

Annual Report



2004-2005



Scanning Certification Program
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Murray Battleman, *Treasurer*
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BOARD OF ADVISORS



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Background

OVERVIEW

The Scanning Certification Program, which was started in 1991, is a voluntary price accuracy program that seeks to provide pricing accuracy and appropriate pricing information for customers of retailers in Pennsylvania and surrounding states. The main objectives of the program are to clearly identify for customers the prices of all items in the store and to ensure that customers are charged the lowest advertised price at checkout.

Program guidelines require stores to ensure that shelf tags are accurate and legible, that scanners are programmed to charge the lowest advertised price, that appropriate employees receive price accuracy training and that consumers receive information about their rights as scanning store customers.

To receive program certification, member stores must also achieve a price accuracy rating of at least 98 percent during an annual price verification inspection. The Scanning Certification Program counts all errors — overcharges, undercharges, and items with no posted price — in the certification process.

Retailers want to assure consumers and government officials that scanning is the most accurate method of checkout. The Scanning

Certification Program provides public recognition for stores which achieve and maintain high standards of accuracy in the administration of their pricing and scanning systems.

The Scanning Certification Program is recognized by the Pennsylvania Department of Agriculture as an approved private certifier under Act 155 of 1996.

More than 1,280 food retailers currently participate in the program. Supermarkets made up 100 percent of the membership base until 1999, when a substantial number of convenience stores enrolled. Any store which sells food items and uses an optical scanning checkout system is eligible to join the Scanning Certification Program.

Average annual price accuracy for participating stores has increased over time. Supermarket price accuracy rose from 96.90 percent in 1991 to 99.12 percent at the end of fiscal 2005. Convenience store price accuracy increased from 95.64 percent to 97.44 percent between 2000 and the end of fiscal 2005.

Inspection data indicate that error type and cash value vary by retail classification. For supermarkets in fiscal 2004, 41 percent of the errors were undercharges, 43 percent were overcharges and 16 percent were items with no advertised price. For convenience stores during

The main objectives of the program are to clearly identify for customers the prices of all items in the store and to ensure that customers are charged the correct price at checkout.

Background

the same period, those figures were 19 percent, 50 percent and 31 percent respectively. The cash value of an average error last year was a 16 cent undercharge for supermarkets and a 6 cent overcharge for convenience stores.

The ongoing mission of the Scanning Certification Program is to increase participation, help member stores work toward 100 percent pricing accuracy and ensure customer satisfaction in the realm of pricing accuracy.

The following sections provide background information on the Scanning Certification Program, inspection results for fiscal 2005 and financial data relating to the operation of program. All data contained herein are as of June 30, 2005 unless otherwise indicated.

DEVELOPMENT

Despite the fact that supermarkets nationwide have been using optical checkout scanning technology for over twenty-five years, and even though most other retail channels have followed suit, some consumers remain skeptical about a scanning system's ability to charge customers the correct price.

Government data show that the scanning equipment itself is quite accurate. A 1996 Federal Trade Commission study, *Price Check: A Report on the Accuracy of Checkout Scanners*, found that "checkout scanners usually result in fewer errors than manual entry of prices at checkout." Their 1998 study, *Price Check II: A Follow-up Report on the Accuracy of Checkout*

Scanner Prices, noted that "scanners can help retailers reduce pricing errors at checkout."

When a store encounters problems with pricing accuracy, human error is generally the cause. Store personnel may have entered figures or dates into the computer pricing file incorrectly; data sent from the computer host file at the wholesaler level may have been incorrect or incomplete or; as in almost 90 percent of the cases, a shelf tag could have been misplaced, misprinted or simply missing altogether.

Pennsylvania Food Merchants Association, which represents food retailers of all sizes in and around Pennsylvania, recognized this consumer concern and brought together individuals from various interested parties to address the issue of pricing accuracy.

By 1991 this group of retailers and wholesalers, consumer advocates, government officials and labor representatives had developed a voluntary program whereby participating retailers agree to adhere to a strict set of pricing standards, and in so doing earn a certified compliance status.

The program has received nationwide attention for its proactive approach to the issue of pricing accuracy and is recognized by the Commonwealth of Pennsylvania as an approved certifier for Act 155 price verification inspections.

BOARD OF ADVISORS

The central development team evolved into

Background

the Scanning Certification Program Board of Advisors, which sets policy and oversees all aspects of the program. The current members of the Board of Advisors are:

Edward D. Arnoldi – Member, PA Association of Weights and Measures, Kulpmont, PA;

Mary Bach – Consumer Advocate, Murrysville, PA;

Murray Battleman – Owner, Richboro Shop ‘n Bag, Richboro, PA;

Ken Deitzler – Chief, Weights and Measures, Pennsylvania Department of Agriculture, Harrisburg, PA;

Dean Ely – Executive Director, PA Association of Weights and Measures, Jersey Shore, PA;

Drew Hyman – Professor, The Pennsylvania State University, University Park, PA;

Ric LeBlanc – Agent, Pennsylvania Office of Attorney General, Harrisburg, PA;

David McCorkle – President, Pennsylvania Food Merchants Association, Camp Hill, PA;

Kevin Mullen – Director of Retail Systems Central Region, SuperValu Pittsburgh Division, Belle Vernon, PA;

Peg Rhodes – Representative, United Food & Commercial Workers Local 1776, Biglerville, PA;

Steve Swan – Vice President of Sales, Retalix, Warrendale, PA;



*Officers of the Board of Advisors (from left to right):
Murray Battleman, Treasurer
Autumn Thomas, Secretary
Drew Hyman, Chairman
Mary Bach, Vice-Chairman*

Bill Wolf – Food and Drug Manager, C & L Retail Solutions, Bensalem, PA;

PROGRAM PRINCIPLES

The Scanning Certification Program requires all enrollees to adhere to the following three basic pricing principles:

- ◆ The store will tell the customer in the aisle, with a shelf tag or item price, exactly what the price of each item is;
- ◆ The checkout scanner will charge that price at the register;
- ◆ The store will adopt a price accuracy policy that gives one of an item free, up to a limit of \$10, to a customer if the customer is charged more than the lowest advertised price and will charge the correct price for any additional units of that item.

PROGRAM REQUIREMENTS

Stores participating in the Scanning Certification Program must also:

- ◆ Adhere to specific requirements regarding size of shelf tags and the information they display;
- ◆ Announce the price accuracy policy by posting signs throughout the store and at each cash register;
- ◆ Educate employees about the policy and how to implement it if an error occurs;
- ◆ Achieve a price accuracy rating of at least 98 percent on a random sample of 200 items tested throughout the store.

Program signage and inspection requirements are somewhat different for smaller-sized stores such as convenience stores. These stores are only required to post price accuracy policy signs at each cash register and must achieve a price accuracy rating of at least 98 percent on a random sample of 50 items.

All program standards meet or exceed state and federal standards.

PROGRAM FORMAT

When a company enrolls in the Scanning Certification Program, program staff will conduct an orientation seminar to familiarize appropriate store personnel with all aspects of the program. Store personnel will then perform a baseline self-study of their pricing

and scanning systems to gauge the store's performance against the program requirements. If performance needs improvement, store personnel will develop and implement corrective action plans.

When all program requirements have been fully implemented, the store will notify the program manager. Scanning Certification Program staff will conduct an unannounced on-site inspection soon thereafter to measure compliance with program standards.

If a store meets all of the program requirements fully, it will receive a one-year Award of Certification. Provisional six-month certifications are granted to stores that achieve at least a 98 percent accuracy rating and are mostly, but not fully, in compliance with other requirements. If a store does not meet the 98 percent accuracy standard or has not implemented other program requirements, it will be subject to another unannounced inspection within thirty to sixty days of the initial visit.

Inspectors visit participating stores within thirty days of the store's one-year or six-month anniversary date to determine continued compliance with program requirements and, if applicable, issue a new Award of Certification.

The Board of Advisors periodically reviews its criteria for awarding certification in the Scanning Certification Program. No changes were made to the certification requirements during fiscal 2005.

Background

STORE COMPLIANCE

The program manager is able to monitor stores' compliance with program requirements, in part, through the comment cards customers return and the calls they place to the Scanning Certification Program's toll-free hotline. Such customer feedback – whether positive or negative – helps to ensure that the program requirements are carried out accurately at store-level.

Stores receive “reminder decals” to place on all registers, giving cashiers step-by-step instructions on how to properly implement the price accuracy policy when a pricing error occurs. These small, handy reminders are an especially useful tool for new cashiers who are just learning the accuracy policy.

Unannounced interim inspections are conducted on a random basis throughout the year to check that certified stores adhere to the program requirements throughout the period of their certification. During an interim inspection, the store auditor will look at the same areas of compliance as when conducting the certification visit, but will not check the accuracy rate. Areas of non-compliance will be brought to the store's attention. A store auditor will then visit the store again to ensure that corrective action was taken and that the store is again in

compliance with all program requirements.

All member stores also receive a newsletter, *Program Notes*, shown below, which features news on the work of the Board of Advisors, legislative activity, helpful hints for maintaining price accuracy and profiles of program participants and staff. The newsletter provides an important link among all enrolled stores, the Board of Advisors and outside news sources.



CURRENT ENROLLMENT

At the end of fiscal 2005, 1,286 supermarkets and convenience stores in Pennsylvania, New Jersey, Maryland, Delaware, Ohio, West Virginia and Virginia were enrolled in the program.

Member companies include Acme Markets, Associated Wholesalers, Clemens

Markets, Giant Food Stores, Giant Eagle, Pathmark, Price Chopper, Sunoco, SuperValu Pittsburgh, Tops Markets, Wawa and Weis Markets. Equally as important are the many independent grocers who have also taken the initiative of ensuring price accuracy by joining the program.

Member stores receive public recognition and increased customer trust for their commitment to price accuracy. Adherence to program requirements helps prevent

Background

undercharges that cost retailers money and overcharges that erode consumer confidence. Certified stores also fulfill the Pennsylvania state requirements of Act 155 for the annual inspection of checkout scanning systems.

SCANNER INSPECTION LAWS

Enacted by the Pennsylvania legislature in 1996, Act 155 requires the Pennsylvania Department of Agriculture to conduct unannounced annual price accuracy tests of all retail stores in the state that use checkout scanners. A price accuracy rate of at least 98 percent is required.

Retail stores using checkout scanning systems are exempt from routine annual testing by the Department of Agriculture if they are inspected at least annually, on an unannounced basis, by an approved private certification program that conforms to price verification standards adopted by the National Conference on Weights and Measures.

The Scanning Certification Program is an approved Act 155 private certification program. Program inspectors are registered with, and certified by, the Pennsylvania Department of Agriculture.

The Scanning Certification Program manager provides the name, address and certified status of stores in the program to the Pennsylvania Department of Agriculture's Office of Weights and Measures on a regular basis. The Department will not inspect

certified stores unless it receives a customer complaint or has another reason to conduct an inspection.

The City of Philadelphia also has legislation governing the use of checkout scanners. Bill No. 249 requires certain retail food establishments in the city to obtain a license and pay an annual license fee to use checkout scanners. Regulated stores must also adhere to specific standards for how prices are displayed, adopt and advertise a policy to give customers a free item when a scanner overcharge occurs on a food item and document and maintain records of pricing errors.

The Philadelphia Department of Weights and Measures conducts unannounced quarterly inspections to measure stores' price accuracy. A random sample of items is selected and used to calculate the "scanner overcharge ratio." If either the number or dollar value ratio of overcharges to undercharges is 3:1 or greater, the store is in violation of the code. Three consecutive violations results in a store having to item price merchandise until it passes four consecutive quarterly inspections.

While certification from the Scanning Certification Program exempts participants from routine Act 155 inspections, it does not exempt member stores from Philadelphia scanner inspections.

NATIONAL STANDARD

Though the Scanning Certification Program was initially geared toward Pennsylvania retailers — particularly food merchants — it has since gained a much wider audience.

Other states interested in developing similar programs have used the Scanning Certification Program as a model and the federal government looked to the program when developing its own price verification techniques and accuracy standards.

The National Institute of Standards and Technology (NIST) used the Scanning Certification Program's random sampling methodology as a model in developing its *Handbook 130, Examination Procedures for Price Verification*. NIST implemented similar sampling techniques and established 98 percent as the accuracy rate which all retail stores must achieve.

Weights and Measures officials in each state determine if their offices will follow the NIST price accuracy and verification standards when inspecting retail stores within their jurisdictions. Pennsylvania's Office of Weights and Measures uses *Handbook 130* procedures whenever it is called upon to check a store's price accuracy.

WORK WITH OTHER GROUPS

In addition to working with NIST, the Scanning Certification Program's staff and Board of Advisors have collaborated with

various industry groups and other government agencies on the issues of pricing and scanning accuracy.

The Federal Trade Commission, which produced reports on checkout scanner accuracy in 1996 and 1998, worked with staff from the Scanning Certification Program to learn how the program was created, why stores decided to enroll and how stores work to ensure pricing accuracy.

Program staff also participated in a working group assembled by the Food Marketing Institute that developed a document for grocers entitled *Price Verification: Ensuring Accuracy at Store Level*.

Members of the Scanning Certification Program staff and Board of Advisors participated in the regulation-writing process for Act 155.

Various state food industry associations have also inquired about the program with the goal of establishing a similar certification process in their own states.

The Scanning Certification Program has even had an impact on initiatives unrelated to price and scanning accuracy. The program served as a model for the development in 2000 of the Responsible Tobacco Sale Certification Program, a voluntary program for retailers aimed at preventing the sale of tobacco to minors.

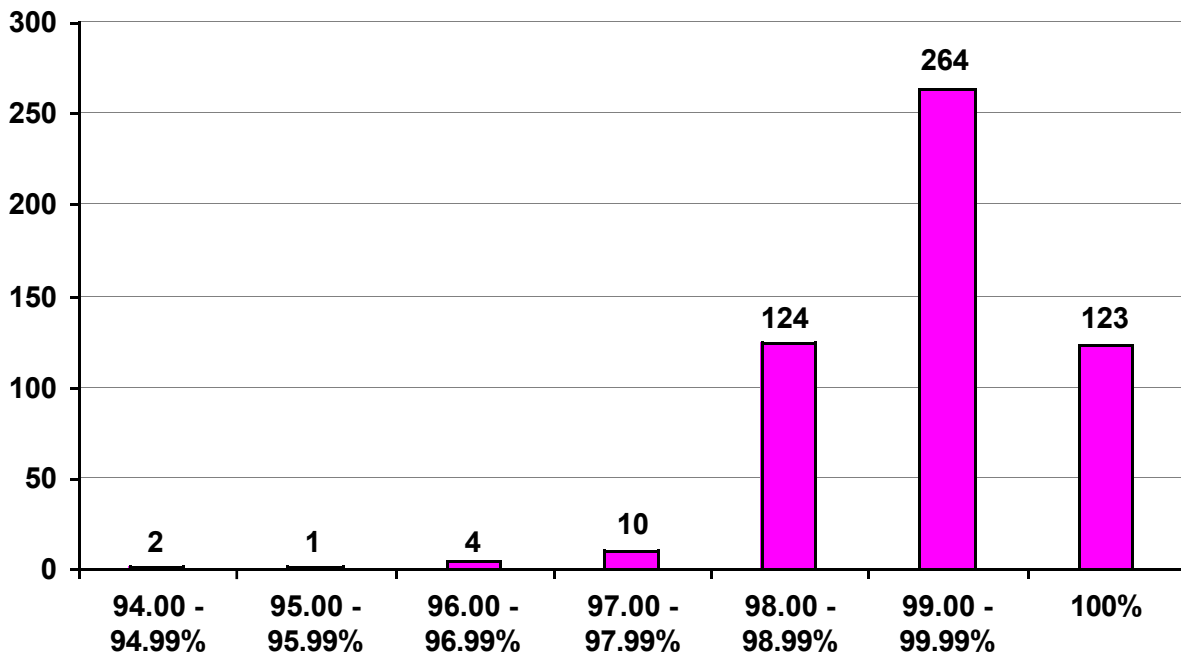
Program Data

SUPERMARKET INSPECTION RESULTS

Scanning Certification Program auditors conducted 528 supermarket inspections in fiscal 2005. Those visits resulted in the issuance of 511 one-year certification awards. Seventeen (3 percent) stores did not qualify for certification because they did not meet the 98 percent accuracy requirement at the time of their inspections.

The average accuracy rate of the supermarket audits performed last year was 99.12 percent. The accuracy rates of individual stores ranged from 94 percent to 100 percent. One hundred and twenty-three (23 percent) of the stores tested achieved an accuracy rate of 100 percent. The complete distribution of accuracy rates is shown below in *Chart A*.

Chart A - Distribution of Supermarket Accuracy Rates for Fiscal 2005



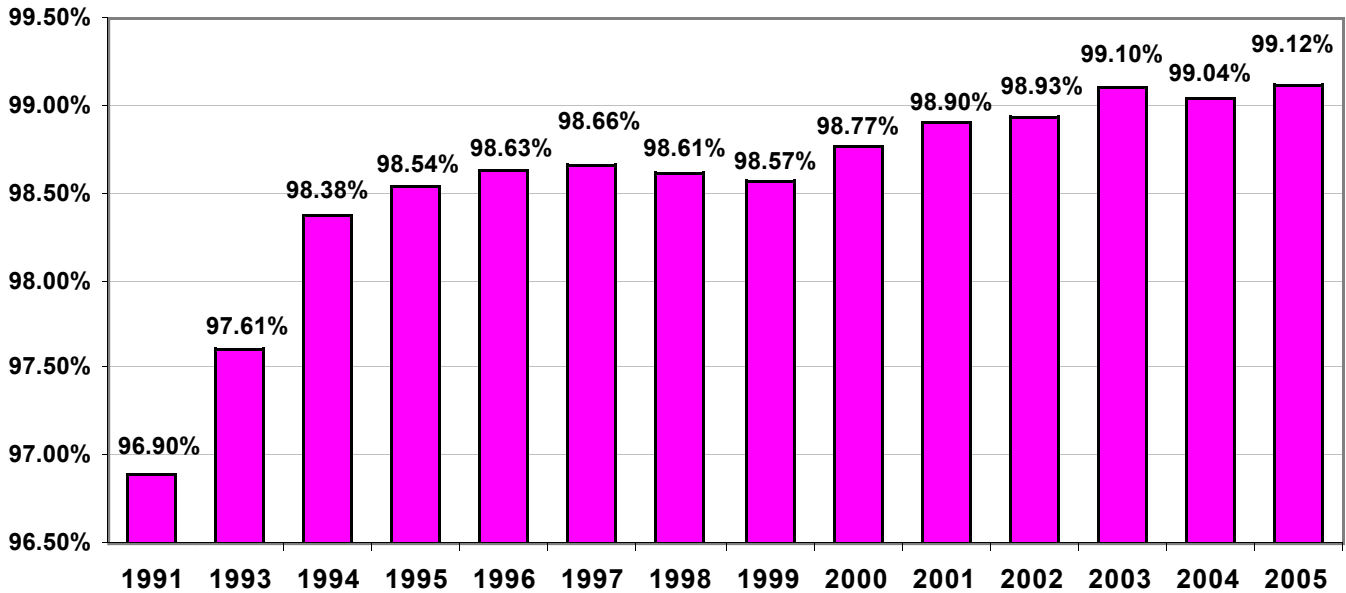
Each bar represents the number of supermarkets earning accuracy rates within the specified range during the 528 store audits conducted in fiscal 2005. Stores with accuracy rates of less than 98 percent did not meet the program requirements for certification.

Program Data

Chart B, below, shows how the average accuracy rate has changed since an initial study of ten supermarkets was done in 1991. Average accuracy increased each year between 1993 and 1997, dropped slightly in each of the next two years, increased again between 2000 and 2003 before declining marginally the next year, and climbed to a new high in 2005. The

cumulative average accuracy rate for all supermarket audits conducted between the program's inception in 1991 and the end of fiscal 2005 was 98.84 percent. This accuracy rate is based on the sampling of 907,276 items during the fifteen year period, of which 896,792 items were priced correctly and 10,484 were not.

Chart B - Average Price Accuracy Rates for Supermarkets Inspected by the Scanning Certification Program



An initial study in 1991 showed 10 supermarkets across the state averaged 96.90 percent accuracy on a random sample of 200 items from each store. That figure has risen to an average of 99.12 percent accuracy in 2005 for all supermarkets enrolled in the program.

Program Data

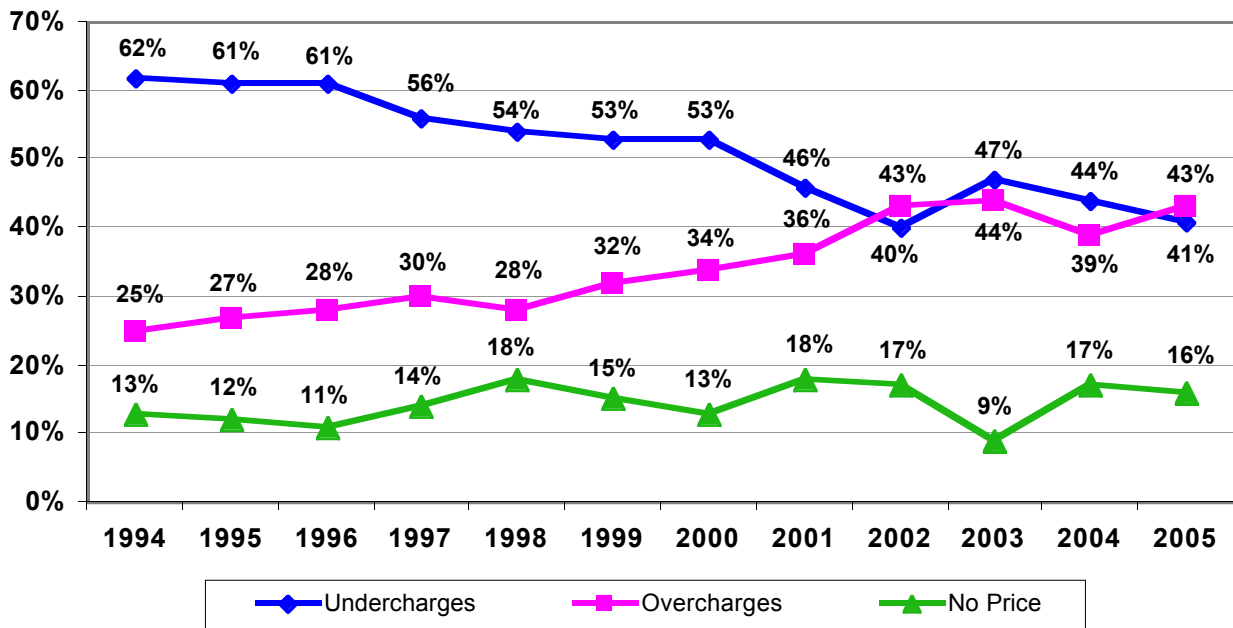
The Scanning Certification Program defines an error as any item for which a consumer is charged more than the lowest advertised price (an overcharge); less than the lowest advertised price (an undercharge); or for which there is no shelf tag or item price.

In comparison, when Pennsylvania Weights and Measures officials conduct Act 155 price accuracy inspections, items without prices are not counted as errors (state law does not require retailers to post or advertise price). As of January 2002, undercharges are no longer scored as errors either, leaving overcharges as the only error type that is tallied by the state.

Program auditors tested the price accuracy of 104,503 supermarket items last year, of which 927 (0.88 percent) rang up incorrectly or had no price posted. Of the 927 errors found, 384 (41 percent) were undercharges, 399 (43 percent) were overcharges and 144 (16 percent) had no price.

The trend in error rate composition is shown in *Chart C* below. Since 1994, undercharges have declined from 62 percent to 41 percent of the total errors and overcharges have increased from 25 percent to 43 percent of the total errors. The percentage of no price posted errors has been relatively stable over time.

Chart C - Error Rate Composition for Supermarkets Inspected by the Scanning Certification Program



Program Data

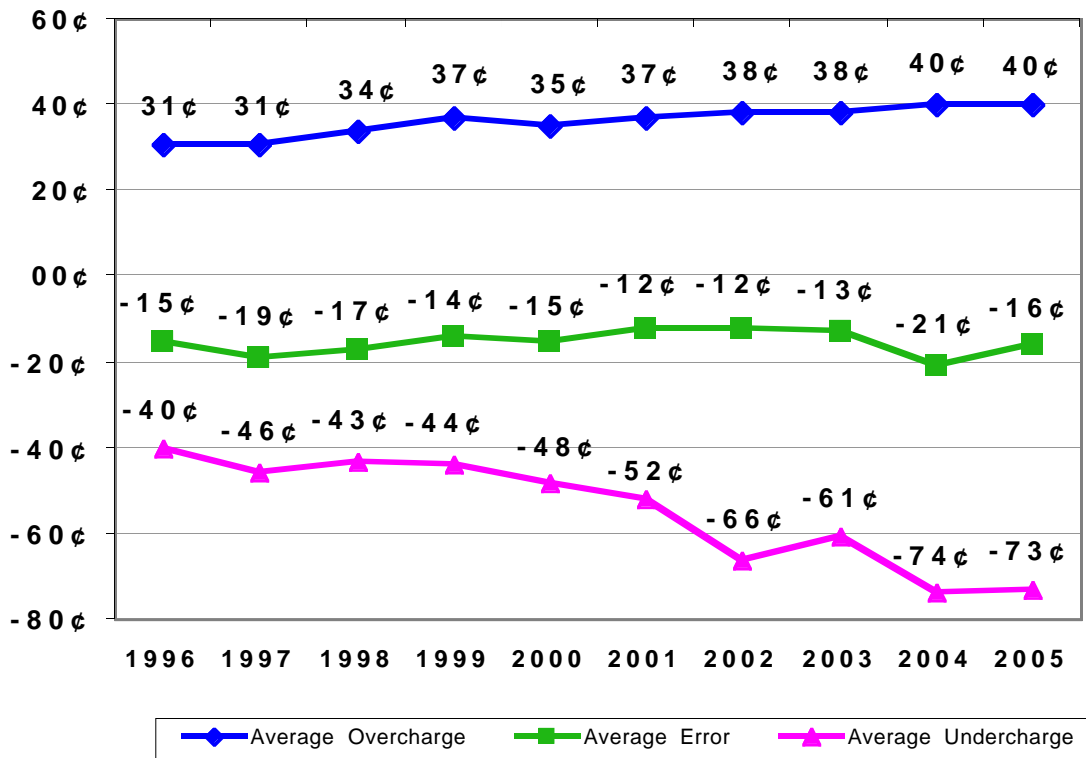
Supermarket inspection data show that while the number of undercharges and overcharges is relatively equal, the dollar value of the average undercharge continues to exceed the dollar value of the average overcharge.

overcharge was 73 cents and 40 cents respectively last year. A 16 cent undercharge was the overall average error of the total 104,503 items sampled last year.

Chart D, below, depicts the dollar value analysis of undercharges and overcharges. The cost of the average undercharge and

From 1996 to the end of fiscal 2005, the average undercharge increased 33 cents, the average overcharge increased 9 cents, and the overall average error increased 1 cent.

Chart D - Dollar Value Analysis of Undercharges and Overcharges for Supermarkets Inspected by the Scanning Certification Program



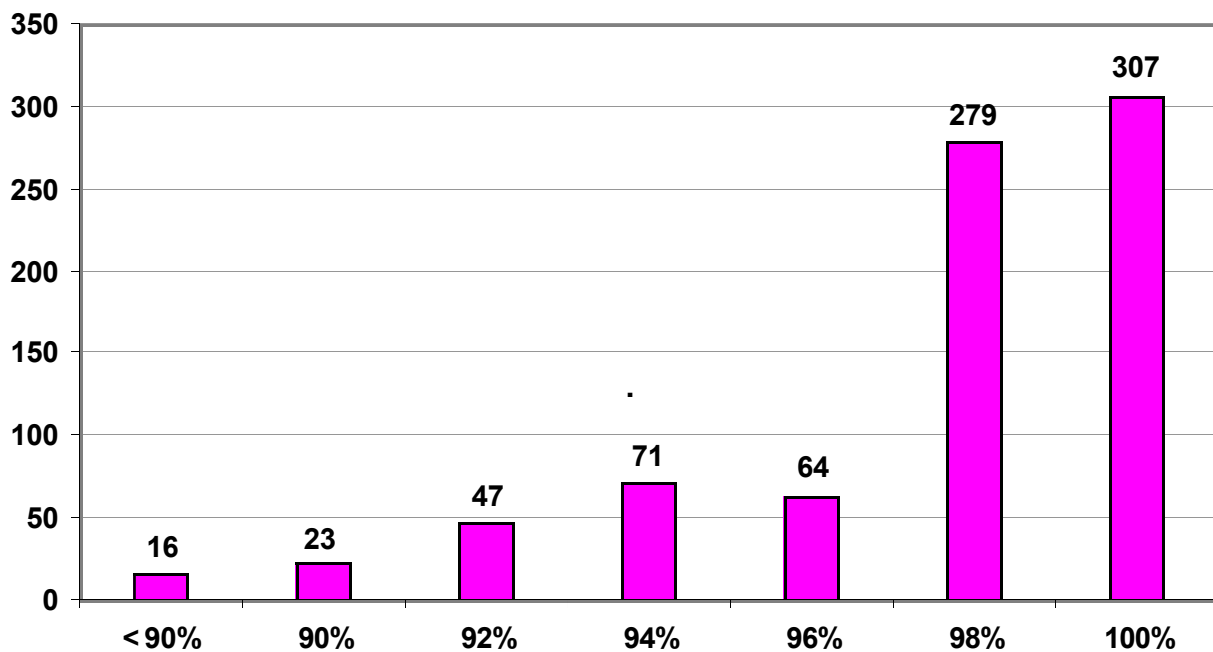
Program Data

CONVENIENCE STORE INSPECTION RESULTS

Scanning Certification Program auditors conducted 807 convenience store inspections in fiscal 2005. Those visits resulted in the issuance of 558 one-year certification awards. Two hundred and forty-nine (31 percent) of the stores did not meet the program requirements for certification at the time of their inspections.

The average accuracy rate of the convenience store audits performed last year was 97.44 percent. The accuracy rates of the individual stores ranged from 80 percent to 100 percent. Three hundred and seven (38 percent) of the stores tested achieved an accuracy rate of 100 percent. The complete distribution of accuracy rates is shown in *Chart E* below.

Chart E - Distribution of Convenience Store Accuracy Rates for Fiscal 2005



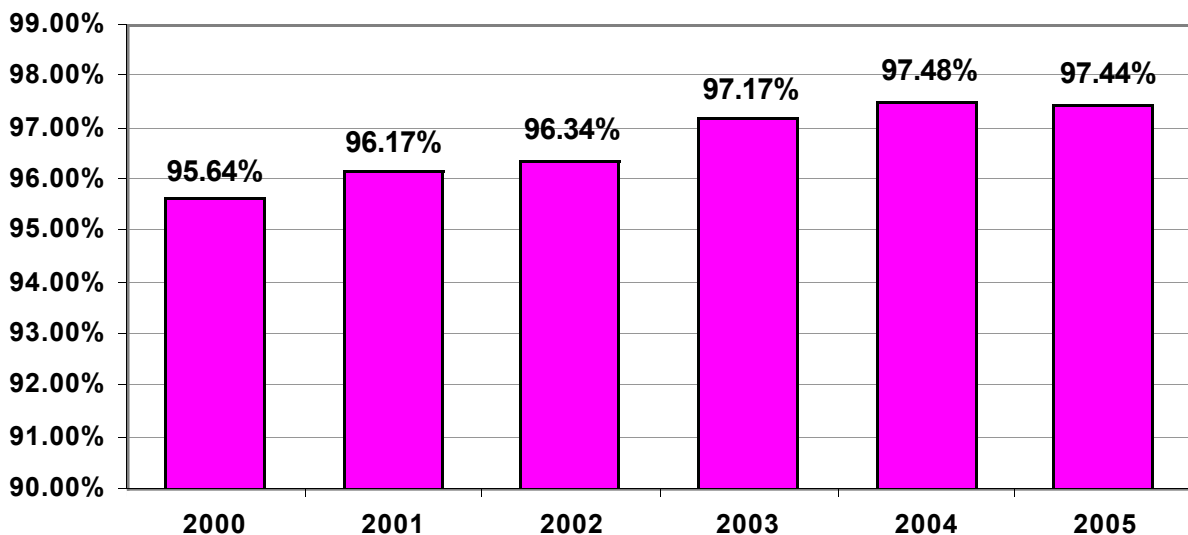
Each bar represents the number of convenience stores earning accuracy rates within the specified range during the 807 audits done in fiscal 2005. An accuracy rate of at least 98 percent and compliance with other program guidelines is required for certification.

Program Data

Chart F, below, shows how the average accuracy rate has changed since the initial study of convenience stores was done in fiscal 2000. That study found a 95.64 percent average accuracy rate. The average accuracy rate increased each year between 2001 and 2004, and declined four-hundredths of a percent to 97.44 percent in 2005.

The cumulative average accuracy rate for all convenience store audits performed since the first inspections in fiscal 2000 is 96.88 percent. This accuracy rate is based on the sampling of 177,150 items during the six year period, of which 171,629 items were priced correctly and 5,521 were not.

Chart F - Average Price Accuracy Rates for Convenience Stores Inspected by the Scanning Certification Program



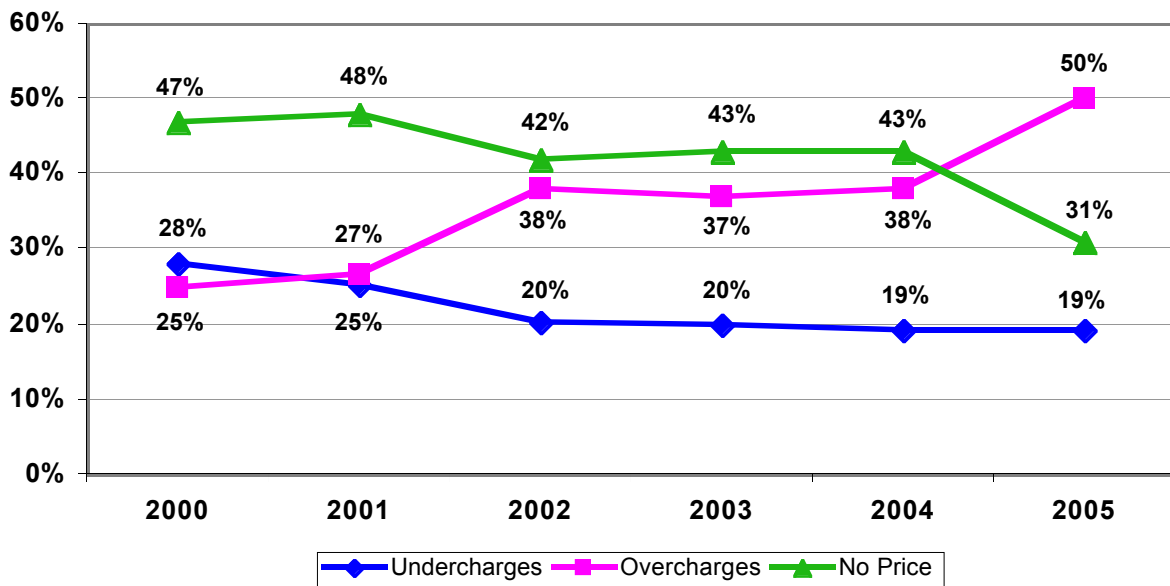
An initial study in fiscal 2000 showed 84 convenience stores averaged 95.64 percent accuracy on a random sample of 50 items from each store. That figure has risen to an average of 97.44 percent accuracy in 2005 for all convenience stores enrolled in the program.

Program Data

Program auditors tested the price accuracy of 40,350 convenience store items (50 items per store) last year, of which 1,031 (2.56 percent) rang up incorrectly or had no price posted. Of the 1,031 errors found, 201 (19 percent) were undercharges, 512 (50 percent) were overcharges and 318 (31 percent) had no price.

A six year analysis of error types is shown below in *Chart G*. Items with no price posted, which accounted for almost half of all errors in 2000, made up 31 percent of the total errors in fiscal 2005. Between 2000 and 2005, undercharges decreased from 28 percent to 19 percent of the total errors and overcharges doubled to 50 percent of the total errors.

Chart G - Error Rate Composition for Convenience Stores Inspected by the Scanning Certification Program



Program Data

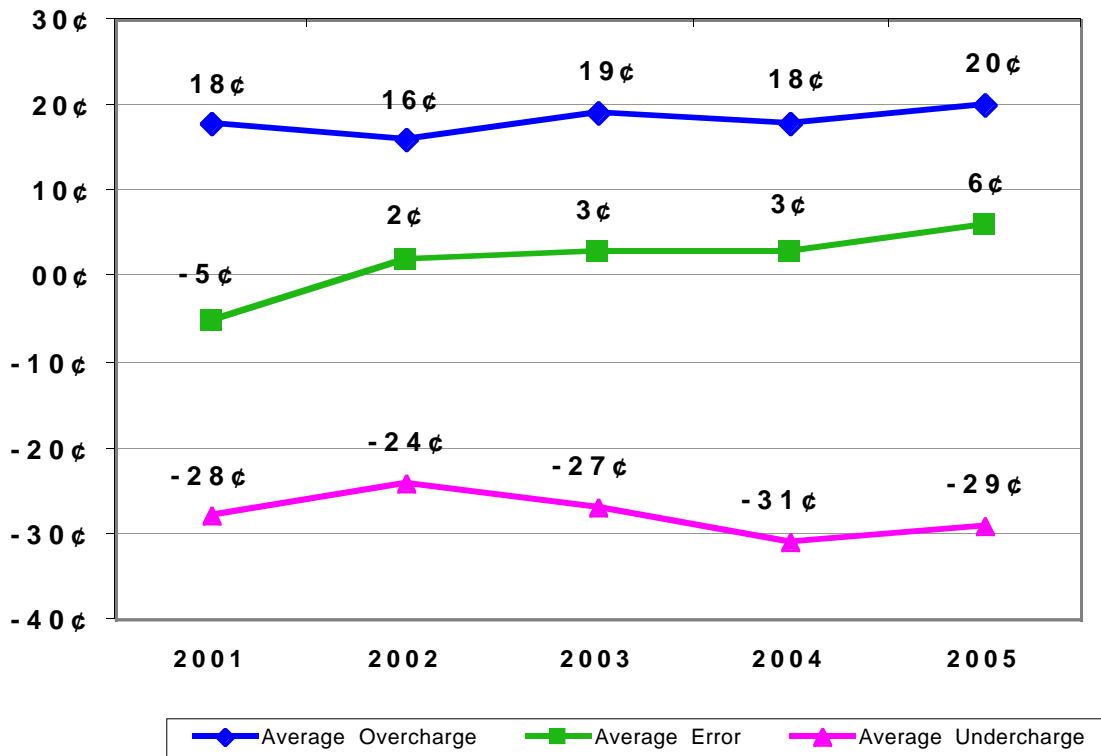
Convenience store inspection data show that while the number of overcharges exceeds the number of undercharges, the dollar value of the average undercharge consistently exceeds the dollar value of the average overcharge.

Chart H, below, depicts the dollar value analysis of undercharges and overcharges. The cost of the average undercharge and

overcharge was 29 cents and 20 cents respectively last year. A 6 cent overcharge was the overall average error of the total 40,350 items sampled last year.

From 2001 to the end of fiscal 2005, the average undercharge increased 1 cent, the average overcharge increased 2 cents, and the overall average error increased 11 cents.

Chart H - Dollar Value Analysis of Undercharges and Overcharges for Convenience Stores Inspected by the Scanning Certification Program





Financial Data

BALANCE SHEET JUNE 30, 2005 and 2004

ASSETS	2005	2004
Cash	\$ 20,733	\$ 0
Accounts Receivable	19,765	16,380
Prepaid Expenses	2,202	0
Property and Equipment (Net of accumulated depreciation of \$1,715 and \$1,437 in 2005 and 2004, respectively)	997	1,275
TOTAL ASSETS	<u>\$43,697</u>	<u>\$17,655</u>
LIABILITIES AND EQUITY		
Liabilities		
Related Party Payable	\$32,235	\$9,162
Income Taxes Payable	(680)	(968)
Accrued Expenses	3,460	0
TOTAL LIABILITIES	\$35,015	\$8,194
Retained Earnings	8,682	9,461
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$43,697</u>	<u>\$17,655</u>



Financial Data

STATEMENT OF OPERATIONS AND PROGRAM DEFICIT YEAR ENDING JUNE 30, 2005 and 2004

	2005	2004
PROGRAM REVENUE	\$101,975	\$66,120
OPERATING EXPENSES		
Salary Expense	\$25,721	\$14,924
Payroll Taxes	2,876	1,560
Telephone	1,011	711
Supplies	1,908	1,142
Printing	1,500	239
Postage and Freight	226	257
Travel	22,719	16,474
Other Expenses	1,444	2,206
Inspector Fees	45,070	23,430
Depreciation	279	263
TOTAL OPERATING EXPENSES	<u>\$102,754</u>	<u>\$61,206</u>
Net Income (Loss)	\$(779)	\$4,914
Beginning Retained Earnings (Deficit)	<u>9,461</u>	<u>4,547</u>
Ending Retained Earnings (Deficit)	<u><u>\$8,682</u></u>	<u><u>\$9,461</u></u>

Financial Data

**STATEMENT OF CASH FLOWS (DIRECT METHOD)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
 YEAR ENDING JUNE 30, 2005 and 2004**

CASH FLOWS FROM OPERATING ACTIVITIES	2005	2004
Cash Received from Program Revenue	\$98,590	\$64,455
PFMA Subsidy (Reimbursement)	23,073	(1,613)
Income Taxes Payable	288	(507)
Cash Paid to Suppliers and Employees	(101,218)	(62,335)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$20,733</u>	<u>\$0</u>
 CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Non-interest Bearing Advances from Related Party	\$0	\$0
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>\$0</u>	<u>\$0</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 \$20,733	 \$0
Cash and Cash Equivalents at Beginning of Period	<u>0</u>	<u>0</u>
Cash and Cash Equivalents at End of Period	<u>\$20,733</u>	<u>\$0</u>



Financial Data

NOTES TO FINANCIAL STATEMENTS YEAR ENDING JUNE 30, 2005 AND 2004

DESCRIPTION OF ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

◆ Description of Activity

The Scanning Certification Program Board of Advisors creates standards and guidelines for business to follow in the administration of their scanning and related pricing programs, and offers certification for those stores which meet the standards and guidelines.

◆ Affiliates

The Program is affiliated with Pennsylvania Food Merchants Association.

◆ *Revenue Recognition* – Revenue is recognized upon completion of the store certification examination.

◆ *Deferred Income* – Scanning Certification Program fees paid by stores in advance of certification are recorded as deferred income.

◆ *Organization Costs* – Organization costs are amortized by the straight-line method over 60 months.

◆ *Property and Equipment* – Equipment purchased is recorded at cost. Depreciation is provided by the straight-line method over five years for financial reporting and accelerated methods over five years as prescribed by income tax regulations.

RELATED PARTY SUBSIDY AND PAYABLE

When necessary, PFMA advances working capital funds as a subsidy to the Scanning Certification Program. Any cash generated by the Scanning Certification Program in excess of its expenditures is used to offset these advances.

ACCOUNTS RECEIVABLE

Accounts receivable consist of fees due to the Scanning Certification Program for completed certification examinations.

INCOME TAXES

The Scanning Certification Program files a federal income tax return but is exempt for state income and franchise tax reporting purposes.

For year ended June 30, 2005, and period ended June 30, 2004, no significant differences existed between the Scanning Certification Program's income reported for financial statement purposes and that reported for tax return purposes.