

**PENNSYLVANIA FOOD
MERCHANTS ASSOCIATION**

AREA 4 REBUTTAL EXHIBITS

COST REPLACEMENT HEARING

February 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. 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 4 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 4 (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 taking the total store expenses and multiplying them by the ratio of milk sales to total sales) divided by total quarts (see Tables 3 and 4).

WEIGHTING FOR PRICE DIFFERENTIALS

The methodology applied requires the calculation of a milk sales-to-sales ratio. Due to significant increase in milk prices from April 1999 to November 1999, an equalizing adjustment has been applied in order to eliminate distortions caused by these price fluctuations (see Tables 4 and 6).

CURRENT COST BASED ON CONSUMER PRICE INDEX

The cost of handling milk in retail outlets has changed since the above methodology was employed to measure the cost as of November 1999. The changes in cost 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 for the time period from October 2012 to November 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 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 4, the PMMB has adopted a policy to adjust the amount using a two-month delay. This means that the index for November would be used to calculate the January 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 2012 reporting period representing a geographical area covering 39 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 4 retailers purchasing and selling at the minimum wholesale and retail prices.

TABLE 1

STORES INCLUDED IN THE AREA 4 SURVEY FOR IN-STORE HANDLING COSTS

Weis # 88

Weis # 131

Sheetz # 193

Sheetz # 211

Uni-Mart # 4257

Turkey Hill # 95

Keefer's Market

Giant # 52

Giant # 87

Karns # 6

TABLE 2

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
AREA 4**

**IN-STORE HANDLING COST SURVEY,
STORE INFORMATION 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:		=====
<hr/>		
Store Name and Number: _____		
Manager: _____		
Address: _____		
Telephone #: _____		

TABLE 3

PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
AREA 4

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 4**

**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 4**

**COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE FOURTEEN MONTHS ENDED NOVEMBER 2013**

	<u>MONTH</u>		<u>CPI INDEX</u>			In-Store Handling Cost Per PMMB Order A- 954
Milk expense per quart at last cost replacement hearing:	September	2012	231.407	=	\$	0.1653
Divided by CPI-U Index	October	2012	231.317	=	\$	0.1652
Multiplied by CPI-U index	November	2012	230.221	=	\$	0.1645
	December	2012	229.601	=	\$	0.1640
	January	2013	230.280	=	\$	0.1645
	February	2013	232.166	=	\$	0.1658
	March	2013	232.773	=	\$	0.1663
	April	2013	232.531	=	\$	0.1661
	May	2013	232.945	=	\$	0.1664
	June	2013	233.504	=	\$	0.1668
	July	2013	233.596	=	\$	0.1669
	August	2013	233.877	=	\$	0.1671
	September	2013	234.149	=	\$	0.1673
	October	2013	233.546	=	\$	0.1668
	November	2013	233.069	=	\$	0.1665

TABLE 6

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 4**

**Weighting of Prices
April 1998 and November 1999**

	<u>April 1998*</u>	<u>Units^</u>	<u>Weighted Price</u>	<u>November 1999*</u>	<u>Units^</u>	<u>Weighted Price</u>
Standard:						
Gallon	2.65	733,250	1,943,113	2.90	733,250	2,126,425
1/2 Gallon	1.34	574,500	769,830	1.49	574,500	856,005
Quart	0.69	235,000	162,150	0.77	235,000	180,950
2% Milk:						
Gallon	2.51	771,250	1,935,838	2.76	771,250	2,128,650
1/2 Gallon	1.27	595,000	755,650	1.42	595,000	844,900
Quart	0.65	181,000	117,650	0.74	181,000	133,940
1% Milk:						
Gallon	2.44	291,250	710,650	2.65	291,250	771,813
1/2 Gallon	1.23	292,000	359,160	1.36	292,000	397,120
Quart	0.63	67,000	42,210	0.71	67,000	47,570
Skim:						
Gallon	2.31	409,250	945,368	2.56	409,250	1,047,680
1/2 Gallon	1.17	483,500	565,695	1.32	483,500	638,220
Quart	0.60	176,000	105,600	0.69	176,000	121,440
		TOTAL	<u>8,412,914</u>		TOTAL	<u>9,294,713</u>
		RATIO	<u>8,412,914</u>			<u>9,294,713</u>
			<u>9,294,713</u>			
		Price Index:	<u>0.9051</u>			

* - PMMB minimum price

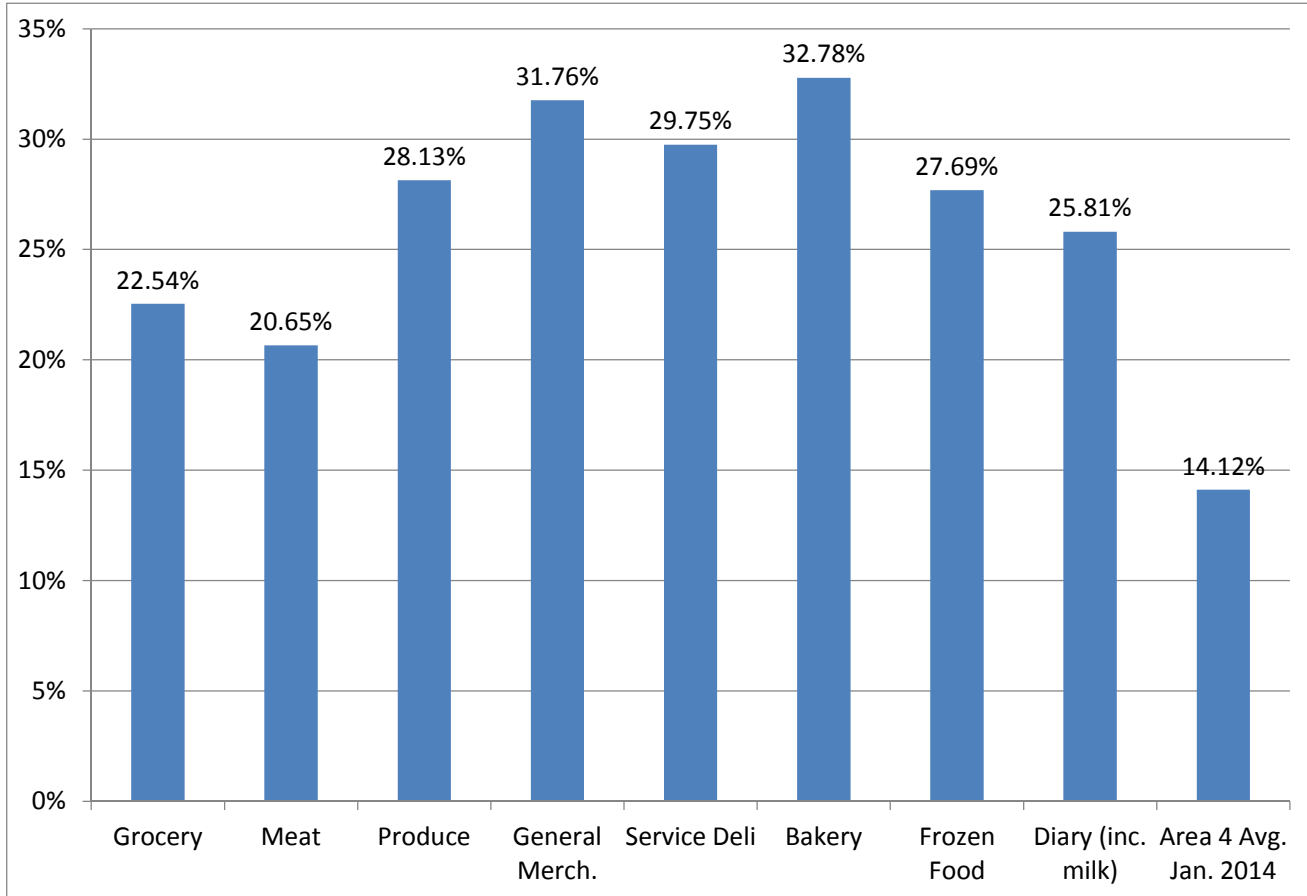
^ - From PMMB "Characteristics of
Packaged Fluid Milk Sales Report
October 1997," Table 15

TABLE 7

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 4**

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

DEPARTMENTS OF INDEPENDENT RETAILERS



Calculation for "Area 4 Avg. Jan. 2014"

Proposed Wholesale Price (per quart)	1.1316		
Deepest Discount (\$0.1010)	<u>-0.101</u>		
Current Cost Less Discount	1.0306	Current Retail Price	1.20
			<u>(1.0306)</u>
		Gross Profit	0.1694
		Gross Profit %	14.12%

TABLE 8

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.