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## **Dairy Product Sales Determined by More Than Price**

by

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The volatility of milk prices at the farm and processor levels results from very strong supply and demand forces acting on the market. These supply and demand forces, however, are not as strong at the retail level, and, as a result, retail milk prices are not as important in determining retail sales levels of milk and milk products.

In the modern supermarket, the dairy department is an important part of the overall sales mix. Progressive Grocer reports that in 1990, the dairy department accounted for more than seven percent of total supermarket sales. Of course, the dairy department contains both milk based and non-milk based products, but fluid milk is the largest selling item in the dairy case, accounting for 31 percent of sales. Moreover, private label two percent (plastic gallon) and private label whole (plastic gallon) milk are the two top selling items in the entire store. Table 1 shows that another 38 percent of the dairy department sales are comprised of non-milk based products.

The high frequency of dairy product purchases by consumers makes them popular as featured or display items to build store traffic. An average of 73 percent of shoppers pass through the dairy department and 95 percent of these shoppers actually make a purchase. Hence, many supermarket chains promote at least one type of fluid milk for example every week, sometimes on the weekly ads' front page.

This frequent promotion is not standard practice for other products in the grocery store. In fact, milk is a member of a very select group of products (soft drinks and beer are others) that are promoted with this high degree of reoccurrence, due to their demonstrated strong drawing power with shoppers. For example, over 90 percent of all cheese and margarine is sold on special feature. Sales increases in cheese as high as 42 percent above non-promoted levels have been observed with a retail coupon and point-of-purchase display.

In light of these observations, New York State milk producers should not only be concerned with the price of milk in the grocery store, but with assisting the retail trade in increasing the in-store promotion of milk and milk products. Further increasing the amount of display space allocated to dairy products seems to have a more positive effect on milk sales than simply lowering the retail price. One United States Department of Agriculture (USDA) study showed that each additional square foot of milk display added to the dairy case would increase milk sales at a rate of \$3.01 per 1,000 customers.

It is clear that the retail price for milk is not the sole factor influencing customer purchase. Fluid milk is a staple, a commodity. Consumer price sensitivity for this type of product is relatively low. For milk-based items in the dairy department, there is significant consumer response to promotion and display activity. An improved understanding of the effects of these non-price factors at retail levels is important to improving the profitability and performance of the dairy industry.

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**Source: Progressive Grocer (1990)**