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Tel (860) 486-1927

Fax (860) 486-2461

email: fmpc@uconn.edu
<http://www.fmpc.uconn.edu>

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Supermarket Prices Need to Come Down

by

Ronald W. Cotterill

Food Marketing Policy Center
University of Connecticut

Food Marketing Policy Center, Department of Agricultural and Resource Economics,
University of Connecticut, 1376 Storrs Road, Unit 4021, Storrs, CT 06269-4021



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Supermarket Milk Prices Need To Come Down

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I surveyed milk prices in 195 grocery stores in southern New England and neighboring areas of New York with four University of Connecticut graduate students two weeks ago. The average price for milk in Connecticut supermarkets was \$3.05 per gallon. Yet dairy farmers are suffering because of the lowest prices for their product in 25 years - \$1.06 per gallon in October. Adding insult to injury, retail and farm milk prices have been near these levels for a year.

What we have is a virulent case of price gouging by supermarkets and, most likely, the dairy processors that supply them.

According to Massachusetts Department of Agriculture estimates, the cost of processing milk and retailing it in supermarkets is less than \$1 per gallon. So retail prices should be near \$2, not \$3.

Our survey found that Cumberland Farms convenience stores sold gallons of 1 percent milk in Massachusetts, Rhode Island and Connecticut for \$1.99 each. Price Rite in these same states sold whole, 2 percent, 1 percent and skim milk for \$1.99 a gallon. Massachusetts has a law that prohibits the sale of milk below full cost, so these stores, which are smaller than supermarkets, are not selling milk below cost.

Yet Stop & Shop's average price for all varieties of milk was \$3.13 during the week we surveyed stores. A Stop & Shop spokesperson pointed out that Garelick Farms milk was on sale that week - down 30 cents from its usual price, to \$2.99 per gallon. Yet at that price, Garelick is no cheaper than Stop & Shop's own label milk, and the milk is identical. Dean Foods Co. processes both brands at the same plant and delivers them on the same truck.

The week after our survey, Big Y cut the price of a gallon of 1 percent milk to \$1.78 from regular prices that ranged across its stores from \$2.79 to \$3.39. (The average Big Y price during our survey was \$3.01.) This week, prices are back to the old high prices. However, Big Y has gallons of Guida-Seibert Dairy 2 percent milk for sale at \$1.98. Guida's and Big Y milk are identical - processed in the same plant and delivered to stores on the same truck.

Consumers should pay no premium for Garelick, Sealtest (another Dean brand) or Guida's milk over store-label milk. Indeed, consumers should boycott milk priced much above \$2 per gallon. A drop in the average price of a gallon of milk from \$3 to \$2 would benefit farmers: According to our research, sales demand would increase 20 percent, which would increase farm price because farmers would be selling more milk at the federal pricing program's higher fluid price and less at its lower manufacturing price.

The price-gouging problem in New England is the result of unprecedented mergers in supermarket retailing and milk processing that have shifted pricing power from farmers and a competitive market to powerful large corporations. Remember Star Markets? Now part of Shaws. Edwards supermarkets? Swallowed up by Royal Ahold, the Dutch owner of Stop & Shop. Purity Supreme? Also swallowed by Stop & Shop, in 1995. Many markets are no longer competitive; sellers exercise control and elevate prices.

Over the past five years, Dean Foods has become the nation's leading dairy processor by buying up the competition and closing plants. Dean entered New England by acquiring Garelick Farms in 1997. Subsequently, it has acquired the business of six other New England milk processors and closed four large milk plants. Today, Dean supplies 80 percent of the milk for the Boston and Providence metro areas and 64 percent of the fluid milk for all of New England.

In each of these milk-processing and supermarket mergers, the companies asserted that scale economies and other efficiencies would accrue, creating lower prices for buyers. It has not happened.

Now Hood, New England's second largest processor, is attempting to buy Crowley, the fifth largest, by merging with Crowley's parent, National Dairy Holdings, the nation's second largest milk processor.

Antitrust enforcement has not adequately protected farmers and consumers in New England. When faced with similar nasty pricing, New York State passed a milk price-gouging law in 1991. Today, a New York grocery store must offer at least one brand of milk at a price that is no more than twice the price its processor paid a farmer. According to our survey, the cheapest gallons of milk in many Hudson Valley supermarkets cost \$2.41, the state maximum price for a store's cheapest offer.

We need a similar price-gouging law in Connecticut. At a dollar a gallon, the overcharge amounts to \$11 per year for every man woman and child here.

Ronald W. Cotterill is director of the Food Marketing Policy Center, College of Agriculture, at the University of Connecticut, Storrs.

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