

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION**

**AREA 6 REBUTTAL EXHIBITS**

**COST REPLACEMENT HEARING**

**JANUARY 3, 2018**

# TABLE OF CONTENTS

	Page No.
INTRODUCTION	1
DEFINITIONS	1
CROSS-SECTION	1
SCOPE OF WORK	1
METHOD OF CALCULATION	2
CURRENT COST BASED ON CONSUMER PRICE INDEX	2
DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK	2
TABLE 1 – Stores Included in the Area 6 Survey for In-Store Handling Costs	3
TABLE 2 – Cost for Handling Milk in Retail Outlets, Kirkland Method – Example Store	4
TABLE 3 – Cost for Handling Milk in Retail Outlets, Kirkland Method – All Cross-section Stores	5
TABLE 4 – Cost for Handling Milk in Retail Outlets for the Six Months Ended October 2017	6
TABLE 5 – Departmental Gross Margin Comparisons to Milk December 2017	7
TABLE 6 – Curriculum Vitae of Thomas J. Price, CPA	8

## **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 6 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 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 (see Table 1).

## **SCOPE OF WORK**

The Kirkland formula was used to calculate the in-store handling cost. Table 2 presents the Kirkland method of calculating the in-store handling cost for a fictitious, example store.

April 2008 financial information was accumulated for each store in the cross-section and prepared in accordance with Generally Accepted Accounting Principles. The month of April is considered to be a representative month for the industry. Table 3 presents the results of the study for the entire cross-section of surveyed stores.

## **METHOD OF CALCULATION**

Financial information was collected and analyzed on a store-by-store basis. The in-store handling cost has two 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 April 2017 to October 2017 (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 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 6, the PMMB has adopted a policy to adjust the cost using a two-month delay. This means that the index for October 2017 would be used to calculate the December 2017 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 2016 reporting period representing a geographical area covering a majority of states and territories in the U.S. and Canada. Data was taken from the 2017 “Independent Grocers Financial Survey” report compiled by the National Grocers Association. Information from the study is presented with the gross margins realized by Area 6 retailers purchasing and selling at the minimum wholesale and retail prices.

## TABLE 1

### STORES INCLUDED IN THE AREA 6 SURVEY FOR IN-STORE HANDLING COSTS

Giant – Eagle #54 Somerset	Red Apple Kwik Fill, Johnstown
Stem’s Clover Leaf Quick Shop, Johnstown	Uni-mart, Pleasant Gap
Kondak’s, Clarendon	Grocery Stretcher, Bradford
Martin’s General Store, Alexandria	Fezzel’s Market, Punxsutawney
Weis Market, State College	Nittany Oil Mini Market, Port Matilda
Quality #626, Kane	

TABLE 2

PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 6

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 =	\$ 9,000.00	\$ 523.48
MILK HANDLING EXPENSE	\$ 9,000 O X 1.000000	X 1.000000 =		
<b>BUILDING EXPENSE:</b>				
CHECKOUT EXPENSE	\$ 20,000 R X 0.028205 D/A X 0.018696 K/L =		\$ 58.97	\$ 10.55
MILK HANDLING EXPENSE	\$ 20,000 R X 0.002949 (B+C+E)/A X 1.000000 =			
<b>EQUIPMENT EXPENSE:</b>				
CHECKOUT EXPENSE	\$ 42,000 Q X 0.028205 D/A X 0.018696 K/L =		\$ 123.85	\$ 22.15
MILK HANDLING EXPENSE	\$ 42,000 Q X 0.002949 (B+C+E)/A X 1.000000 =			
<b>OTHER EXPENSE:</b>				
CHECKOUT EXPENSE	\$ 1,400,000 S X 0.028205 D/A X 0.018696 K/L =		\$ 4,128.21	\$ 738.24
MILK HANDLING EXPENSE	\$ 1,400,000 S X 0.002949 (B+C+E)/A X 1.000000 =			
<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	Per Container \$ 0.1325	Per Quart \$ 0.1325
<b>TOTAL COST PER HALF GALLON CONTAINER:</b>				
		(J*2)+K	\$ 0.2349	\$ 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 4**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 6**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE SIX MONTHS ENDED OCTOBER 2017**

	<u>MONTH</u>	<u>CPI INDEX</u>		<u>In-Store Handling Cost Per PMMB Order A- 954</u>
<b>Milk expense per quart:</b>	April 2017	244.524		\$ 0.1422
<b>Divided by CPI-U Index:</b>				
<b>Multiplied by CPI-U Index:</b>	May 2017	244.733	=	\$ 0.1423
	June 2017	244.955	=	\$ 0.1424
	July 2017	244.786	=	\$ 0.1423
	August 2017	245.519	=	\$ 0.1427
	September 2017	246.819	=	\$ 0.1435
	October 2017	246.663	=	\$ 0.1434

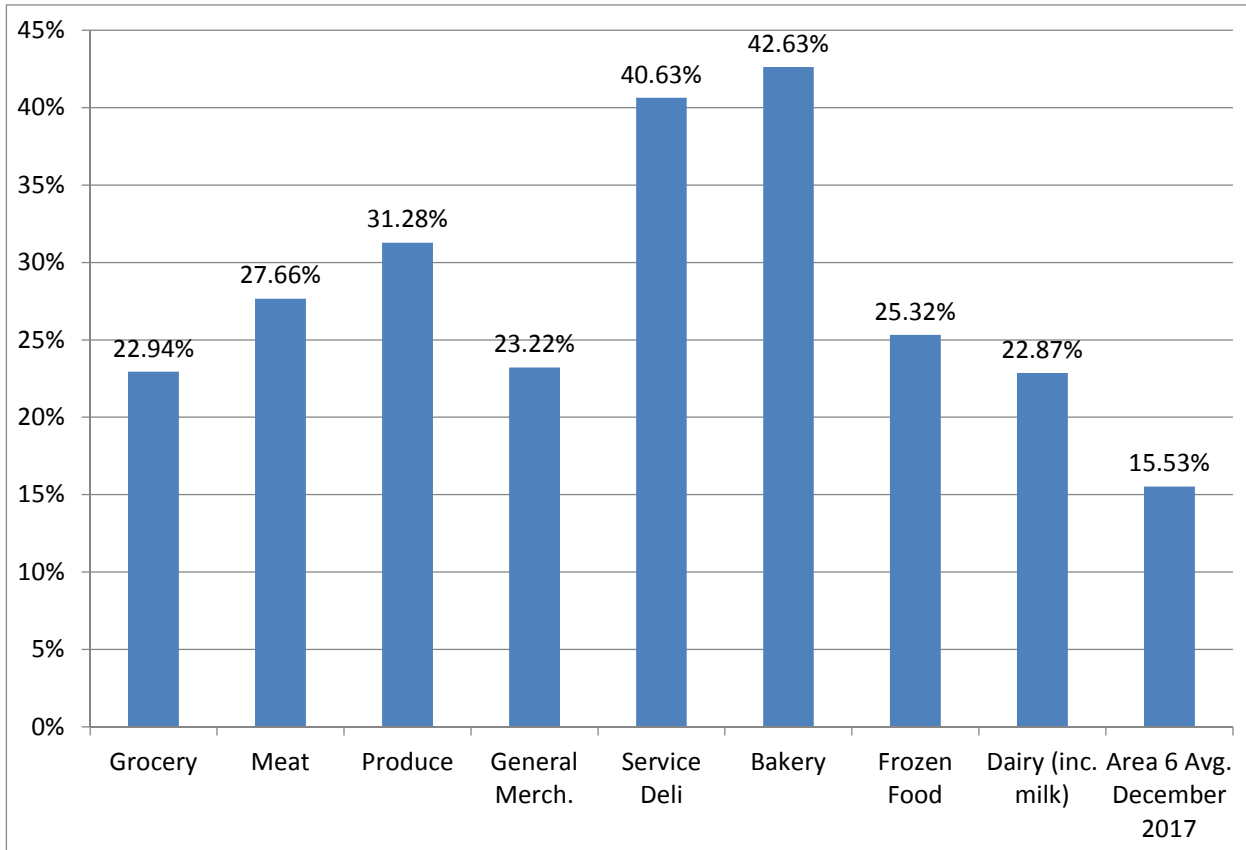


**TABLE 5**

**PENNSYLVANIA MILK MARKETING BOARD  
MILK MARKETING AREA 6**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK  
DECEMBER 2017**

**DEPARTMENTS OF INDEPENDENT RETAILERS**



Calculation for "Area 6 Avg. December 2017"

Current Wholesale Price (per quart)	1.0908		
Deepest Discount (12.5%)	<u>(0.1364)</u>		
Current Cost Less Discount	0.9545	Current Retail Price	1.1300
			<u>(0.9545)</u>
		Gross Profit	0.1755
		Gross Profit %	15.53%

**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 – Oley Valley Education Foundation

**SPECIFIC RELATED EMPLOYMENT EXPERIENCE**

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

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

I have spent over 37 years providing various accounting and tax services for retail manufacturing and service businesses including food industry manufacturers and distributors.