

PENNSYLVANIA FOOD MERCHANTS ASSOCIATION

AREA 5 REBUTTAL EXHIBITS

COST REPLACEMENT HEARING

DECEMBER 2, 2015

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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 applying 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 August 2014 to September 2015 (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 September would be used to calculate the November 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 2014 reporting period representing a geographical area covering a majority of states and territories in the U.S. and Canada. Data was taken from the 2015 “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
PERSONNEL EXPENSE:									
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		
BUILDING EXPENSE:									
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		
EQUIPMENT EXPENSE:									
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		
OTHER EXPENSE:									
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		
TOTAL EXPENSES:									
CHECKOUT EXPENSE									\$ 1,294.42
MILK HANDLING EXPENSE							\$ 13,311.03		
DIVIDED BY:									
UNITS DELIVERED								K	43,000
QUARTS DELIVERED						J	130,000		
CHECKOUT COST PER CONTAINER:									
									\$ 0.0301
MILK HANDLING COST PER QUART:									
									\$ 0.1024
TOTAL COST PER QUART CONTAINER:									
					J+K		\$ 0.1325	Per Container	\$ 0.1325
TOTAL COST PER HALF GALLON CONTAINER:									
					(J*2)+K		\$ 0.2349	Per Quart	\$ 0.1174
TOTAL COST PER GALLON CONTAINER:									
					(J*4)+K		\$ 0.4397		\$ 0.1099
AVERAGE COST PER QUART - ALL CONTAINERS									
									\$ 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
PERSONNEL EXPENSE:									
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		
BUILDING EXPENSE:									
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		
EQUIPMENT EXPENSE:									
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		
OTHER EXPENSE:									
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		
TOTAL EXPENSES:									
CHECKOUT EXPENSE									\$ 6,490.20
MILK HANDLING EXPENSE							\$ 30,199.43		
DIVIDED BY:									
UNITS DELIVERED									114,596
QUARTS DELIVERED							321,778		
CHECKOUT COST PER CONTAINER:									\$ 0.0566
MILK HANDLING COST PER QUART:							\$ 0.0939		
TOTAL COST PER QUART CONTAINER:							\$ 0.1505		\$ 0.1505
TOTAL COST PER HALF GALLON CONTAINER:							\$ 0.2443		\$ 0.1222
TOTAL COST PER GALLON CONTAINER:							\$ 0.4320		\$ 0.1080
AVERAGE COST PER QUART - ALL CONTAINERS									\$ 0.1269

TABLE 4

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

**COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE THIRTEEN MONTHS ENDED SEPTEMBER 2015**

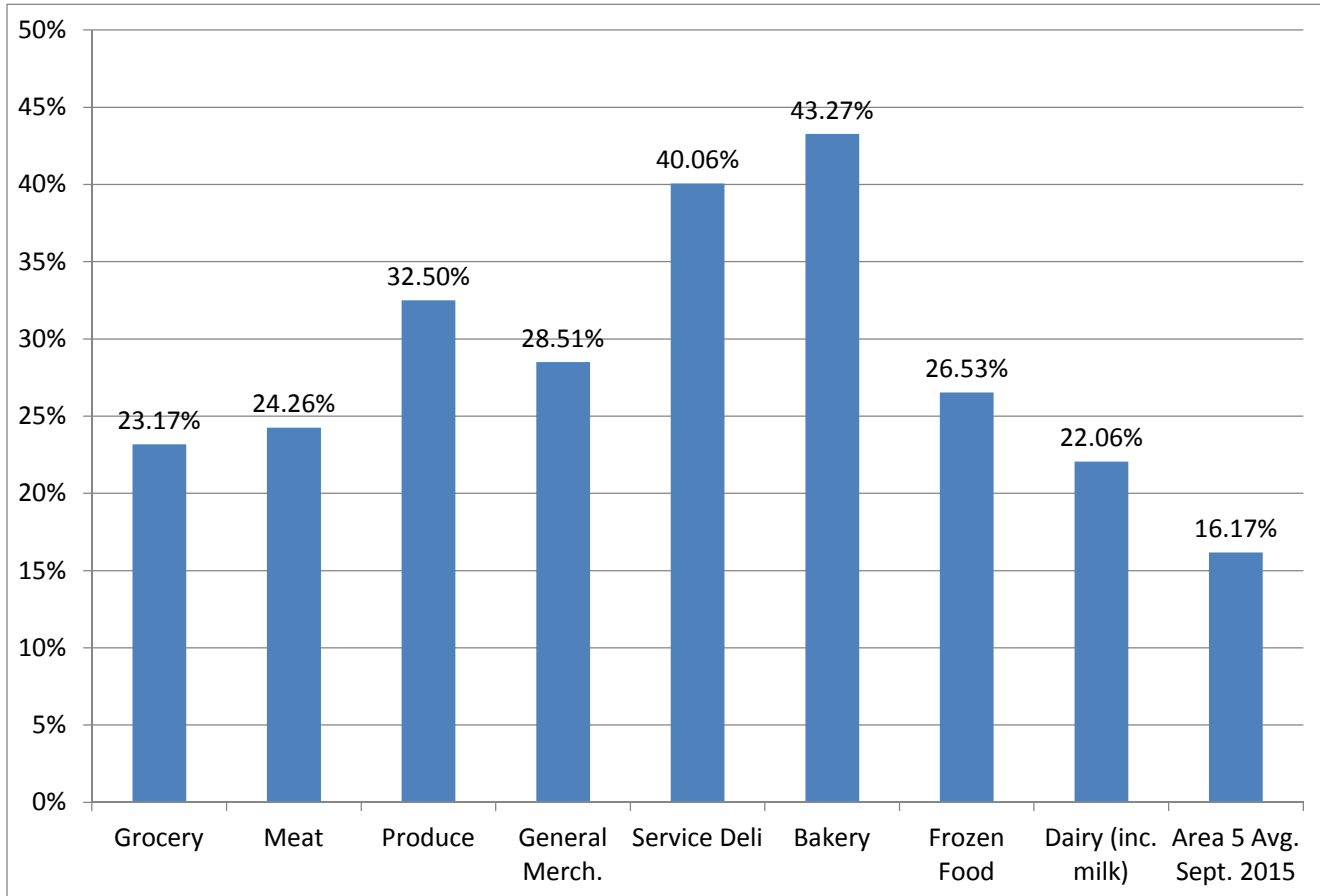
					In-Store Handling Cost Per PMMB Order A- 954
Milk expense per quart:	August 2014	237.852		\$	0.1430
Divided by CPI-U Index:					
Multiplied by CPI-U Index:	September 2014	238.031	=	\$	0.1431
	October 2014	237.433	=	\$	0.1427
	November 2014	236.151	=	\$	0.1420
	December 2014	234.812	=	\$	0.1412
	January 2015	233.707	=	\$	0.1405
	February 2015	234.722	=	\$	0.1411
	March 2015	236.119	=	\$	0.1420
	April 2015	236.599	=	\$	0.1422
	May 2015	237.805	=	\$	0.1430
	June 2015	238.638	=	\$	0.1435
	July 2015	238.654	=	\$	0.1435
	August 2015	238.316	=	\$	0.1433
	September 2015	237.945	=	\$	0.1431

TABLE 5

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

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK
SEPTEMBER 2015**

DEPARTMENTS OF INDEPENDENT RETAILERS



Calculation for "Area 5 Avg. Sept. 2015"

Current Wholesale Price (per quart)	0.9812		
Deepest Discount (12%)	<u>(0.1177)</u>		
Current Cost Less Discount	0.8635	Current Retail Price	1.03
			<u>(0.8635)</u>
		Gross Profit	0.1665
		Gross Profit %	16.17%

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