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STORRS, CT. -- Connecticut's leading supermarket chains appear to be earning enormous profits on milk, according to a new study released today by the Food Marketing Policy Center at the University of Connecticut.

In a recent price survey of supermarkets from the five food chains that account for 75 percent of the state's grocery market, center economists found that the average retail price of milk was \$3.10 per gallon. Further analysis of that retail price per gallon of milk found that dairy farmers receive only \$1.04 and processors capture 58 cents for bottling and delivering the milk to supermarkets.

After paying the farmer and the processors, the typical supermarket chain is keeping \$1.49 per gallon for their in store services and profits.

"There is something very wrong with milk prices in Connecticut," says Ronald Cotterill, director of the Food Marketing Policy Center and lead author of the study. "Supermarket chains are exercising substantial market power that generate margins that are far above the costs of providing retail services."

"Milk typically stays in grocery stores two or three days and clerks have only to rotate the stock forward in the coolers," Cotterill explained. "Compare that effort to the hard work and expense that farmers put into the production of that milk. Farmers clearly receive too little and retailers too much of the retail value of milk."

The huge disparity between farm and retail milk prices has spurred calls for milk-price controls in Connecticut. Currently lawmakers in Connecticut and other New England states are considering legislation that would bar "unconscionably excessive" retail prices for milk.

Cotterill advocates a fair-share law that would require retail milk prices to reflect costs. For example, raw milk prices for different fat content in milk (skim milk, one percent, two percent and whole milk) vary considerably. Cotterill contends that wholesale prices reflect the variation in raw milk prices but retail prices do not.

The UConn professor's proposed Fair Pricing Law would limit the wholesale markup of raw milk to 140 percent and the retail markup of milk to 130 percent. "This will bind in the current market and force lower retail prices as well as higher wholesale prices and most important higher farm prices," says Cotterill.

"Our analysis documents market failure at the retail level of the milk pricing system," he adds. "Hence there is a need for this law to promote more efficient and fair pricing of milk in Connecticut."

The UConn center's study sought to document the division of retail price into the retailer, processor and farmer shares. A price survey of milk retail prices in 18 supermarkets in central and eastern Connecticut was conducted on March 29, 2003.

"We strongly doubt that the results would change appreciably if we surveyed more stores of these chains in other parts of the state," said Cotterill. "Indeed, we find that six months after our November 2002 survey of 44 supermarkets in the state, chain supermarket prices for milk remain remarkably similar."

The attached Table reports the breakdown of retail prices by brand for four of the state's leading supermarket chains. At the time of the survey, Big Y had Hood milk on sale at \$2.50 per gallon. Even with the sale price Big Y continued to earn 80 cents on each gallon of milk sold. "The sale offer is no loss leader," observes Cotterill.

Also note in the Table that the dollars other supermarkets keep for in store services and profits are more than the wholesale price that they pay for Hood and Garelick milk.

Cotterill notes that Massachusetts recently measured milk costs for Midland Farms, a new limited assortment grocery store in New England that was charged with selling milk below cost in violation of state law. "Bay state officials discovered that Midland could sell milk for \$1.84 per gallon and cover all farm, processing and retailing costs," he says.

This retail price is less than what many Connecticut supermarket chains charge just for retailing milk. For example, Stop & Shop retail margins on Hood milk is \$1.91 per gallon. Supermarket retail margins are far above competitive, cost efficient levels, Cotterill maintains.

"The situation has been like this since December 2001 and is no longer tolerable. To break even, Connecticut's dairy farmers need to earn about \$1.50 a gallon," Cotterill says. "These supermarket retailers are profit gouging while farmers are going out of business."

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MEDIA NOTE: ACCESS TO FULL REPORT IS AVAILABLE AT:

<http://www.are.uconn.edu/fmktc.html>

Click open and then click on "Milk Price Gouging" and scroll down to the April 9, 2003 entry entitled " A Law to Promote the Efficient and Fair Pricing of Milk in Connecticut."

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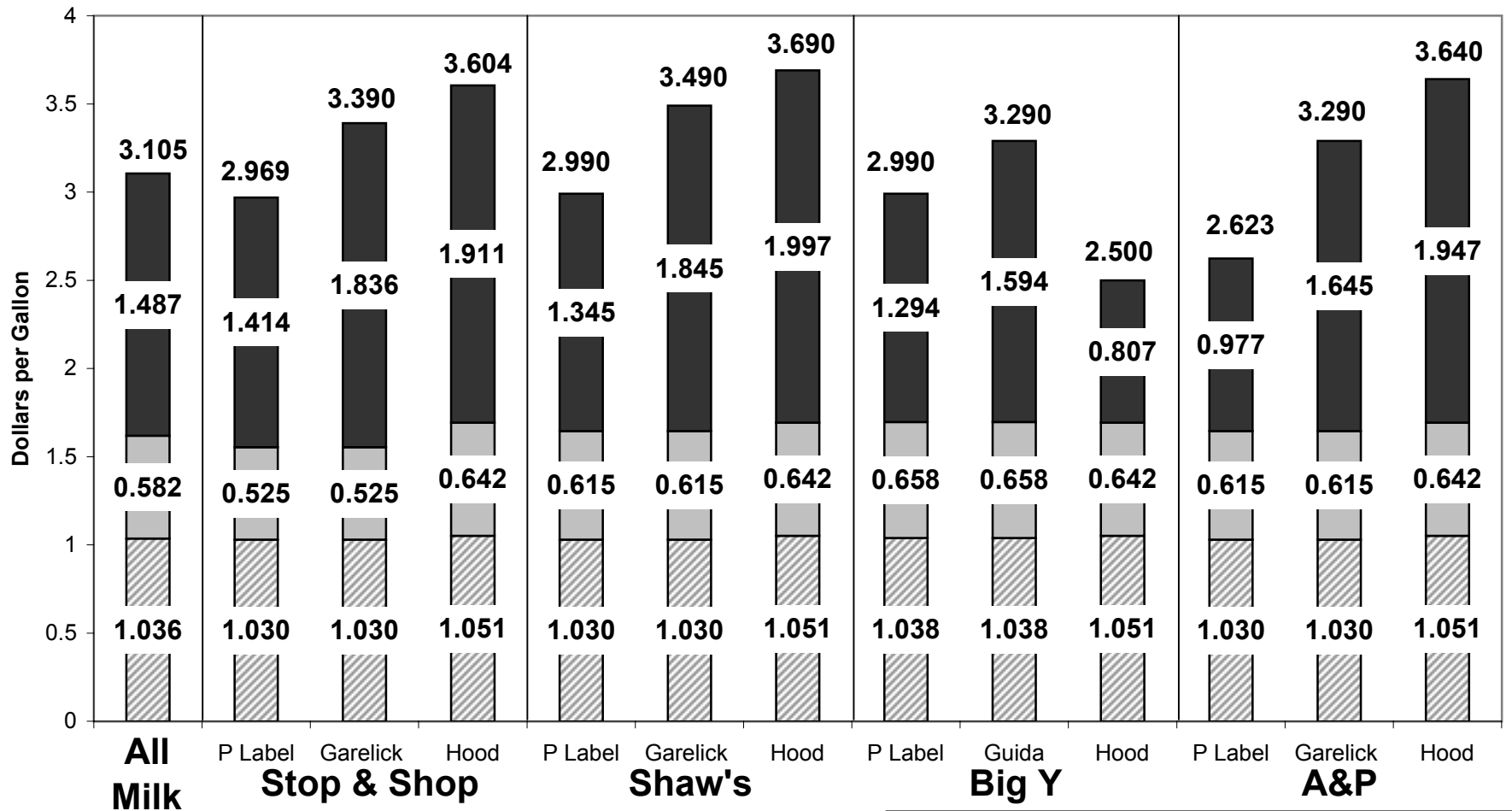
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**Figure 1: Actual Raw Milk, Estimated Wholesale, and Actual Retail Milk Pricing by Brand for the Four Leading Supermarket Chains in Connecticut: March 2003**



Prices are the average across Whole, 2%, 1%, and Skim.

