

[Databases selected:](#) ProQuest Newspapers

THE WALL STREET JOURNAL.

Secret in the Dairy Aisle: Milk Is a Cash Cow

Scott Kilman. *Wall Street Journal*. (Eastern edition). New York, N.Y.: Jul 28, 2003. pg. B1

Subjects: Dairy products, Price levels, Supermarkets, Milk
Classification Codes 8610
Author(s): Scott Kilman
Article types: News
Publication title: *Wall Street Journal*. (Eastern edition). New York, N.Y.: Jul 28, 2003. pg. B1
Source Type: Newspaper
ISSN/ISBN: 00999660
ProQuest document ID: 376543551
Text Word Count 1056
Article URL: http://gateway.proquest.com/openurl?ctx_ver=z39.88-2003&res_id=xri:pqd&rft_val_fmt=ori:fmt:kev:mtx:journal&genre=article&rft_id=xri:pqd:did=000000376543551.

Abstract (Article Summary)

In many places, prices haven't dropped even that much. In Boston, the prevailing price of a gallon of whole milk in supermarkets hasn't budged in the 20-month period from \$2.99. About 30% of the 190 New York retailers surveyed in June by the office of New York Attorney State General Eliot Spitzer were charging prices that appeared to violate the state's milk price-gouging law.

Many ice-cream makers haven't cut list prices, nor have they restored the size of containers that had shrunk in recent years. For example, Dreyer's Grand Ice Cream, an Oakland, Calif., unit of Swiss behemoth Nestle SA, reduced the size of its half-gallon container to 1.75 quarts following a jump in raw-milk prices in 2001. "Ice cream prices stick out like a sore thumb now," says Kenneth Bailey, a dairy economist at Pennsylvania State University in State College, Pa.

Indeed, Dean Foods is becoming a lightning rod in New England over milk prices. State officials say it controls roughly 70% of the region's bottled milk market, a figure Dean Foods won't confirm. Some state legislatures are mulling whether to adopt new regulations on milk prices modeled on the New York law.

Full Text (1056 words)

Copyright Dow Jones & Company Inc Jul 28, 2003

Milking Consumers
[Table]

ARE CONSUMERS getting gouged in the dairy aisle?

America's farmers are swimming in such a glut of milk that they are getting their lowest prices for the stuff in 25 years. Processors of ice cream, butter and bottled milk have seen the price of their single biggest ingredient plunge by a third since September 2001.

But consumers aren't reaping comparable savings, as many dairy processors and retailers hold onto the profits. The average price of a gallon of whole milk has declined just 9.4% during the past 20 months to \$2.676 in June, according to the U.S. Bureau of Labor Statistics.

In many places, prices haven't dropped even that much. In Boston, the prevailing price of a gallon of whole milk in

supermarkets hasn't budged in the 20-month period from \$2.99. About 30% of the 190 New York retailers surveyed in June by the office of New York Attorney State General Eliot Spitzer were charging prices that appeared to violate the state's milk price-gouging law.

The New York law is intended to make sure consumers don't pay more than roughly twice the farm price of milk, a formula that currently should cap retail milk prices at about \$2.48 a gallon. In the New York City stores identified as possible violators, a gallon of milk cost an average of \$2.82 and in some cases as much as \$3.49.

Not that long ago, shoppers often saw dairy-food prices drop within a few months of a big decline in the prices paid to farmers. "Consumers just aren't seeing savings like they used to," says Burt Flickinger, managing partner of Strategic Resource Group, a New York food-industry consulting firm.

The change has escaped the attention of most consumers, who are so removed from the farm they don't know when milk should be a bargain. But the shift makes a big difference in household budgets, particularly those of families with young children. Consumers would have saved \$1.3 billion last year if low milk prices were passed along fully to them, according to the National Milk Producers Federation, an Arlington, Va., trade group representing dairy farmers.

Some economists and state officials worry that the supermarket merger wave is largely behind the change. Corporate survivors seem less inclined to pass along savings to consumers. The nation's top five grocery chains, including Kroger Co. and Safeway Inc., now control about 45% of supermarket sales, up from roughly 26% in 1995, according to Wall Street analysts.

"With all the mergers, there is less competition," says Marty Mack, a deputy in the New York State Attorney General's office, which has sent letters to 40 grocers in the state seeking explanations for their high milk prices.

Supermarkets have seen their milk costs drop since 2001. Milk suppliers typically are bound by contracts with retailers to pass along fully any changes in farm prices. "We pass along the savings penny by penny," says Barry A. Fromberg, chief financial officer of Dean Foods Co. of Dallas, which supplies 35% of the nation's bottled milk.

Before the mergers of the 1990s, cheap milk was the most potent way for most supermarkets to compete. They figured consumers would go out of their way for a bargain on such an important staple. With their new market clout, however, many supermarkets in major cities are avoiding price wars on their highest-volume item, says Mr. Flickinger, a critic of the strategy.

He believes consumers still go where the milk is cheapest -- which these days is at the megafood centers operated by discounters such as Wal-Mart Stores Inc. and Costco Wholesale Co. They have been undercutting supermarkets in some parts of the country by more than a dollar a gallon of milk.

Kroger and Safeway officials wouldn't comment on their milk-pricing strategy.

Dairy processors, in a merger wave of their own, are finding ways to cash in on cheap milk prices. They aren't contractually obligated to pass along to supermarkets the cost savings on ice cream, as they are for milk. Milk-derived butterfat is the most expensive ingredient in ice cream, representing up to 40% of the cost.

Many ice-cream makers haven't cut list prices, nor have they restored the size of containers that had shrunk in recent years. For example, Dreyer's Grand Ice Cream, an Oakland, Calif., unit of Swiss behemoth Nestle SA, reduced the size of its half-gallon container to 1.75 quarts following a jump in raw-milk prices in 2001. "Ice cream prices stick out like a sore thumb now," says Kenneth Bailey, a dairy economist at Pennsylvania State University in State College, Pa.

Nestle, which also owns Haagen-Dazs, completed its \$2.8 billion takeover of Dreyer's last month, making the parent nearly equal in size to Anglo-Dutch Unilever in the U.S. ice cream market. Unilever brands, including Ben & Jerry's, Good Humor and Breyers, together command about 17% of the market.

Neither ice-cream giant seems much inclined to wage a price war anytime soon. Dori Sera Bailey, a Dreyer's spokeswoman, says the company's lower milk-related costs are being offset in part by higher costs of everything from sugar to cocoa.

Scott McCreary, senior director of operations at Ben & Jerry's, says the South Burlington, Vt., company is spending more on promotions this summer than last and has contributed \$100,000 to help financially- stressed Vermont dairy farmers. But it hasn't lowered list prices.

Dean Foods, which makes ice cream and bottles milk, wouldn't provide details about its ice-cream-pricing strategy. "This is a bit of an uncomfortable discussion," says Mr. Fromberg, the Dean Foods executive.

Indeed, Dean Foods is becoming a lightning rod in New England over milk prices. State officials say it controls roughly 70% of the region's bottled milk market, a figure Dean Foods won't confirm. Some state legislatures are mulling whether to adopt new regulations on milk prices modeled on the New York law.

But consumers may not benefit much: Hard-pressed dairy farmers across the country are cutting production so much that raw-milk prices will probably rebound later this year, closing the door on big potential supermarket bargains.

Copyright © 2003 ProQuest Information and Learning Company. All rights reserved. [Terms and Conditions](#)

[Text-only interface](#)

From: **ProQuest**
COMPANY