

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION**

**AREA 1 REBUTTAL EXHIBITS**

**COST REPLACEMENT HEARING**

**JANUARY 8, 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 1 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 1 (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. 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 Table 3 and Table 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. We have presented this calculation for the period from July 2012 to October 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 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 1, the PMMB has adopted a policy to adjust the cost using a two (2) month delay. This means that the index for October 2013 would be used to calculate the December 2013 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 34 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 1 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**

CVS #2951	Rite Aid, Philadelphia
K-Mart, Willow Grove	Wawa #255
A Plus Sunoco, West Chester	Wawa #293
Wawa #8013	Giant, Harleysville
Giant, Souderton	CVS, Philadelphia

**TABLE 2**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 1**

**IN-STORE HANDLING COST SURVEY, AREA 1,  
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: \_\_\_\_\_

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Store Name and Number: \_\_\_\_\_

Manager: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone #: \_\_\_\_\_

**TABLE 3**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
MILK MARKETING AREA 1**

**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>	\$ xx,xxx	
		<hr/>
<b>TOTAL EXPENSES:</b>		<u>\$ xxx,xxx</u>
<b>September 2007 Actual Milk Sales</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 levels</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>xx.x%</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>\$ .xxxx</u>

**TABLE 4**  
**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION**  
**MILK MARKETING AREA 1**

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

	<u>Milk Revenue</u>		<u>Total Revenue</u>
Cross-Section Totals	\$ 146,751		\$ 12,952,693
Reduction to minimum price	<u>(10,380)</u>		<u>(10,380)</u>
Sales at minimum price	136,371		\$ 12,942,313
		Adjusted Milk Revenue	\$ 105,006
		Less: Sales at minimum price	<u>136,371</u>
Index to normal level (table 6)	<u>77.0%</u>	Normal level adjustment	<u>\$ (31,365)</u>
<b>Adjusted Milk Revenue:</b>	<b><u>\$ 105,006</u></b>	<b>Adjusted Total Revenue:</b>	<b><u>\$ 12,910,948</u></b>

**Adjusted Milk Revenue:** \$ 105,006  
 Divided by \_\_\_\_\_ = 0.81% **Milk Revenue Ratio**

**Adjusted Total Revenue:** 12,910,948

**Milk Revenue Ratio** 0.81%

Expenses:  
 Personnel Expenses \$ 1,142,791  
 Building Expenses 375,544  
 Equipment Expenses 46,434  
 Other Expenses 761,001

**Total Expenses:** X \$ 2,325,770

**Total Milk Handling Expense:** = \$ 18,839

Divided by \_\_\_\_\_

**Total Quarts** 145,492

**In-Store Milk Handling Expense (per quart)** = \$ 0.1295 **Official General Order No. A-951, effective June 1, 2008**



**TABLE 5**

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION  
PENNSYLVANIA MILK MARKETING BOARD AREA 1**

**COST FOR HANDLING MILK IN RETAIL OUTLETS  
FOR THE FIFTEEN MONTHS ENDED OCTOBER 2013**

	<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>	July 2012	229.104		\$ 0.1423
<b>Divided by CPI-U Index:</b>	August 2012	230.379	=	\$ 0.1431
<b>Multiplied by CPI-U index:</b>	September 2012	231.407	=	\$ 0.1437
	October 2012	231.317	=	\$ 0.1437
	November 2012	230.221	=	\$ 0.1430
	December 2012	229.601	=	\$ 0.1426
	January 2013	230.280	=	\$ 0.1430
	February 2013	232.166	=	\$ 0.1442
	March 2013	232.773	=	\$ 0.1446
	April 2013	232.531	=	\$ 0.1444
	May 2013	232.945	=	\$ 0.1447
	June 2013	233.504	=	\$ 0.1450
	July 2013	233.596	=	\$ 0.1451
	August 2013	233.877	=	\$ 0.1453
	September 2013	234.149	=	\$ 0.1454
	October 2013	233.546	=	\$ 0.1451

**TABLE 6**  
**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION**  
**MILK MARKETING AREA 1**

**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%</u> <u>avg</u>	<u>5yr 2% avg</u>	<u>CPI Index</u>	<u>5yr 2% CPI</u>
Sep-02	2.61	2.49	2.40	2.33	2.58		181.00	2.49
Oct-02	2.58	2.47	2.39	2.32	2.56		181.30	2.49
Nov-02	2.65	2.54	2.46	2.39	2.53		181.30	2.49
Dec-02	2.70	2.59	2.50	2.42	2.53		180.90	2.49
Jan-03	2.67	2.55	2.45	2.37	2.53		181.70	2.50
Feb-03	2.61	2.48	2.38	2.29	2.52		183.10	2.52
Mar-03	2.58	2.46	2.37	2.29	2.51		184.20	2.53
Apr-03	2.59	2.47	2.38	2.30	2.51		183.80	2.53
May-03	2.61	2.49	2.40	2.32	2.50	2.52	183.50	2.52
Jun-03	2.63	2.51	2.41	2.33	2.50	2.52	183.70	2.53
Jul-03	2.60	2.48	2.39	2.30	2.50	2.53	183.90	2.53
Aug-03	2.66	2.54	2.44	2.36	2.51	2.54	184.60	2.54
Sep-03	3.00	2.87	2.77	2.68	2.54	2.54	185.20	2.55
Oct-03	3.06	2.94	2.84	2.76	2.58	2.55	185.00	2.55
Nov-03	3.02	2.90	2.80	2.71	2.61	2.56	184.50	2.54
Dec-03	3.02	2.90	2.79	2.70	2.63	2.57	184.30	2.54
Jan-04	2.79	2.65	2.55	2.45	2.64	2.57	185.20	2.55
Feb-04	2.79	2.64	2.52	2.41	2.65	2.56	186.20	2.56
Mar-04	2.76	2.58	2.44	2.31	2.66	2.56	187.40	2.58
Apr-04	2.93	2.71	2.54	2.38	2.68	2.57	188.00	2.59
May-04	3.55	3.29	3.09	2.91	2.75	2.58	189.10	2.60
Jun-04	3.62	3.36	3.16	2.98	2.82	2.60	189.70	2.61
Jul-04	3.33	3.11	2.94	2.78	2.87	2.61	189.40	2.61
Aug-04	3.40	2.81	2.64	2.48	2.90	2.62	189.50	2.61
Sep-04	2.99	2.80	2.65	2.52	2.89	2.62	189.90	2.61
Oct-04	3.10	2.91	2.75	2.61	2.89	2.63	190.90	2.63
Nov-04	3.05	2.84	2.97	2.54	2.88	2.63	191.00	2.63
Dec-04	3.10	2.90	2.74	2.60	2.88	2.64	190.30	2.62
Jan-05	3.30	3.05	2.86	2.70	2.92	2.65	190.70	2.62
Feb-05	3.05	2.88	2.75	2.64	2.94	2.66	191.80	2.64
Mar-05	3.20	3.01	2.87	2.74	2.97	2.67	193.30	2.66
Apr-05	3.09	2.90	2.76	2.63	2.99	2.68	194.60	2.68
May-05	3.16	2.98	2.83	2.71	2.96	2.69	194.40	2.67
Jun-05	3.06	2.90	2.77	2.66	2.92	2.69	194.50	2.68
Jul-05	3.08	2.92	2.79	2.68	2.91	2.70	195.40	2.69
Aug-05	3.12	2.92	2.77	2.64	2.92	2.71	196.40	2.70
Sep-05	3.06	2.87	2.72	2.59	2.92	2.72	198.80	2.73
Oct-05	3.13	2.92	2.76	2.63	2.92	2.72	199.20	2.74
Nov-05	3.18	2.99	2.83	2.70	2.94	2.73	197.60	2.72
Dec-05	3.10	2.93	2.79	2.67	2.94	2.74	196.80	2.71
Jan-06	3.16	3.01	2.88	2.77	2.94	2.74	198.30	2.73
Feb-06	3.16	3.00	2.88	2.78	2.95	2.75	198.70	2.73
Mar-06	3.08	2.93	2.82	2.72	2.94	2.76	199.80	2.75

**TABLE 6**  
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**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>
Apr-06	2.96	2.83	2.72	2.63	2.93	2.76	201.50	2.77
May-06	2.94	2.82	2.71	2.63	2.92	2.76	202.50	2.79
Jun-06	2.93	2.80	2.70	2.61	2.91	2.76	202.90	2.79
Jul-06	2.99	2.86	2.75	2.67	2.91	2.76	203.50	2.80
Aug-06	2.95	2.83	2.73	2.64	2.90	2.76	203.90	2.81
Sep-06	2.94	2.81	2.71	2.62	2.89	2.77	202.90	2.79
Oct-06	3.09	2.94	2.82	2.72	2.90	2.77	201.80	2.78
Nov-06	3.08	2.93	2.81	2.72	2.89	2.77	201.50	2.77
Dec-06	3.07	2.93	2.82	2.72	2.89	2.78	201.80	2.78
Jan-07	3.18	3.04	2.93	2.84	2.89	2.78	202.416	2.78
Feb-07	3.17	3.03	2.93	2.84	2.90	2.79	203.499	2.80
Mar-07	3.24	3.10	3.00	2.91	2.91	2.80	205.352	2.83
Apr-07	3.29	3.14	3.03	2.93	2.94	2.81	206.686	2.84
May-07	3.41	3.26	3.14	3.04	2.97	2.82	207.949	2.86
Jun-07	3.57	3.41	3.28	3.18	3.02	2.84	208.352	2.87
Jul-07	3.82	3.65	3.52	3.41	3.09	2.86	208.299	2.87
Aug-07	3.91	3.75	3.62	3.52	3.17	2.88	207.917	2.86
Sep-07	3.93	3.77	3.64	3.53	3.25	2.90	208.490	2.87
Oct-07	3.90	3.75	3.63	3.53	3.31	2.92	208.936	2.87
Nov-07	3.89	3.75	3.64	3.55	3.38	2.94	210.177	2.89
Dec-07	3.82	3.68	3.58	3.48	3.44	2.96	210.036	2.89

$$\frac{\text{Sep-07 5 yr. avg. } 2.90}{\text{Sep-07 Current price } 3.77} = \underline{\underline{77.0\% \text{ Index used in Table 4}}}$$

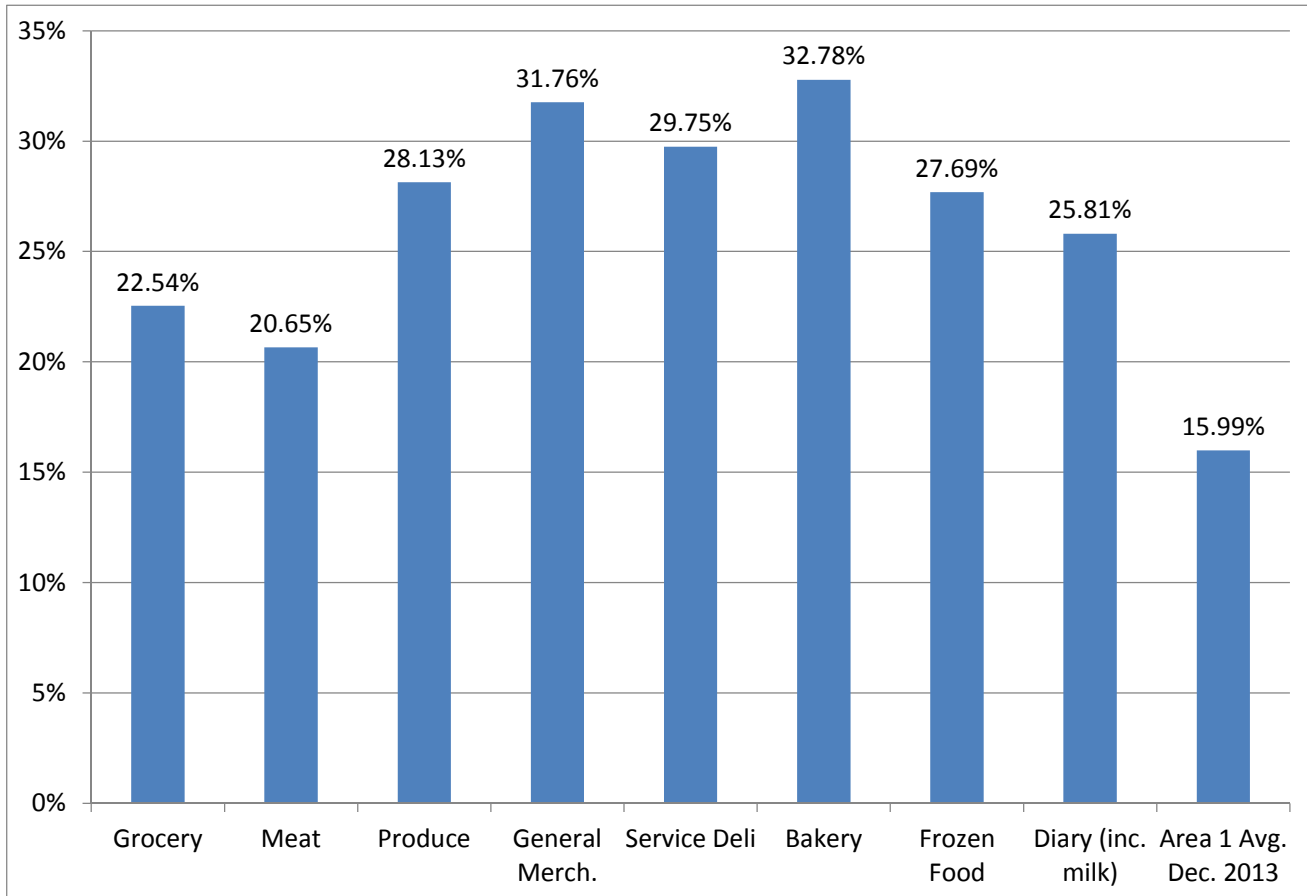
$$\frac{\text{Sep-06 12 mo. Avg. } 2.89}{\text{Sep-07 Current price } 3.77} = \underline{\underline{77.0\%}}$$

**TABLE 7**

**PENNSYLVANIA MILK MARKETING BOARD  
MILK MARKETING AREA 1**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK  
DECEMBER 2013**

**DEPARTMENTS OF INDEPENDENT RETAILERS**



Calculation for "Area 1 Avg. Dec. 2013"

Current Wholesale Price (per quart)	1.107		
Deepest Discount (15%)	<u>(0.1661)</u>		
Current Cost Less Discount	0.9410	Current Retail Price	1.12
			<u>(0.9410)</u>
		Gross Profit	0.1791
		Gross Profit %	15.99%

## 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.