

SCANNING CERTIFICATION PROGRAM

FISCAL 2012
ANNUAL REPORT





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YEAR IN REVIEW

EXECUTIVE DIRECTOR'S MESSAGE

I'm pleased to report that the Scanning Certification Program (SCP) had a very productive period of operation between July 2011 and June 2012. We continued to enjoy a steady demand for our services, positive financial results and extensive inspection data-mining capabilities that help us help our retail clients find and fix any price accuracy issues.

Membership was up in fiscal 2012, driven by chain expansion, such as Sunoco enrolling recently acquired Central Pennsylvania corporate locations. We're especially proud of our retailer retention rate — other than a few shuttered chain stores, only one independently-owned supermarket exited the program last year.

All financial goals were met or exceeded, which allows us to keep inspection fees at their current level for the upcoming year. The fees paid by SCP members fund our entire operation, and we're very mindful of spending their money wisely. Thanks also to the Pennsylvania Food Merchants Association for providing us with administrative support.

Our seven inspectors did 1,076 unannounced price accuracy tests in seven states during fiscal 2012. Overall supermarket price accuracy held steady last year, whereas the convenience store channel gave up the price accuracy gains achieved in fiscal 2011.

Price accuracy performance remains very store and, to a lesser extent, company specific — results are highly dependent on how well store-level employees understand and follow price integrity policies and procedures. SCP retailers and staff continue to work hard to achieve the highest level of price accuracy and, when necessary, address price accuracy problems that occur.

We are currently monitoring important legislative and regulatory activity in Pennsylvania. The state Senate is expected to take up House Bill No. 2366, which recently passed the House by a 193-1 margin, very soon. Known as the "parking meter" bill, it also addresses how often

inspections occur for other weighing and measuring devices, and would change the price verification inspection interval from every 12 months to 36 months. Some parties oppose the bill as anti-consumer protection, although there isn't unanimous consensus about the legislation amongst SCP participants.



Pennsylvania is launching an audit program for Certified Examiners of Weights and Measures, which would include the SCP and its inspectors. We have met with state officials about this and are in the process of communicating program details to our members.

We have an ambitious set of priorities for fiscal 2013: increasing enrollment; adopting paperless inspection reporting; overhauling the SCP's website content and developing a social media presence; refreshing program materials and finalizing a new "inspection-only" service.

Special thanks to our volunteer Board of Advisors. This group of price accuracy stakeholders, led by Penn State University's Dr. Drew Hyman and consumer advocate Mary Bach, created the program and provide ongoing guidance.

On behalf of the entire SCP team, I'm pleased to provide you with this annual report and welcome your inquiries about it or our program.

Sincerely,

Autumn V. Thomas

Autumn V. Thomas
Executive Director

BACKGROUND

OVERVIEW

Developed in 1991, the Scanning Certification Program (SCP) is a voluntary price accuracy program for retailers that seeks to provide price accuracy and appropriate pricing information for shoppers in Pennsylvania and surrounding states. The core 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 any errors are documented and promptly corrected, that appropriate employees receive price accuracy training and that consumers receive a free item when they are charged more than the lowest advertised price.

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 SCP counts all errors — overcharges, undercharges and items with no price posted — in its audit process.

Retailers want to assure consumers and government officials that scanning is the most accurate method of checkout. The SCP provides public recognition to stores which achieve and maintain high standards of accuracy in the administration of their pricing and scanning systems.

The SCP is recognized by the Pennsylvania Department of Agriculture as an approved private price verification certification program under Act 155 of 1996.

Over 1,000 food retailers currently participate in the program. Supermarkets made up the entire membership base until 1999, at which time the first convenience store chain enrolled. Any store which sells food and uses an optical scanning checkout system is eligible to join the SCP.

Despite recent leveling off, annual average price accuracy for participating supermarkets has increased over time,

from 96.90 percent in 1991 to 98.70 percent at the end of fiscal 2012. Overall convenience store price accuracy has also risen over the past thirteen years, and averaged 96.43 percent in fiscal 2012.

Error types and average cash values have varied by retail channel. For grocery stores in fiscal 2012, 32 percent of the errors were undercharges, 47 percent were overcharges and 21 percent were unpriced items. For convenience stores during the same period, those figures were 23 percent, 47 percent and 30 percent respectively. The average cash value of undercharges was larger than overcharges in both supermarkets and convenience stores, with supermarkets having larger overall average error values.

The ongoing mission of the SCP is to help member stores work toward 100 percent price accuracy; ensure customer satisfaction in the realm of price accuracy and expand participation, particularly to retail segments not currently represented.

The following sections provide background information on the SCP, fiscal 2012 and cumulative inspection statistics and financial data relating to the operation of program. All figures contained herein are as of June 30, 2012 unless otherwise indicated.

DEVELOPMENT

Despite several decades of checkout scanner experience in supermarkets nationwide, as well as the more recent mainstream application of the technology in most other retail channels, consumer skepticism remains about the accuracy of point-of-sale scanning systems. Some worry that such systems enable retailers to benefit from overcharge errors on a scale not possible with manually-entered prices.

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*

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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.”

Checkout scanning systems make the modern retail shopping experience possible. In addition to better price accuracy and faster checkout, consumers benefit from a substantially wider product assortment, more detailed receipt information and access to conveniences such as self-checkout and electronic coupon discounts. According to *Progressive Grocer*, it's been a boon for shoppers, retailers and manufacturers alike with estimated annual cost savings of \$17 billion in the grocery sector alone.

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

Pennsylvania Food Merchants Association (PFMA), which represents food retailers and wholesalers in and around Pennsylvania, recognized the consumer concerns and brought together stakeholders of various interested parties to address checkout scanner accuracy issues.

By 1991, this group of retailers and wholesalers, consumer advocates, government officials and labor representatives had developed the SCP, a not-for-profit voluntary program whereby participating retailers agree to adhere to a strict set of pricing standards, and in so doing are eligible to earn a certified compliance status.

Program operations and retailer enrollment began in earnest in 1992, after a ten-store pilot of inspection procedures the previous year. In-store audits commenced in 1993, with 133 supermarkets tested that year.

The SCP has received international attention for its

proactive approach to retail price accuracy and is recognized by the Commonwealth of Pennsylvania as an approved certifier for Act 155 price verification inspections.

BOARD OF ADVISORS

The development team of price accuracy stakeholders evolved into the SCP Board of Advisors, which sets policy and provides ongoing direction. PFMA provides administrative support. The current members of the board are:

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

Mary Bach – Consumer Advocate & AARP Representative, Murrysville, PA;

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

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

Drew Hyman – Professor Emeritus, Penn 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 – Retail Technology Manager, SuperValu-Eastern Region, New Stanton, PA;

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

Pattie Shekero – Retail Integrity Manager, Acme Markets, Malvern, PA;

Steve Swan – Vice President, Retailix, Warrendale, PA.

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PROGRAM PRINCIPLES

The SCP 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, sign, manufacturer pre-price or item price — the exact price of each item;
- The point-of-sale checkout scanning system 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 any customer who is charged more than the lowest advertised price, and will charge the correct price for any additional units of that item. Retailers may implement a more generous policy such as not having a \$10 limit on the value of a free item or expanding the refund policy to include errors where the customer is charged less than the advertised price.

PROGRAM REQUIREMENTS

Stores participating in the SCP must also:

- Adhere to specific requirements regarding the size, information and placement of shelf tags and sale signs;
- Announce the price accuracy policy by posting signs at the store entrance, customer service area and at each cash register;
- Educate employees about price integrity procedures, the price accuracy 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 vary by store size. Those with smaller footprints, such as convenience stores, are only required to post price

accuracy policy signs at cash registers and must achieve a price accuracy rating of at least 98 percent on a random sample of 50 items.

All program requirements and inspection procedures, which are detailed in the *Scanning Certification Program Operations Manual*, meet or exceed state and federal standards. Each store receives a copy of the operations manual upon enrollment.

PROGRAM FORMAT

When a retailer enrolls in the SCP, program staff will conduct an orientation seminar to familiarize appropriate store personnel with all aspects of the program. Store employees will then perform a baseline self-study of their pricing systems to gauge the store's performance against the program standards. If performance needs improvement, store personnel will take corrective action.

When all program requirements have been fully implemented, the store will notify the program director. SCP staff will conduct an unannounced in-store inspection soon thereafter to measure compliance with program standards.

Stores that fully meet all of the program requirements receive a one-year Award of Certification. Stores that do not meet the 98 percent accuracy standard, or have not implemented other program requirements, will be subject to another unannounced inspection within 60 days of the initial visit.

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

Criteria for awarding certification are periodically reviewed by the Board of Advisors. No changes were made to the requirements in fiscal 2012.

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STORE COMPLIANCE

The SCP is able to monitor store compliance, in part, through the calls shoppers place to the SCP's toll-free hotline. The hotline number, 888-SCAN-SCP, must be included on the price accuracy policy signs that retailers post in their stores. Some program participants have also opted to include the SCP hotline number on their websites.

Consumer feedback — both positive and negative — helps to ensure that program requirements are carried out properly at store-level. Most of the calls fielded by SCP representatives involve the incorrect implementation of the price accuracy policy, which underscores the importance of ongoing price accuracy and customer service training for all store employees who interact with shoppers.

Unannounced interim inspections may be conducted periodically to verify that certified stores adhere to all program requirements throughout the period of their certification. During an interim inspection, the auditor will look for compliance with price accuracy policy signage, employee training and shelf tag requirements, but will not check the store's price accuracy rate. Any areas of noncompliance are reviewed with store management and must be corrected or the store's certification may be revoked.

All member stores also receive a semiannual newsletter, *Program Notes*, shown above, 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 retailers, the Board of Advisors, regulatory agencies and outside news sources. *Program Notes* and the SCP's annual reports are also available online at www.pfma.net.

CURRENT ENROLLMENT

As of June 2012, 1,017 stores in Pennsylvania, New Jersey, Maryland, Delaware, Ohio, West Virginia and Virginia were enrolled in the SCP. Supermarkets make up 67 percent of the membership, while convenience stores account for 33 percent. There was modest growth in enrollment compared to fiscal 2011 participation.

Member companies include Acme Markets, Associated Wholesalers corporate and independently-owned stores, Country Fair, Giant Eagle/GetGo, Giant Food Stores, Price Chopper, Sunoco, SuperValu-Pittsburgh-supplied supermarkets, Tops Markets and Weis Markets. Equally as important are the numerous independent grocers who are also participating in the program.

The SCP's member retention rate was excellent over the last year, hovering just below 100 percent. Usually when a store exits the program, it's an obsolete chain store location that has been closed.

Member stores receive increased customer trust and public recognition for making price accuracy a top priority. Adherence to program requirements helps prevent undercharges that cost retailers money and overcharges that erode consumer confidence. Auditor feedback and customized inspection reporting enables participants to pinpoint and address any price accuracy problems promptly. Certified stores also fulfill the Pennsylvania state requirements of Act 155 for the annual inspection of checkout scanners.

PENNSYLVANIA SCANNER INSPECTION LAWS

Enacted by the Pennsylvania legislature in 1996, Act 155 mandates that the Pennsylvania Department of Agriculture conduct unannounced annual price verification tests of all retail stores in the state that use optical checkout scanning systems. A price



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accuracy rate of at least 98 percent is required.

Under Pennsylvania's Certified Universal Product Code (UPC) and Price Look-Up (PLU) Inspector Program, stores with point-of-sale scanning systems are exempt from routine annual Act 155 price verification 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 SCP is an approved Act 155 private certification program. Our seven inspectors are registered by the Pennsylvania Department of Agriculture as certified UPC/PLU inspectors for the purpose of performing price verification tests.

The state-issued inspector certifications are valid for three years, after which time inspectors must partake in additional price verification training and reapply for certification. In fiscal 2011, all SCP inspectors underwent the continuing education mandated by Act 155, extending their state certifications through 2013.

As mandated by Pennsylvania's Title 70, § 5.12, the SCP provides a copy of any inspection report for individual Pennsylvania stores to the state Weights and Measures office by the 10th day of the month following when the inspection occurred. The SCP also retains all inspection reports for three years from the date of any inspection.

Historically, the Department has not inspected certified SCP stores unless it received a customer complaint. However, Title 70 states that "the Department may evaluate the performance of a certified UPC/PLU Inspector who conducts inspections for a private certification program by conducting a follow-up inspection of any UPC scanning system or PLU device that has been inspected and tested by the certified UPC/PLU Inspector." The Department is currently in the process of developing a formal audit program to ensure that certified private certification programs and UPC/PLU

inspectors are performing their duties properly and protecting the consumers and businesses they represent.

The City of Philadelphia also has legislation, Chapter 9-1800 of the Philadelphia Code, governing the use of checkout scanners. Certain retail food establishments in the city are required 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 price errors.

On June 8, 2006, the Philadelphia City Council passed Bill No. 050790, which amended the city's scanner law to extend the requirements for licensing to nonfood or mercantile retailers and to increase penalties for violations.

Until it was eliminated as a cost-saving measure in February of 2009, the Philadelphia Department of Weights and Measures performed unannounced quarterly inspections to measure city stores' price accuracy. A random sample of items was used to calculate the "scanner overcharge ratio." If either the number or dollar value ratio of overcharges to undercharges was 3:1 or greater, the store was in violation of the code. Three consecutive violations results in a store having to item-price merchandise until it passed four consecutive quarterly inspections. Philadelphia weights and measures duties have been handed over to the state, but it is unclear at this time if or how the Philadelphia quarterly price accuracy audits will be continued.

While certification from the SCP exempts Pennsylvania participants from routine Act 155 inspections, it does not exempt member stores from Philadelphia scanning system tests.

NATIONAL STANDARD

Though the SCP was initially geared toward Pennsylvania

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supermarkets, it has since gained a much wider audience.

Other states interested in developing similar programs have used the SCP as a model and the federal government looked to the program when developing its own price verification techniques and accuracy standards. Canadian and Australian officials have also studied the SCP approach to price integrity.

The National Institute of Standards and Technology (NIST) modeled its randomized sampling methodology, detailed in *Handbook 130, Examination Procedures for Price Verification*, on inspections techniques pioneered by the SCP in 1991. This sampling design ensures that all items in a store have a roughly equal chance of being included in the test sample, thereby maximizing uniformity and minimizing inspector bias. Like the SCP, NIST set 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 verification standards when inspecting retail stores within their jurisdictions. Pennsylvania's Division of Weights and Measures uses *Handbook 130* procedures whenever it is called upon to check a store's price accuracy.

NIST and SCP representatives have also collaborated on price accuracy inspection training. In September of 2008 at NIST's Gaithersburg, MD campus, SCP executive director Autumn Thomas conducted a seminar for New Jersey and Michigan weights and measures inspectors about the SCP's development, policies, procedures and results.

WORK WITH OTHER GROUPS

In addition to working with NIST, the SCP's staff and Board of Advisors have collaborated with various industry groups and other government agencies on the issues of price accuracy.

The Federal Trade Commission, which produced reports

on checkout scanner accuracy in 1996 and 1998, worked with the SCP to learn how the program was created, why stores decided to enroll and how stores work to ensure price accuracy.

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

SCP and Pennsylvania Division of Weights and Measures managers cooperate frequently on price accuracy and Act 155 compliance issues. In 2006, the Secretary of Agriculture named the SCP's Mary Bach, Dean Ely and Autumn Thomas to the Department's then newly created Weights and Measurement Standards Advisory Committee. This past year, SCP managers were asked to provide input on the state's new audit program for certified UPC/PLU inspectors as well as revisions being made to the Department's price verification training program.

SCP personnel also collaborate regularly with representatives of the Pennsylvania Association of Weights and Measures (PAWM), the organization for the commonwealth's local weights and measures professionals. SCP staff participate in the association's events and the two organizations have been involved in numerous price accuracy projects such as the regulation-writing process for Act 155. Both SCP vice-chair Mary Bach and executive director Autumn Thomas are regular speakers at PAWM's annual technical training conferences.

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

PROGRAM DATA

SUPERMARKET INSPECTIONS OVERVIEW

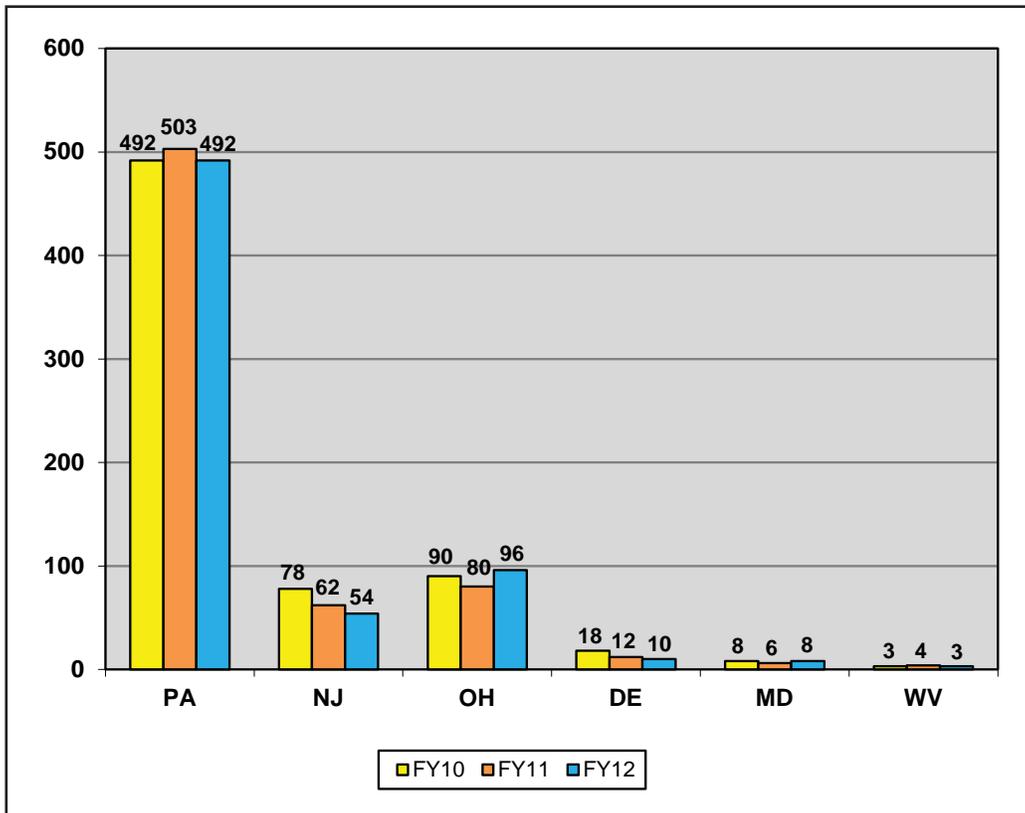
SCP inspectors performed 663 supermarket inspections in six states during fiscal 2012. *Chart A*, below, shows that the bulk of the inspections, 74 percent, were done in Pennsylvania. Ohio and New Jersey accounted for 14 percent and 8 percent of the tests respectively. A small number of audits were performed in Delaware, Maryland and West Virginia. There was a minimal drop in inspection activity compared to fiscal 2010 and 2011, when 689 and 667 audits were conducted respectively.

Over the last twelve months there were inspections done in 61 of Pennsylvania’s 67 counties. The top counties

based on inspection volume were: Allegheny (13 percent); Bucks and Lancaster (6 percent each); York (5 percent); Chester, Delaware, Montgomery and Westmoreland (4 percent each) and Cumberland, Dauphin and Lehigh (3 percent each). See page 12 for the complete listing of Pennsylvania inspections by county.

For fiscal 2012, the breakdown of supermarket inspection activity by day-of-week was: 24 percent on Monday; 21 percent on Tuesday; 20 percent on Wednesday; 12 percent on Thursday; 17 percent on Friday; 4 percent on Saturday and 2 percent on Sunday.

CHART A - SUPERMARKET INSPECTIONS BY STATE: FY10 - FY12



PROGRAM DATA

CONVENIENCE STORE INSPECTIONS OVERVIEW

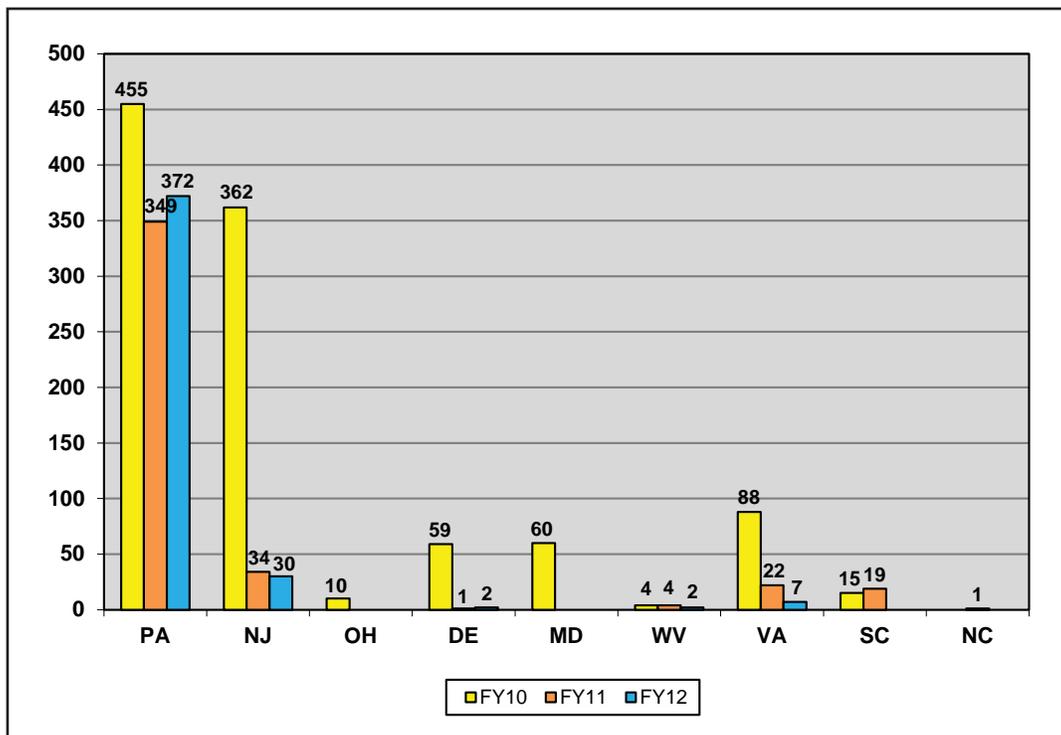
There were 413 convenience store inspections performed in five states last year. That is 17 fewer tests than the 430 done in fiscal 2011, when a round of inspections was performed for one program participant in North and South Carolina. The large drop in audit activity between fiscal 2010 and 2011 was due to the departure of convenience store chain Wawa from the program.

Chart B, below, shows that most of the fiscal 2012 inspection activity was concentrated in Pennsylvania (90 percent). New Jersey accounted for 7 percent of the tests, followed by a single-digit number of audits in Delaware, West Virginia and Virginia.

Last year SCP inspectors visited convenience stores in 48 of Pennsylvania's 67 counties. The top counties based on inspection volume were: Allegheny (17 percent); Erie (16 percent); Westmoreland (6 percent); Chester (5 percent); Philadelphia (4 percent) and Butler, Lawrence, Montgomery and York (3 percent each).

SCP inspections can take place any day of the week, although usually during daylight business hours. Fiscal 2012 convenience store visits by day-of-week were: 27 percent on Monday; 22 percent on Tuesday; 21 percent on Wednesday; 15 percent on Thursday; 6 percent on Friday; 9 percent on Saturday and none on Sunday.

CHART B - CONVENIENCE STORE INSPECTIONS BY STATE: FY10 - FY12



PROGRAM DATA

PENNSYLVANIA INSPECTIONS BY COUNTY: FY12						
COUNTY	# OF S/M AUDITS	PERCENT OF TOTAL	# OF C-STORE AUDITS	PERCENT OF TOTAL	COMBINED AUDIT COUNT	COMBINED PERCENT
Allegheny	64	13.01%	63	16.94%	127	14.70%
Erie	10	2.03%	59	15.86%	69	7.99%
Westmoreland	18	3.66%	22	5.91%	40	4.63%
Chester	18	3.66%	20	5.38%	38	4.40%
Lancaster	28	5.69%	9	2.42%	37	4.28%
York	25	5.08%	11	2.96%	36	4.17%
Bucks	28	5.69%	6	1.61%	34	3.94%
Montgomery	22	4.47%	10	2.69%	32	3.70%
Delaware	21	4.27%	7	1.88%	28	3.24%
Philadelphia	11	2.24%	16	4.30%	27	3.13%
Cumberland	16	3.25%	7	1.88%	23	2.66%
Dauphin	15	3.05%	7	1.88%	22	2.55%
Lehigh	15	3.05%	5	1.34%	20	2.31%
Butler	6	1.22%	12	3.23%	18	2.08%
Berks	14	2.85%	3	0.81%	17	1.97%
Lawrence	3	0.61%	11	2.96%	14	1.62%
Luzerne	14	2.85%	0	0.00%	14	1.62%
Lycomnig	8	1.63%	6	1.61%	14	1.62%
Mercer	2	0.41%	12	3.23%	14	1.62%
Adams	8	1.63%	5	1.34%	13	1.50%
Crawford	4	0.81%	9	2.42%	13	1.50%
Washington	7	1.42%	6	1.61%	13	1.50%
Beaver	4	0.81%	8	2.15%	12	1.39%
Monroe	7	1.42%	5	1.34%	12	1.39%
Blair	8	1.63%	3	0.81%	11	1.27%
Lebanon	8	1.63%	3	0.81%	11	1.27%
Northumberland	5	1.02%	6	1.61%	11	1.27%
Lackawanna	10	2.03%	0	0.00%	10	1.16%
Venango	4	0.81%	6	1.61%	10	1.16%
Fayette	6	1.22%	3	0.81%	9	1.04%
Northampton	8	1.63%	0	0.00%	8	0.93%
Centre	7	1.42%	0	0.00%	7	0.81%
Franklin	4	0.81%	2	0.54%	6	0.69%
Perry	3	0.61%	3	0.81%	6	0.69%
Snyder	2	0.41%	4	1.08%	6	0.69%
Wayne	6	1.22%	0	0.00%	6	0.69%
Bradford	5	1.02%	0	0.00%	5	0.58%
Columbia	4	0.81%	1	0.27%	5	0.58%
Indiana	3	0.61%	2	0.54%	5	0.58%
Schuylkill	3	0.61%	2	0.54%	5	0.58%
Somerset	2	0.41%	3	0.81%	5	0.58%
Armstrong	3	0.61%	1	0.27%	4	0.46%
Bedford	3	0.61%	1	0.27%	4	0.46%
Cambria	3	0.61%	1	0.27%	4	0.46%
Montour	3	0.61%	1	0.27%	4	0.46%
Union	2	0.41%	2	0.54%	4	0.46%
Warren	2	0.41%	2	0.54%	4	0.46%
Clinton	2	0.41%	1	0.27%	3	0.35%
Elk	2	0.41%	1	0.27%	3	0.35%
McKean	2	0.41%	1	0.27%	3	0.35%
Carbon	1	0.20%	1	0.27%	2	0.23%
Clearfield	2	0.41%	0	0.00%	2	0.23%
Fulton	1	0.20%	1	0.27%	2	0.23%
Huntington	2	0.41%	0	0.00%	2	0.23%
Jefferson	1	0.20%	1	0.27%	2	0.23%
Tioga	2	0.41%	0	0.00%	2	0.23%
Greene	0	0.00%	1	0.27%	1	0.12%
Juniata	1	0.20%	0	0.00%	1	0.12%
Mifflin	1	0.20%	0	0.00%	1	0.12%
Pike	1	0.20%	0	0.00%	1	0.12%
Susquehanna	1	0.20%	0	0.00%	1	0.12%
Wyoming	1	0.20%	0	0.00%	1	0.12%
Totals:	492	100.00%	372	100.00%	864	100.00%

PROGRAM DATA

SUPERMARKET INSPECTION RESULTS

To pass an inspection and receive certification, supermarkets must achieve a price accuracy score of at least 98 percent on an unannounced test of 200 randomly selected items (four or fewer undercharge, overcharge or no price errors) from throughout the store and demonstrate compliance with other program requirements (detailed on page 6).

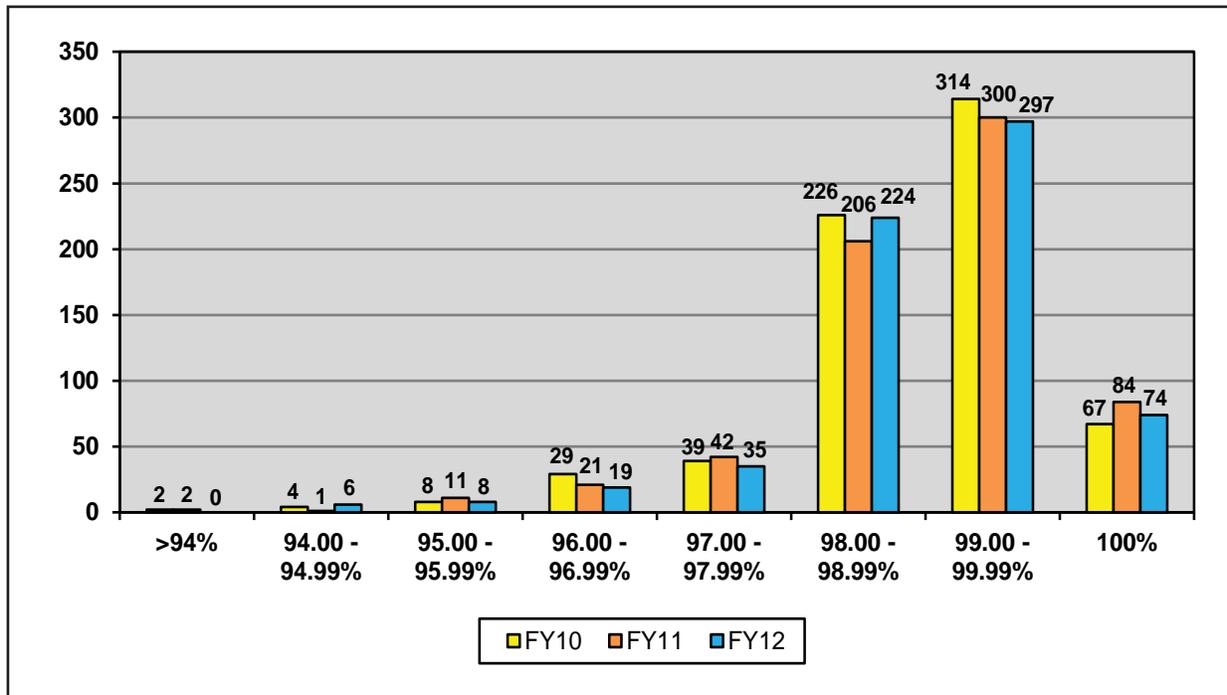
Of the 663 supermarket inspections performed in fiscal 2012, 595 (90 percent) resulted in the issuance of one-year certification awards, while 68 (10 percent) failed to garner certification because the 98 percent price accuracy

requirement was not met. The pass/fail rate is at a six year high and up from the 88/12 percent pass/fail ratio for fiscal 2010 and 2011.

The price accuracy rates of individual grocery stores ranged from 94 percent to 100 percent last year, with 74 stores (11 percent) achieving a perfect score, the standard that all program participants strive for.

The complete range of price accuracy scores for individual supermarkets over the last three years is displayed below in *Chart C*.

CHART C - DISTRIBUTION OF SUPERMARKET PRICE ACCURACY RATES: FY10 - FY12



PROGRAM DATA

Chart D, below, shows the trend in annual average price accuracy for supermarkets since a baseline study of ten stores in 1991. The average accuracy rate of all audits performed in fiscal 2012 was 98.70 percent, down a fraction from 98.74 percent the previous year.

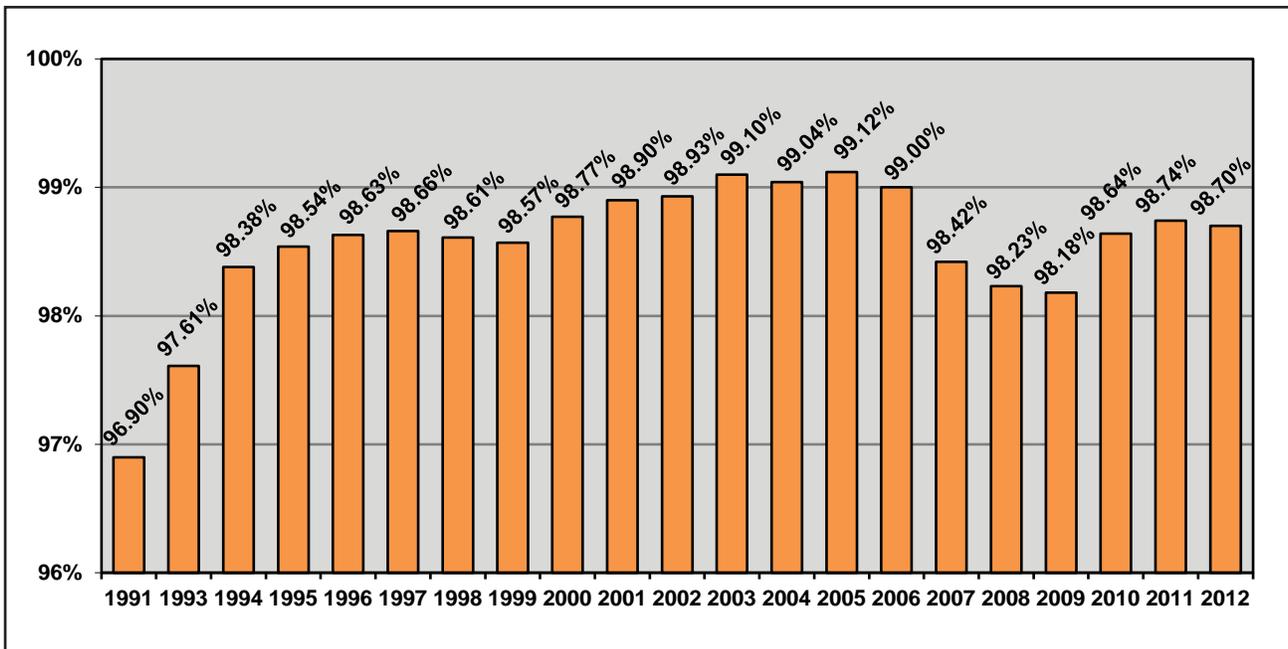
The cumulative average price accuracy rate for all supermarket tests conducted between the program's inception and the end of fiscal 2012 held steady at 98.69 percent. This accuracy rate is based on the sampling of 1,823,375 items since 1991, of which 1,799,542 were priced correctly and 23,833 were not.

Supermarket operators realize how important accurate pricing is to their customers, especially in the current difficult economic climate. At the same time, maintaining store-level price integrity is more difficult than ever — retailers face a much larger, and faster rotating, selection of items on the shelves; a significantly higher number and

frequency of price changes and more tiers of pricing to manage. Any given item may have at least three different prices at one time — the regular retail price, a single unit sale price for all customers or loyalty card users and a "must buy" loyalty card-user or all customer sale price that requires a specific multiple unit purchase.

Stores are utilizing various strategies to address these challenges and reverse the price accuracy declines experienced between fiscal 2007 and 2009. Periodic price checking of all in-store merchandise is critical — audits are usually done several times a year, checking each aisle or section on a rotating basis. Close monitoring of direct-store-delivery vendors is also important to ensure that the items they stock on shelves are priced and accurate. Price integrity also has to be a team effort — not just the responsibility of the pricing coordinator. Department managers, such as for deli and produce, must also be verifying the prices of merchandise in their areas.

CHART D - SUPERMARKET ANNUAL AVERAGE PRICE ACCURACY: INCEPTION - FY12



PROGRAM DATA

The SCP defines any of the following as price accuracy errors: undercharges (the price at checkout is less than the lowest posted price); overcharges (the price at checkout is more than the lowest posted price) and unpriced items for which there is no shelf tag, sign or item price.

These rigorous standards are designed to ensure that customers find a price announced in the aisle and pay that same price at the checkout. Savvy retailers recognize that having clearly marked prices that match the prices charged at checkout is what gives shoppers confidence in a store's pricing system.

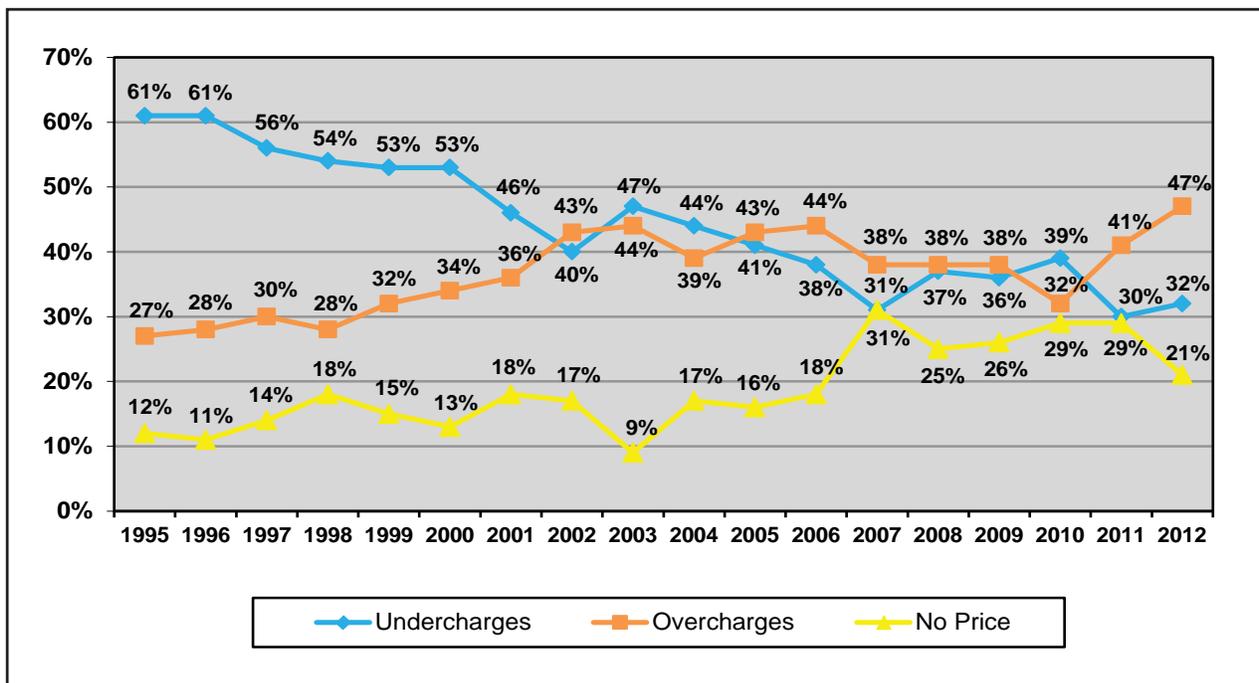
Pennsylvania Department of Agriculture rules are different — only overcharges are tallied as errors. Unpriced items are not scored as errors because state law does not require retailers to post a price. The state does not count undercharges as errors either because of the

impracticality of citing retailers for charging less than an advertised price.

SCP auditors checked the price accuracy of 131,000 supermarket items last year, of which 1,710 (1.30 percent) rang up incorrectly or had no price posted. Of the 1,710 errors found, 546 (32 percent) were undercharges, 803 (47 percent) were overcharges and 361 (21 percent) had no price.

Chart E, below, depicts the trend in error types over time. Undercharges have declined from 61 percent to 32 percent of the total errors while overcharges have increased from 27 percent to 47 percent of the total errors. The percentage of unpriced items has fluctuated and almost doubled since 1995. Shipper displays, new items, direct-store-delivery merchandise, deli case products and produce are the most common sources of "no price posted" errors in supermarkets.

CHART E - SUPERMARKET ERROR TYPE COMPOSITION: FY95 - FY12



PROGRAM DATA

The SCP tracks not only the number and type of price errors, but the value of price discrepancies too. *Chart F*, below, depicts the dollar value trend of supermarket undercharges and overcharges since 1996.

The value of the average undercharge has consistently exceeded the value of the average overcharge. That trend remained in place for fiscal 2012, with the cost of the average undercharge and overcharge 78 cents and 41 cents respectively for the 1,710 error items found last year.

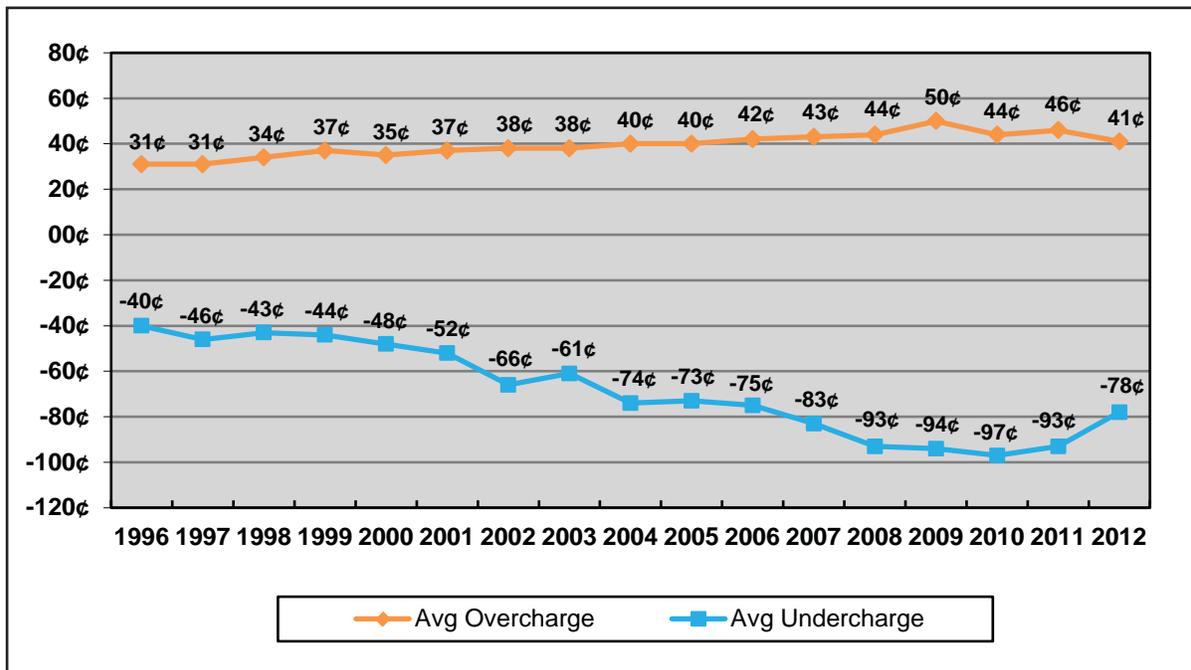
From 1996 through fiscal 2012, the average undercharge increased 38 cents and the average overcharge increased 10 cents. These increases reflect both the general rise in prices over time and the increase in the number of relatively expensive items (i.e. appliances, patio furniture) carried in many supermarkets today.

Regardless of their cash value, almost all of the

undercharge and overcharge errors that SCP auditors found were caused by shelf tag miscues. Items that change price frequently, or are priced by an outside vendor, are most vulnerable. These include "ad week" sale items, seasonal merchandise, discontinued products and direct-store-delivery goods such as soda, sweet and salty snacks and bread.

There are, however, intended price discrepancies — such as when items go on or off sale. Store personnel cannot change prices in the system simultaneous to updating the shelf tags. To prevent overcharging the customer, a temporary "intentional" undercharge will be created to give staff time to hang the new shelf tags. For a price increase (decrease), that means employees will change the price on the shelf before (after) changing the price in the store's point-of-sale system. Properly documented intentional undercharges are not counted as errors by SCP or weights and measures officials.

CHART F - DOLLAR VALUE ANALYSIS OF SUPERMARKET ERRORS: FY96 - FY12



PROGRAM DATA

CONVENIENCE STORE INSPECTION RESULTS

One-year certification awards were earned in 253 of the 413 convenience stores tests done last year, for a pass rate of 61 percent. One hundred and sixty convenience stores (39 percent) did not meet the program requirements for certification at the time of their inspections. The pass rate jumps to 81 percent if Pennsylvania state rules are used, as 77 failures result when only overcharges are scored as errors.

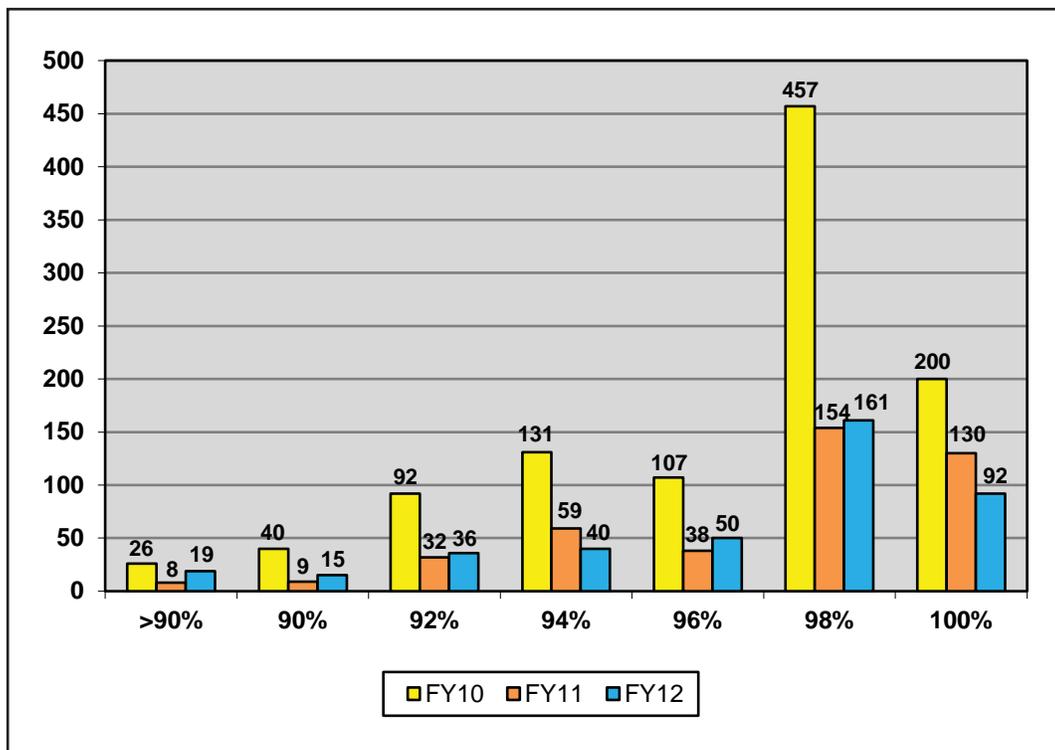
Key to pricing success in the convenience store setting is devoting adequate staff resources to price integrity duties, because unlike the dedicated full-time

pricing coordinator job in most supermarkets, pricing responsibilities are a part-time focus of several different employees in convenience stores.

The price accuracy rates of individual convenience stores ranged from 74 percent to 100 percent in fiscal 2012. Ninety-two stores (22 percent) had an accuracy score of 100 percent, compared to 130 stores (30 percent) in the prior year and 200 stores (19 percent) in fiscal 2010.

The complete distribution of price accuracy scores for fiscal 2010 through fiscal 2012 is shown below in *Chart G*.

CHART G - DISTRIBUTION OF CONVENIENCE STORE PRICE ACCURACY RATES: FY10 - FY12



PROGRAM DATA

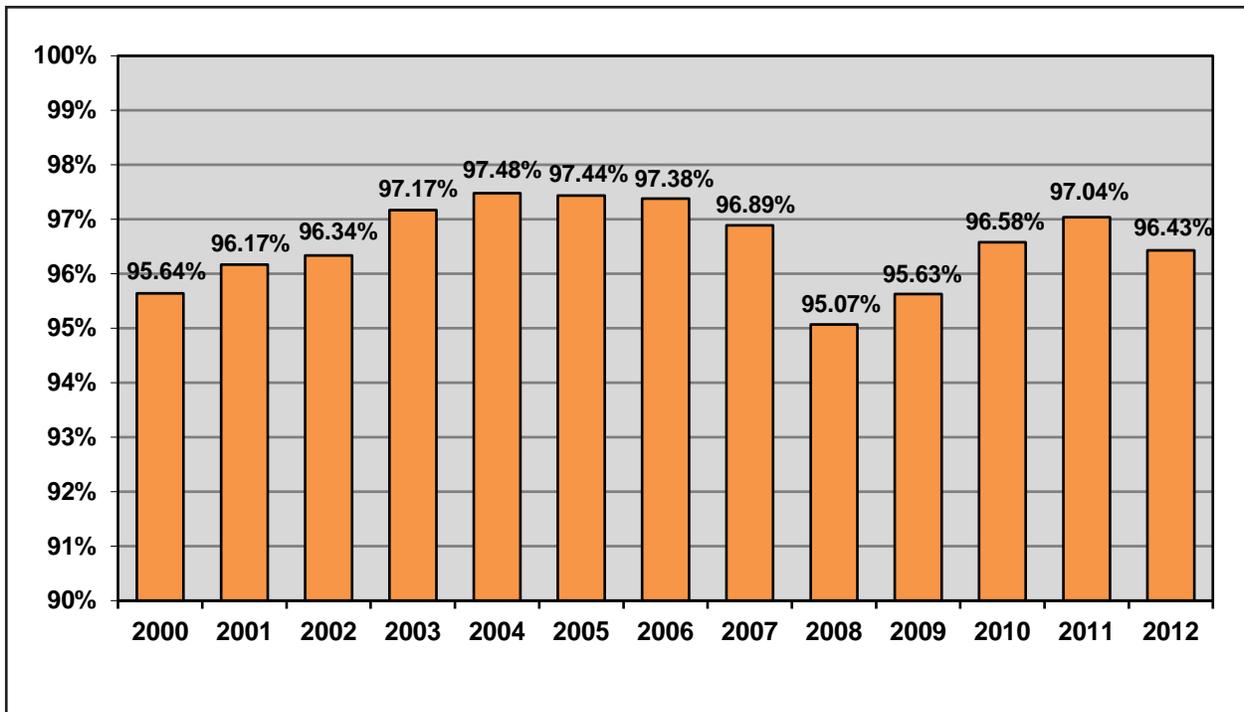
Chart H shows the pattern in annual average price accuracy for convenience stores since the initial study of 84 locations in fiscal 2000. The average price accuracy rate of all audits performed last year was 96.43 percent, down from 97.04 percent in fiscal 2011.

The cumulative average price accuracy rate for all convenience store audits performed since fiscal 2000 is 96.52 percent. There were 470,101 items tested during the thirteen-year period, of which 453,752 had correct prices posted and 16,349 did not.

While many individual convenience stores excel in performance, average price accuracy for the category has lagged behind that of supermarkets.

Several factors contribute to the gap: (1) convenience stores have a much higher percentage of direct-store-delivery items, which are not consistently pre-priced or item-priced by vendors, making them more prone to price errors; (2) shoppers generally place a greater importance on price in supermarkets than in convenience stores, where getting in and out fast is the priority; (3) convenience stores don't have the full-time pricing coordinators found in almost all supermarkets; (4) turnover is often higher in convenience stores, resulting in employees with less price accuracy knowledge and experience than their grocery store counterparts and (5) supermarkets have several decades more experience with checkout scanning than convenience stores.

CHART H - CONVENIENCE STORE ANNUAL AVERAGE PRICE ACCURACY: FY00 - FY12



PROGRAM DATA

Except in a few very small stores where only 25 items are tested, SCP auditors sample 50 randomly selected items during each unannounced convenience store inspection — a total of 20,525 products were checked during fiscal 2012.

Of those 20,525 items, 732 (3.57 percent) rang up incorrectly or had no price posted. One hundred and sixty-seven (23 percent) of the errors were undercharges, 344 (47 percent) were overcharges and 221 (30 percent) were items without a price. The long term trend in convenience store error types is shown below in *Chart I*.

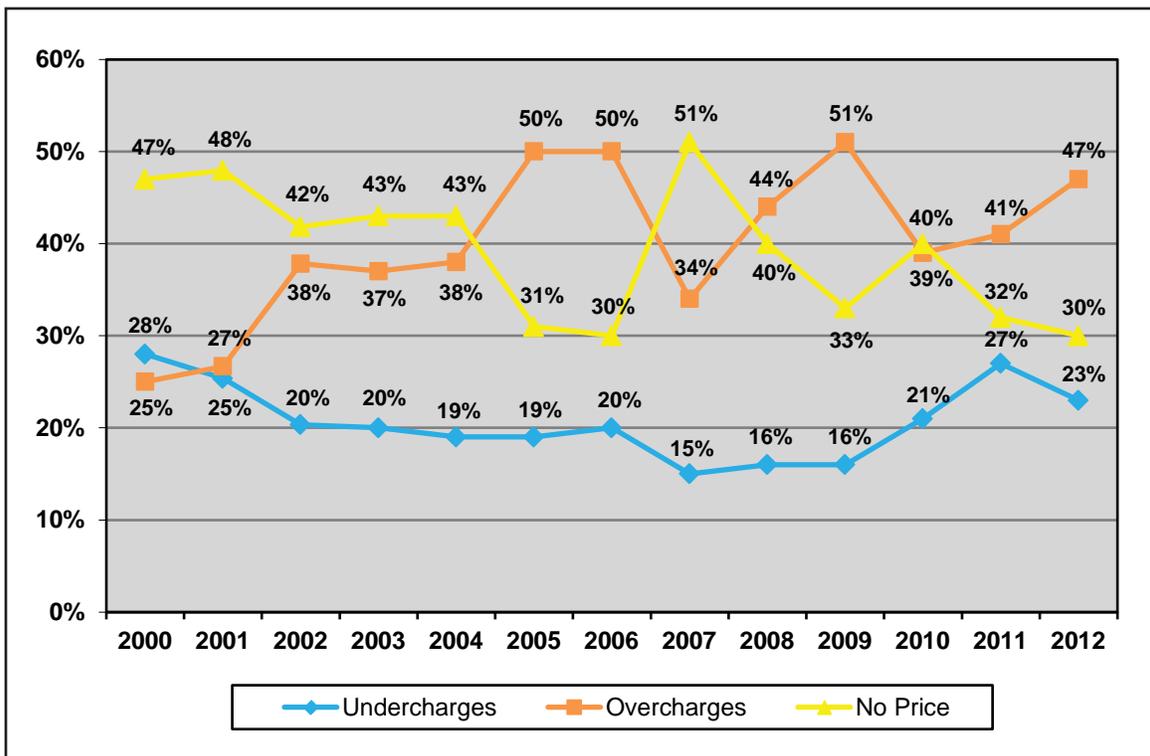
The percentage of unpriced errors dropped over the last year, but continues to be a challenge for convenience stores. A large portion of the unpriced product comes from direct-store-delivery vendors who stock some goods

that are pre-priced (i.e. potato chips) and others that are not (i.e. salsa, crackers). Clerks mistakenly assume everything is pre-priced, increasing the likelihood that some items go unpriced.

Another challenge is the prevalence of small displays throughout the store — candy bars and single-serve sodas in cooler doors, beef jerky in wire racks, pastries by the coffee and seasonal candy and prepared foods in baskets at the checkout — which are difficult to keep track of and to affix shelf tags to.

In fiscal 2012 the volume of overcharges again outpaced the number of undercharges — due largely to the fact that the majority of convenience store price changes over the last year were price increases vs. decreases.

CHART I - CONVENIENCE STORE ERROR TYPE COMPOSITION: FY00 - FY12



PROGRAM DATA

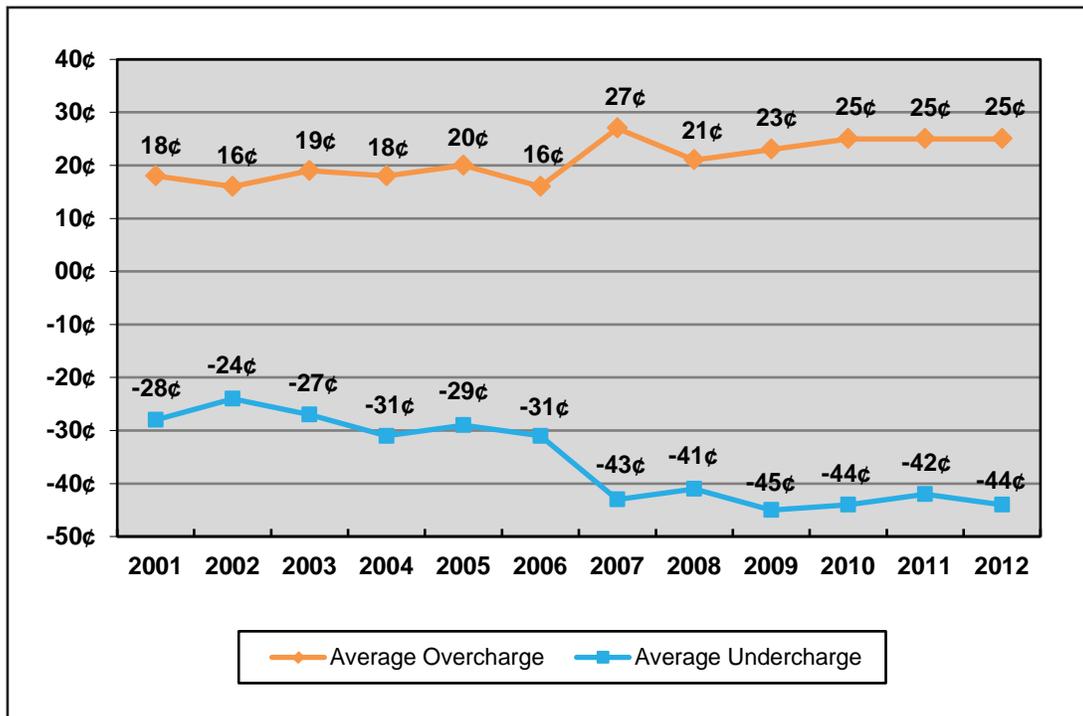
Chart J, below, depicts the cash value trend of convenience store errors over time. For fiscal 2012, the cost of the average undercharge and average overcharge was 44 cents and 25 cents respectively. Since 2001, the average undercharge increased 16 cents and the average overcharge increased 7 cents.

While the number of overcharges continues to exceed the volume of undercharges, when it comes to cash value, undercharges have always had a greater value than overcharges.

The cash value of convenience store errors tends to be smaller than the dollar value of supermarket errors, largely because the overall product mix in convenience stores is less expensive than in traditional grocery stores.

Many convenience store undercharges result when items go on sale, but corresponding sale signs are not posted promptly or at all. The vast majority of overcharges are caused when shelf tags for price increases are not hung in the aisle in a timely manner or by expired sale signs being left on the shelf.

CHART J - DOLLAR VALUE ANALYSIS OF CONVENIENCE STORE ERRORS: FY01 - FY12



PROGRAM DATA

INSPECTION RESULTS BY TEST TYPE/STATE

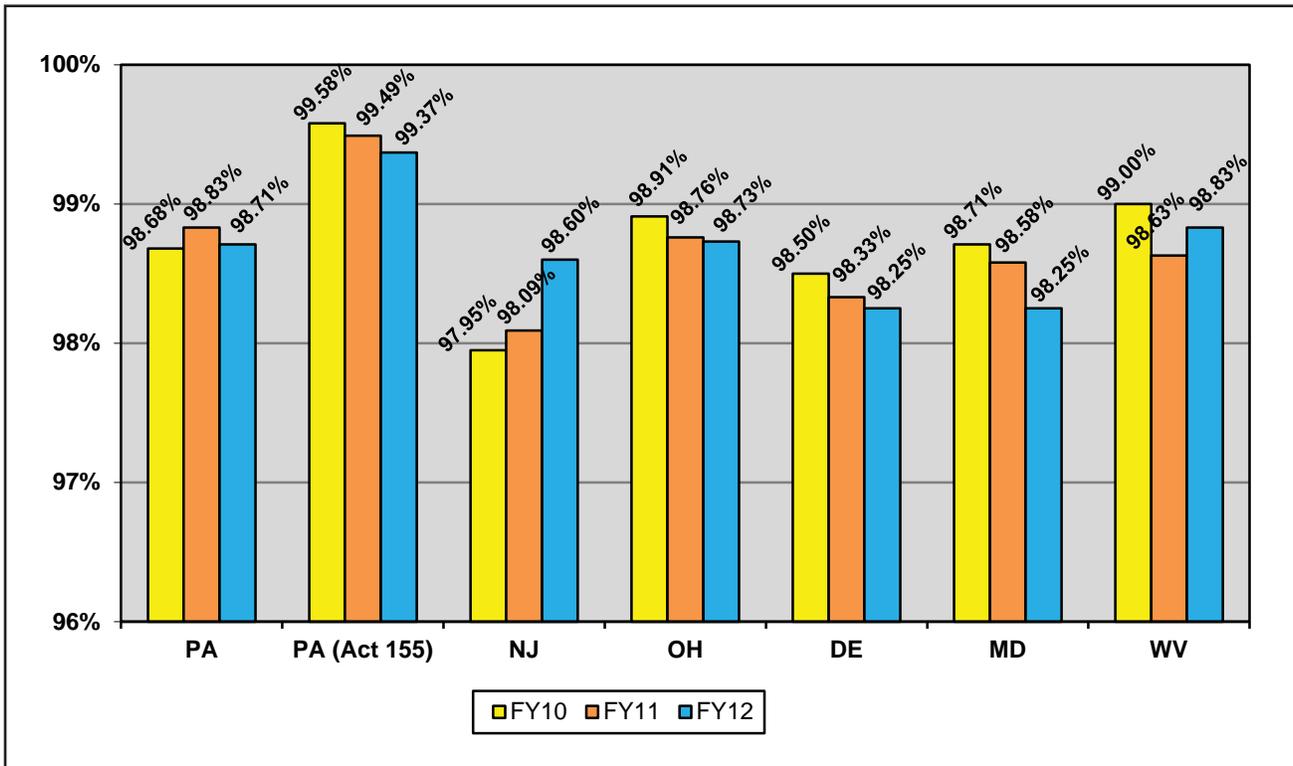
The difference in how the SCP and the Pennsylvania Division of Weights and Measures define price accuracy errors when performing inspections was described earlier on page 15 of this report.

Chart K demonstrates how average supermarket price accuracy is impacted by these differing methodologies. The SCP did 492 supermarket inspections in Pennsylvania last year — 96,800 items were sampled and 1,246 errors were found, of which 607 (49 percent) were overcharges.

If the results are recalculated with only the 607 overcharges counting as errors, average price accuracy rises from 98.71 percent to 99.37 percent.

Other states' average supermarket price accuracy rates for the last three fiscal years are also displayed. A relatively few number of grocery store inspections were performed in Maryland, Delaware and West Virginia, which should be taken into account when comparing the price accuracy rates of individual states.

CHART K - SUPERMARKET ANNUAL PRICE ACCURACY BY TEST TYPE/STATE: FY10 - FY12



PROGRAM DATA

Similarly, *Chart L* reflects how Pennsylvania convenience store average price accuracy jumps from 96.29 percent to 98.27 percent if only overcharges are considered.

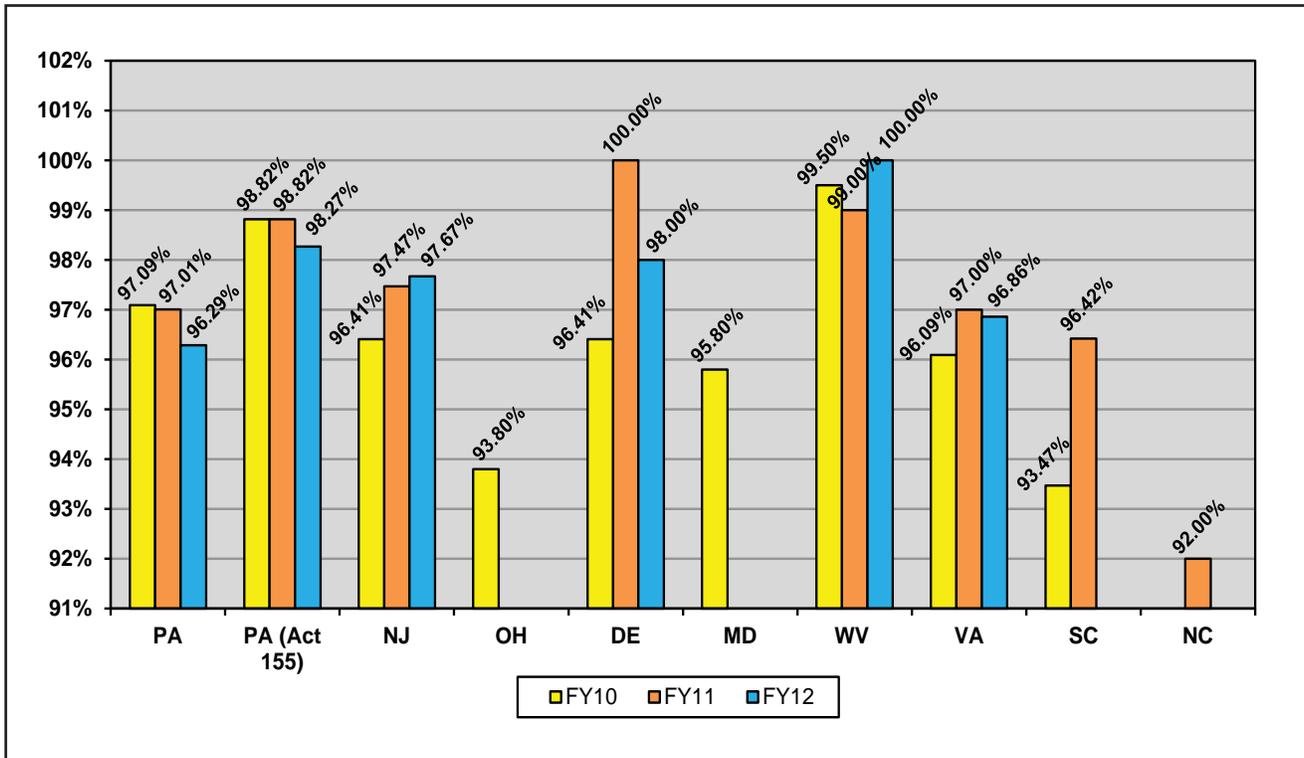
There were 372 Pennsylvania convenience store audits done in fiscal 2012 — 18,525 items were sampled and 687 errors were recorded, of which 320 (47 percent) were overcharges. Performance is significantly improved when the 53 percent of the total errors that were undercharges and no price errors are taken out of the equation.

Chart L also shows other states' average convenience store price accuracy rates for the last three years.

Only a minimal number of audits were performed in Delaware, West Virginia and Virginia, which should be considered if comparing the price accuracy performance of individual states. There is no data for Maryland after fiscal 2010 because of the Wawa departure; and Ohio, North Carolina and South Carolina have dropped to zero because of store divestitures or retailer discontinuance of inspections in those states.

When the SCP submits Act 155 price verification inspection reports to the Pennsylvania Department of Agriculture's Division of Weights and Measures, the state's error calculation method of only scoring overcharges as errors is used.

CHART L - CONVENIENCE STORE ANNUAL PRICE ACCURACY BY TEST TYPE/STATE: FY10 - FY12



FINANCIAL DATA

BALANCE SHEET June 30, 2012 and 2011

Assets	2012	2011
Cash	\$ 46,047	\$ 25,216
Accounts Receivable	22,520	20,335
Prepaid Expenses	3,145	2,824
Property and Equipment (Net of accumulated depreciation of \$33,356 and \$31,581 in 2012 and 2011, respectively)	<u>7,614</u>	<u>9,390</u>
Total Assets	<u>\$79,326</u>	<u>\$57,765</u>
 Liabilities and Equity		
Liabilities		
Related Party Payable	\$64,051	\$58,835
Income Taxes Payable	3,098	0
Accrued Expenses	<u>0</u>	<u>1,535</u>
Total Liabilities	\$67,149	\$60,370
Retained Earnings	<u>12,177</u>	<u>(2,605)</u>
Total Liabilities and Retained Earnings	<u>\$79,326</u>	<u>\$57,765</u>

FINANCIAL DATA

STATEMENT OF OPERATIONS AND RETAINED EARNINGS Year ending June 30, 2012 and 2011

	2012	2011
Program Revenue	\$114,530	\$120,535
Operating Expenses		
Salary Expense	\$58,545	\$66,254
Payroll Taxes	6,486	7,085
Employee Benefits	(136)	1,218
Telephone	2,206	2,735
Supplies	918	786
Postage and Freight	13	0
Travel	22,302	21,322
Other Expenses	4,541	5,195
Depreciation	1,775	9,701
Total Operating Expenses	\$96,650	\$114,296
Taxes	<u>\$3,098</u>	<u>\$359</u>
Net Income (Loss)	14,782	5,880
Beginning Retained Earnings (Deficit)	(2,605)	(8,485)
Ending Retained Earnings (Deficit)	<u>\$12,177</u>	<u>\$(2,605)</u>

FINANCIAL DATA

STATEMENT OF CASH FLOWS (DIRECT METHOD) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS Year Ending June 30, 2012 and 2011

Cash Flows from Operating Activities	2012	2011
Cash Received from Program Revenue	\$112,345	\$121,810
Related Party Payable	5,216	(37,820)
Income Taxes Payable	3,098	0
Cash Paid to Suppliers and Employees	(99,828)	(102,453)
Net Cash Provided by Operating Activities	<u>\$20,831</u>	<u>\$(18,463)</u>
 Cash Flows Used For Investing Activities		
Purchase of Auto	<u>\$0</u>	<u>\$0</u>
Net Cash Used For Investing Activities	<u>\$0</u>	<u>\$0</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	\$20,831	\$(18,463)
Cash and Cash Equivalents at Beginning of Period	<u>25,216</u>	<u>43,679</u>
Cash and Cash Equivalents at End of Period	<u>\$46,047</u>	<u>\$25,216</u>

FINANCIAL DATA

NOTES TO FINANCIAL STATEMENTS Year Ending June 30, 2012 and 2011

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 the Pennsylvania Food Merchants Association (PFMA).
- *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 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, 2012, and period ended June 30, 2011, no significant differences existed between the Scanning Certification Program's income reported for financial statement purposes and that reported for tax return purposes.



SCANNING CERTIFICATION PROGRAM

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Autumn Thomas, Secretary

