WAL-MART, PRIVATE LABELS, AND SUPERMARKET MILK PRICES

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Poster prepared for presentation at the Agricultural & Applied Economics Association 2010
AAEA, CAES, & WAEA Joint Annual Meeting, Denver, Colorado, July 25-27, 2010

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DO RETAILERS CHANGE THEIR STRATEGIES AFTER WM ENTERS?

Retailers may be using their Private Label milk to retain consumers when Wal-Mart Supercenters entered the area. National Brand milk may not be able to respond as quickly.

National Brand milk, being sold at both incumbent retailers and Wal-Mart Supercenters may have an incentive to differ in its strategic response than Private Label milk.

THE DALLAS/FORT WORTH MILK MARKET HAS NON COMPETITIVE CHARACTERISTICS

Why Dallas/Fort Worth?

- Southern location– southern stores are impacted more heavily by mass merchandisers (Barnes et. al. 1996)
- top two players in this market are also the top two players nationally: Albertsons and Kroger

Existing theories about the odd pricing behavior:

- a price war where some retailers were charging below the farm price — maybe they feel threatened by a powerful entrant like Wal-Mart (Cottrell and Brundage, 2001)
- cost and demand shocks give incentives for firms to collude in some periods and defect in others (Kim, 2000)

CONCLUSIONS

- Wal-Mart Supercenters decreases the non-competitive behavior of the top three players in the market while having no significant effect on the price reactions of smaller players
- Wal-Mart increases the substitutability of incumbent retailers and brands sold at incumbent retailers
- Traditional-retailer consumers become more price sensitive with the entry of Wal-Mart Supercenters
- Wal-Mart Supercenters decreases the overall share of incumbent retailers in the retail fluid milk market

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