



## **Gotten milked? Retailers accused of gouging milk buyers**

By [Andrea Coombes](#), *CBS.MarketWatch.com*  
Last Update: 12:01 AM ET June 9, 2003

**SAN FRANCISCO (CBS.MW) -- Dairy farmers are struggling to survive on milk prices that have dropped to levels not seen in 25 years -- but that's not a fact consumers are likely to see reflected on grocery-store shelves.**

The average price paid for farmers' milk dropped about 12.7 percent this April compared to last April. During the same time, consumer prices dropped a mere 2.8 percent, to a national average of \$2.67, according to U.S. Dept. of Agriculture and Consumer Price Index figures.

But exactly why consumers don't reap more of a benefit from milk-price declines is a hotly contested debate. Some say retailers are pocketing the profit, while others contend retail pricing is a complex process, involving more than one product and absorbing many years of price fluctuations.

### **Profit for retailers?**

One academic who has studied milk prices in New England, Chicago and Seattle found that retailers in those areas are the main beneficiaries of the difference between retail and farm milk prices.

"The farmer right now is getting about \$1 a gallon or less," said Ronald W. Cotterill, a professor of agricultural economics at the University of Connecticut.

"The processor is adding another 60 cents to it" and "the supermarkets are taking that \$1.60 and marking it up \$1.50 a gallon to \$3.10," he said, referring to the average price for a gallon of milk in Connecticut in March.

"Retailers ought to be selling milk for between \$2 to \$2.40 a gallon. That would be a very handsome return for them. In most marketplaces, that's not the case," he said.

But others say retail pricing is a complex process that does not follow the vagaries of one item's wholesale cost.

"Anyone who thinks that retail prices ought to automatically follow farm prices ignores" retail pricing strategies, said Bob Yonkers, chief economist with the International Dairy Foods Association, a trade group representing milk processors.

"When you walk into a major supermarket today you're looking at 50,000 to 100,000 different items in the store. Their strategy isn't 'my input cost went up a penny so I'm going to raise my price a penny,'" Yonkers said.

Instead "they look at the dairy case which contains eggs, pudding, butter, yogurt, sour cream, in addition to the milk. They may be looking at a certain pricing strategy for that category, not each

individual item in that category."

## **Steady prices benefit consumers**

Another blow to the "retailers are profiting" theory is that retail prices don't fluctuate as much as farm-level prices. That is, consumers benefit because retailers often don't pass along a commensurate price increase when farmers' prices go up.

But it's unclear whether consumers' gain in that instance is enough to offset consumers' loss when farm prices fall more than retail prices.

"The people that have spent some effort to try to determine that have come out with dramatically different results on what's actually happened over time," said Jim Miller, an agricultural economist with the U.S. Department of Agriculture's Economic Research Service.

"On a national basis, it is a somewhat open question," Miller said.

The regional nature of this issue is a fact upon which everyone agrees. "It's inherently a local issue because the prices at retail are primarily determined by the supermarket chains in different parts of the country," Cotterill said. Also, "milk processing varies from region to region ... you can get different behavior in different markets."

## **Retailers profiting more than most**

While some academics do not support Cotterill's stated preference for retail price controls, and debate exactly how much retailers spend to bring milk to their stores -- and thus just how steep their profits are -- they agree with his basic premise.

"The retailer margin has probably gone up more than (milk processors' margin) given the drop in farm level prices," said Ed Jesse, a dairy economist and professor at the University of Wisconsin at Madison.

"The market is fairly competitive at the processor level, but where you have only a few grocery stores competing in a given area, the incentive to drop prices when the cost of acquiring the product goes down is less than in more competitive markets," he said.

"In the Northeast, there's been a lot of attention paid to fixed retail prices in the face of falling farm-level prices," he said.

That's been less true in the Midwest, where "retail prices appear to be more sensitive to farm-level prices," Jesse said, noting that milk prices in Madison, Wisconsin "move pretty much in lock-step with farm-level prices. Right now, all types of milk are priced under \$2.00 a gallon."

## **Consumers, farmers lose**

Consumers aren't alone in losing out, according to a farmers' trade group. Twenty years ago "farmers got about 50 cents of every consumer dollar that was spent on dairy products," said Chris Galen, spokesman with the National Milk Producers Federation.

"Today, farmers get less than 30 cents on the dollar. In some years that percentage may be a little higher or lower, but the clear trend (is) that that farm-to-retail spread has widened significantly," Galen said.

Who is collecting the rest of the consumer dollar? "What we can say for certain is it's not the farmer." Andrea Coombes is a reporter for CBS.MarketWatch.com in San Francisco.

© 1997-2003 MarketWatch.com, Inc. All rights reserved. [Disclaimer](#). [See our Privacy Policy](#) - updated 4/3/03.  
CBS and the CBS "eye device" are registered trademarks of CBS Broadcasting, Inc.

Intraday data provided by [S&P Comstock](#) and subject to [terms of use](#).

Historical and current end-of-day data provided by [FT Interactive Data](#).

Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges.  
SEHK intraday data is provided by S&P Comstock and is at least 60-minutes delayed.

All quotes are in local exchange time.