

OFF THE Living Smell OF AN Oily Rag



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The Milk Report

Milk is one of those household essentials, especially for households with young mouths to feed. So we wanted to know how much people are paying for milk, and come up with ways to make savings.

The survey was conducted via www.oilyrag.co.nz. More than 600 responses came in from all across the country. To keep things simple we compared the cost of a two-litre bottle of standard blue stop non-organic milk. This is what we found.

Summary

There is a significant difference in the retail price. One person said they pay \$3.25 for milk at their supermarket which sells for \$4.60 at their local dairy.

The same milk is bottled under different brands and sold at different prices.

The retail price of milk processed by small independent producers is significantly cheaper than their much larger competitors.

The lowest price for a standard 2-litre bottle was \$2.40 for Dairy Dale brand at a speciality food outlet in Manukau. The highest price was \$5.20 for Anchor brand from a dairy in Wellington.

The retail market for milk is made up of various brands. At the "premium price" end is Anchor and Meadow Fresh, produced by Fonterra and NZ Dairy Foods respectively. At the mid-price range are supermarket house brands, and at the lowest price point are the discount brands of Dairy Dale and Dairy Fresh (also produced by Fonterra and NZ Dairy Foods respectively). These discount brands compete directly with the independent producer brands that are all priced significantly below the other brands.

The retail price of all four independent milk processors was the lowest, averaging \$2.80. The two discount brands, Dairy Dale and Dairy Fresh, averaged \$2.92, while supermarket house brands (Signature, Home Brand, Pams and Budget) averaged \$3.21. The two premium brands (Anchor and Meadow Fresh) were significantly higher at an average \$4.48.

The cheapest place to buy milk is at speciality food outlets (eg ethnic food outlets and butchers) and fruit and vegetable retailers, with an average price of \$2.84. Many of these outlets also offered a discount for two-bottles, typically 2 for \$5, which reduced the average price further.

Dairies and petrol stations are, in general, the most expensive places to buy milk, with average retail prices of \$3.40 and \$3.46



Assumptions & limitations

Price comparisons are for standard non-organic blue-top milk only. All other milk types have been disregarded. It is therefore assumed that there are no quality issues that may bias the results, in other words, it is assumed that the different brands have the same nutritional or approximately the same nutritional value (eg the nutritional benefits of Anchor branded milk is the same as Dairy Dale branded milk, which are both produced by Fonterra).

Only two-litre bottles have been used for the price comparisons, as this is the most common bottle size purchased by consumers. Further savings may be made if purchased in plastic bags or as milk powder.

The data is limited to that supplied by consumers. Our study did not go beyond that. Online prices have been ignored.

Highest and lowest price

(for a 2 litre bottle of standard blue top milk)



Highest price

\$5.20

Anchor

From a dairy in Wellington.



Lowest price

\$2.40

Dairy Dale

From a specialty food outlet in Manukau.

respectively, although a number do retail the discount brands at under \$3 or offer buy-two specials.

Supermarkets had an average retail price of \$3.25.

The assumptions and limitations of this study are noted at the end of this report.

The milk industry

To understand the way milk is retailed, one needs to understand a little about the milk industry. The vast majority of the milk in this country is produced and/or processed by Fonterra (96% according to a 2004 MAF report). To bring competition into the industry Fonterra is required by law to provide some of its supply to other milk processors (at a price based on Fonterra's payout to farmers).

The largest milk processors are Fonterra and NZ Dairy Foods. Independent operators may obtain milk from Fonterra under a supply agreement or directly from farmers. They then process, bottle and distribute to retailers. Examples are Christchurch based Klondyke who buy their milk from Fonterra and sell under the Klondyke brand throughout the South Island and parts of the North Island; South Auckland based Green Valley (www.gvd.co.nz) who process their own milk from what they say is the largest privately owned dairy farm in New Zealand; and Fresha Valley (www.freshavalley.co.nz) based in Waipu near Whangarei who source milk from local farmers.

Retail branding

At the retail level, the spectrum of pricing is divided into various brands, trading at different price points.

At the "premium" price point is Anchor and Meadow Fresh, produced by Fonterra and NZ Dairy Foods respectively. These premium brands are widely available in virtually all retail outlets: dairies, petrol stations, specialist retailers, and supermarkets.

At the mid-price range is milk retailed through supermarket using house brands. The four most common house brands mentioned were Signature and Home Brand (which are sold in the Progressive owned stable of supermarkets: Woolworths, Countdown and Foodtown); and Budget and Pams (sold in Foodstuffs outlets: Pak N Save, New World and Four Square).

At the lowest price point are the discount brands of Dairy Dale (produced by Fonterra) and Dairy Fresh (produced by NZ Dairy Foods). These brands compete directly with the various independent brands that are all priced significantly below all of the other brands on the market. The discount and independent brands are typically found in specialist retailers such as butchers, fruit and vegetable outlets and in some petrol stations.

Prices by brands

Branding plays a key role in the pricing of milk. The purpose of the brands would appear to be to enable retailers to present milk (essentially the same product) at various price points, and therefore maximise the retail spend from less price conscious consumers, while at the same time gaining a share of the price conscious market.

This is evident in the branding strategies of Fonterra and NZ Dairy Foods who both have premium brands (in Anchor and Meadow Fresh respectively) which retail at around \$4.50 and also discount brands (in Dairy Dale and Dairy Fresh) which compete directly against the independent brands and retail at around \$2.90.

Independent brands

All four independent milk processors covered in this survey retailed for less than \$3. By value these were Klondyke, Fresha Valley, Green Valley and Al & Son. The average price of these four independent brands was \$2.79. The availability of the independent brands was patchy. Christchurch and the South Island generally appear to be well supplied with a strong presence by Klondyke.

- Klondyke: \$2.45 to \$2.99, average \$2.68.
- Fresha Valley: \$2.60 to \$3.00, average \$2.75.
- Green Valley: \$2.50 to \$3.60, average \$2.83
- Al & Son: \$2.70 to \$2.99, average \$2.91

Discount brands

The two discount brands produced by Fonterra and NZ Dairy Foods (Dairy Dale and Dairy Fresh respectively) average \$2.92. This compares to an average price of \$4.48 for their premium brands.

- Dairy Dale (Fonterra): \$2.40 to \$3.79, average \$2.86.
- Dairy Fresh (NZ Dairy Foods): \$2.50 to \$3.89, average \$2.98.

Supermarket house brands

The average price of the supermarket house brands (Signature, Home Brand, Pams and Budget) was \$3.21. This sits between the discount and premium brand pricing.

- Signature (house brand, Progressive): \$2.58 to \$3.80, average \$3.12
- Budget (house brand, Foodstuffs): \$2.75 to \$4.20, average \$3.14.
- Home Brand (house brand, Progressive): \$2.89 to \$3.45, average \$3.17.
- Pams (house brand, Foodstuffs): \$2.99 to \$4.50, average \$3.42.



Premium brands

The average price of the two premium brands in the market place (Anchor by Fonterra and Meadow Fresh by NZ Dairy Foods) was \$4.48.

- Anchor (Fonterra): \$3.30 to \$5.20, average \$4.31.
- Meadow Fresh (NZ Dairy Foods): \$3.79 to \$5.10, average \$4.66.

Prices by outlets

The cheapest place to buy milk is at speciality food outlets (ethnic food outlets or butchers) and fruit and vegetable retailers, with an average price of \$2.84. Many of these outlets also offered a discount for two-bottles, typically 2 for \$5, which reduced the average price further.

Dairies and petrol stations are, in general, the most expensive places to buy milk, with average retail prices of \$3.40 and \$3.46 respectively, although a number do retail the discount brands at under \$3 or offer buy two specials.

Supermarkets had an average retail price of \$3.25, with most of their sales being house brands.

- Specialty outlets: \$2.40 to \$3.89, average price \$2.84
- Supermarkets: \$2.58 to \$4.55, average price \$3.25.
- Dairies: prices ranged from \$2.55 to \$5.20, average price \$3.40.
- Petrol stations: \$2.45 to \$5.10, average \$3.46.

Dairies and petrol stations tend to stock the range of brands, speciality outlets mainly the discount brands like Dairy Dale and Dairy Fresh, and independent brands, while supermarkets carry mainly house brands and premium brands (Anchor and Meadow Fresh).

So are consumers being milked?

Finding the exact details about whose making what from a bottle of milk is not a straight forward exercise as the information is commercially sensitive. Comments from those within the dairy industry suggests that house brands represent “fair value” and a fair reward for the many parties involved in the process of producing, collecting, processing, distributing and retailing milk.

Those retailing at the deep discount end of the retail market, the two-for \$5 deals for example, are more than likely selling the milk at cost or at a loss to attract customers to their stores to purchase their primary product, whatever that may be (vegetables, petrol, ethnic foods, etc). In other words, they take a loss of the milk, but profit from their other purchases that consumers attracted to the store by the cheap milk typically make while there.

If there is any suggestion of high margins, it is in the sale of the premium brands (Anchor and Meadow Fresh). These products are supported by sizable marketing campaigns and are presented in superior packaging. However that packaging alone does not justify the additional \$1.27 retail price above the same product packaged in a house brand. (One industry source suggested the additional packaging would add a few cents to the product cost.)

The reality is the milk that goes into the premium priced products is the very same milk that goes into the discount and house brands. It seems many consumers are prepared to pay the premium either because they consider the additional packaging to be worth it, or because they (incorrectly) perceive the milk is of better quality.

Here's how you can save money when buying milk:

1. Be more aware of price. There is a significant variation in price for what is essentially the same milk. If you are paying more than \$3.50 for a 2-litre bottle of standard milk you are paying too much.
2. Buy one of the independent brands (Klondyke, Fresha Valley, Green Valley and Al & Son) or a discount brand (Dairy Dale or Dairy Fresh). If these are not available purchase a supermarket house brand (like Signature, Home Brand, Pams and Budget).
3. Look for the buy two specials, particularly 2 for \$5 deals offered by fruit retailers and speciality foods places. It would appear as though these outlets are discounting the retail price of milk to attract customers to their outlets.

Many thanks to those who took part in our milk price survey.

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