

PA Milk Marketing Board

Part 4 – How PMMB Establishes Minimum Wholesale and Retail Milk Prices

The Board sets minimum retail (and wholesale) prices as part of a comprehensive legislative program to ensure that Pennsylvania dairy farmers produce an adequate supply of milk to meet the fluid milk demands of Pennsylvania consumers. The minimum wholesale prices are established annually following individual hearings for each of the six PA Milk Marketing Areas. Prices in each area are based on the average costs to purchase raw milk from dairy producers and to process, package, and deliver the milk to stores. Processors provide PMMB with detailed figures representing their actual costs for such things as additives to make flavored milk, e.g. cocoa and sugar, utilities to keep milk products cold, and costs to manufacture or purchase containers.

Minimum retail prices are based on the costs to purchase the packaged milk at wholesale and to handle and sell the milk in stores. These prices are also based on hearings held on a regular basis at which detailed information representing the retailers' costs. The law also establishes a profit range for both wholesale and retailer outlets.

Since minimum Pennsylvania prices are based on the average costs incurred at the processor and retailer levels, if a store is selling milk for a lot lower than Pennsylvania prices, we know that someone is losing money, most likely the retailer but sometimes the wholesaler. This practice in retail marketing is referred to as loss leader pricing, which is used to attract customers into a store in hope that the retailer then also sells other products to the customer at much higher profit margins. On average the retailer's overall margins usually stay the same and the customer often pays similar total amounts for their basket of goods purchased.