SUMMARY SHEET

Toward Reform of Fluid Milk Pricing in Southern New England: Farm Level, Wholesale and Retail Prices in the Fluid Milk Marketing Channel: 2003 – 2006

by

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#1 Retail, Wholesale, and Farm Level Raw Milk Prices in the Connecticut Fluid Milk Channel

- Leading brand and private label milk prices are checked in four different channels, supermarkets including Wal-Mart Supercenters, convenience stores, wholesale club stores and limited assortment stores. A total of 192 stores were checked in November 2006.

- The top three supermarket chains capture 63% of supermarket sales in Connecticut. Stop & Shop dominates with 45.4%. Then one has Big Y with 9.5% and Shaw's with 7.7%.

- Wal-Mart is the seventh largest supermarket chain in Connecticut with four stores and 2.8% share.

- The average all milk retail price across the top three chains and Wal-Mart (65% of the state's supermarket sales) in November 2006 was $3.83 per gallon. See Figure 1 on inside page.

- These four retailers kept $1.81 for in-store costs and profits. This dollar gross margin is 47% of the retail price. The Food Marketing Institute reports that the average gross margin for all products in U.S. supermarkets is 27%. The 47% reported gross margin on milk in Connecticut is excessive. Since milk is a very high turnover item its percent margin should be <u>lower than</u> the average percent gross margin.

- In-store costs including a competitive return, based upon research in Maine and Pennsylvania were approximately 60 cents per gallon in November 2006.

- The $1.81 per gallon dollar gross margin is three times the amount that would be earned in a competitive market.

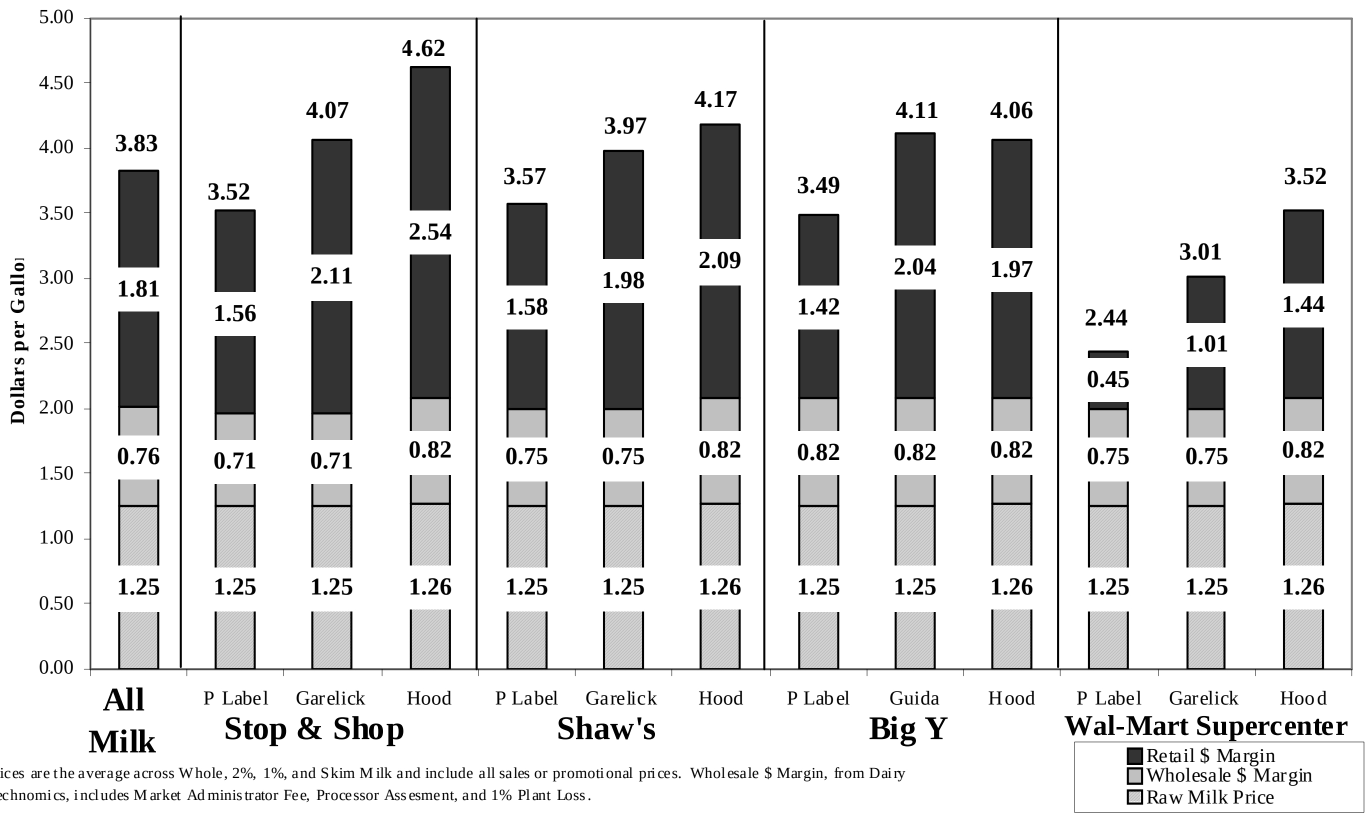
- At $1.21 per gallon, the excessive windfall profits of the supermarkets that make 65% of sales in Connecticut are effectively equal to the price paid to Connecticut farmers for the milk in the bottles: $1.25 per gallon.

- The situation is even more striking if one examines Stop & Shop, the dominant chain in Connecticut, with 45% of the market. Hood milk, for example, sells at $4.62 per gallon in Connecticut Stop & Shops. The farmer receives only $1.26 per gallon, and the Hood milk company captures only 82 cents per gallon; so the wholesale price, delivered to Stop & Shop stores is $2.08 per gallon. Stop & Shop retains for its in-store costs and profits, $2.54 per gallon! Thus the percent gross margin on Hood milk sold in Stop & Shop is 55%. The excess windfall profits on Hood milk are $2.54 - 0.60 = $1.94 per gallon.

- These results for Hood milk indicate that Stop & Shop captures nearly all of the brand premium. Very little of the brand's value is returned to the company that has created and sustained the brand over time. This is economically inefficient. Economic efficiency requires that the revenues generated by brand creation be returned to the brand's company so that company can equate the marginal cost of brand development to the marginal revenue captured from consumers who are the ultimate arbiters of a brand's success. As it stands today Stop & Shop captures nearly all of the brand's equity. For what? For stocking the milk in its stores for a few hours or days so that consumers can buy it.

- Wal-Mart in Connecticut is a different story. Its weighted average dollar gross margin across the private label, Garelick, and Hood brands is only 81 cents per gallon. Allowing 60 cents for in-store costs and competitive profits leaves only 21 cents per gallon as excess windfall profits.

Figure 1. Actual Raw Milk, Estimated Wholesale, and Actual Retail Milk Pricing by Brand for Four Leading Supermarket Chains in Connecticut: November 2006



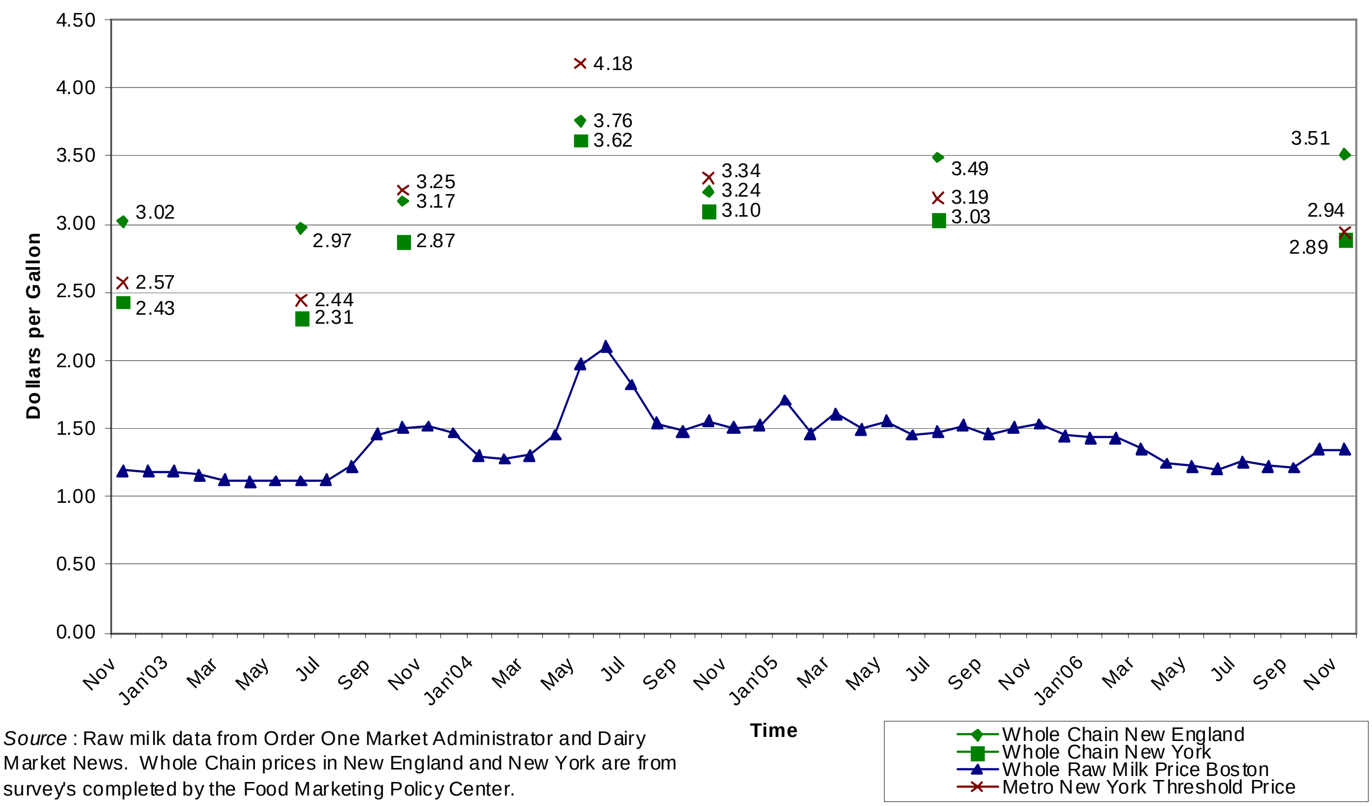
Prices are the average across Whole, 2%, 1%, and Skim Milk and include all sales or promotional prices. Wholesale $ Margin, from Dairy Technomics, includes Market Administrator Fee, Processor Assesment, and 1% Plant Loss.

#2 The Need for a Retail Threshold Price Policy in Connecticut and Massachusetts

- Supermarkets in the New York survey area have milk prices that are often as much as 60 cents per gallon below the prices in southern New England. This is due almost entirely to the New York price gouge law.

- The New York price gouge law, however, works best when raw milk prices are low or moderate not high. It needs to be revised to cover the high end of the raw milk cycle.

Figure 9. Weighted Average Chain Store 3.25% Whole Milk Prices in New York and New England and Respective 3.5% Whole Raw Milk Prices



Source : Raw milk data from Order One Market Administrator and Dairy Market News. Whole Chain prices in New England and New York are from surveys completed by the Food Marketing Policy Center.

Visit the Food Marketing Policy Center web site at http://www.fmpc.uconn.edu/research/milk/ to find out more about our research on milk prices and to read the underlying base papers:

Toward Reform of Fluid Milk Pricing in Southern New England: Analysis of Proposed State Level Milk Regulation Policies in Connecticut and Massachusetts

and

Toward Reform of Fluid Milk Pricing in Southern New England: Milk Market Channel Policies for Connecticut and Other States

Also on the web site are related newspaper articles, related fact sheets, papers by others, and proposed bills in New England state houses to reform milk prices.

#3 Flat Milk Pricing

- Flat milk pricing is a serious problem in New York as well as southern New England. Flat pricing occurs when a supermarket charges the same price for whole, 2%, 1% and skim milk. Skim milk costs retailers as much as 40 cents per gallon less than whole milk. In a competitive market retail prices would reflect cost differences. Flat milk pricing is direct evidence of market failure, i.e. large firms–not market forces–set retail milk prices.

- Stop & Shop flat prices its private label milk in 31 of the 34 stores we checked. The three stores where it does not are stores that compete with nearby Wal-Marts. Wal-Mart does not flat price milk.

- Stop & Shop flat prices its branded milk (Garelick and Hood) in all 34 stores that we price checked.

- Flat milk pricing removes the economic incentive (lower prices) for consumers to switch to lower fat milk. This contributes to consumption of saturated fats that create health problems whose costs are borne by society at large and the state as well as individual milk drinkers.

- A retail threshold pricing policy applied by type of milk can eliminate flat milk pricing.

Table 2a. Flat Milk Pricing in Southern New England: November 2006

Chain	Stores Checked in Southern New England	Brand	Stores with Flat Pricing	Stores with Variable Pricing	Locations with Variable Pricing
Stop & Shop	34	Private Label	31	3	Norwich, Waterford, and Willimantic, CT
	33	Garelick	33	0	
	34	Hood	34	0	
Shaw's/Star Market	19	Private Label	19	0	
	19	Garelick	19	0	
	19	Hood	19*	0	
Big Y	12	Private Label	10	2	Norwich and Waterford, CT
	8	Guida	8	0	
	4	Garelick	3	1	Ware, MA
	12	Hood	11	1	Ware, MA
Wal-Mart Supercenter	5	Private Label	0	5	Raynham and Ware, MA and Lisbon, North Windham, and Wallingford, CT
	5	Garelick	0	5	
	4	Hood	0	4	

*Shaw's/Star Market in New Bedford, MA had Hood 2% milk priced 4 cents cheaper than Whole, 1%, and Skim.

Table 2b. Flat Milk Pricing in Southern New England: November 2004

Chain	Stores Checked in Southern New England	Brand	Stores with Flat Pricing	Stores with Variable Pricing	Locations with Variable Pricing
Stop & Shop	32	Private Label	30	2	Norwich and Waterford, CT
	32	Garelick	31	1	Norwich, CT
	32	Hood	30	2	Norwich and Waterford, CT
Shaw's/Star Market	18	Private Label	18	0	
	18	Garelick	18	0	
	17	Hood	17	0	
Big Y	12	Private Label	11	1	Ware, MA
	12	Guida	11	1	Ware, MA
	12	Hood	11	1	Ware, MA
Wal-Mart Supercenter	2	Private Label	0	2	
	2	Garelick	0	2	Ware, MA and Lisbon, CT
	2	Hood	0	2	