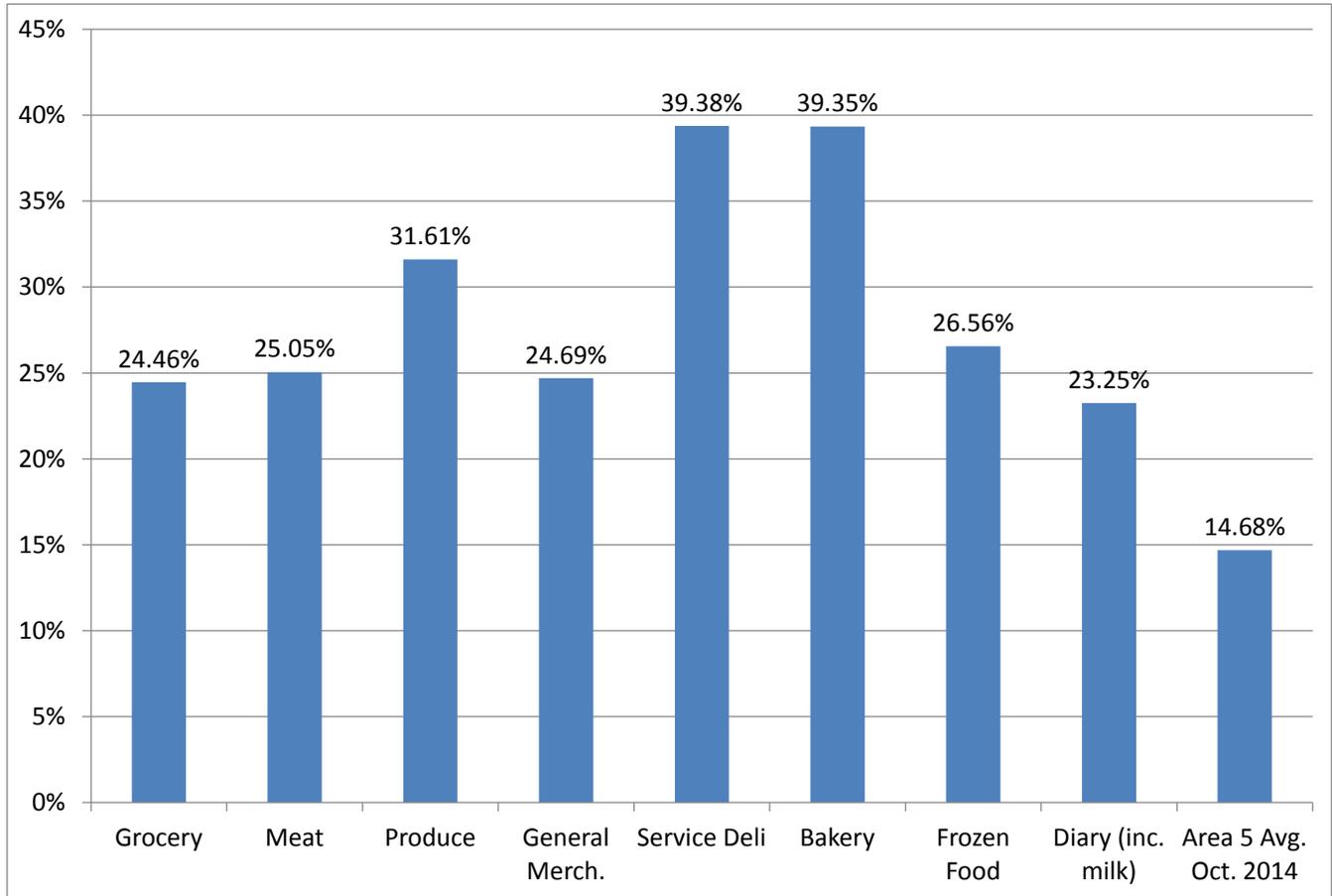
				<b>In-Store Handling Cost Per PMMB Order A- 954</b>
<b>Milk expense per quart:</b>	November 2013	233.069		\$ 0.1401
<b>Divided by CPI-U Index:</b>				
<b>Multiplied by CPI-U Index:</b>	December 2013	233.049	=	\$ 0.1401
	January 2014	233.916	=	\$ 0.1406
	February 2014	234.781	=	\$ 0.1411
	March 2014	236.293	=	\$ 0.1420
	April 2014	237.072	=	\$ 0.1425
	May 2014	237.900	=	\$ 0.1430
	June 2014	238.343	=	\$ 0.1433
	July 2014	238.250	=	\$ 0.1432
	August 2014	237.852	=	\$ 0.1430

**TABLE 5**

**PENNSYLVANIA MILK MARKETING BOARD  
MILK MARKETING AREA 5**

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

**DEPARTMENTS OF INDEPENDENT RETAILERS**



Calculation for "Area 5 Avg. Oct. 2014"

Current Wholesale Price (per quart)	1.1731		
Deepest Discount (12%)	<u>(0.1408)</u>		
Current Cost Less Discount	1.0323	Current Retail Price	1.21
			<u>(1.0323)</u>
		Gross Profit	0.1777
		Gross Profit %	14.68%

## TABLE 6

### **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 33 years providing various accounting and tax services for retail manufacturing and service businesses including food industry manufacturers and distributors.