

An overview of the Australian dairy industry



What we were asked to do	We were commissioned by Coles Supermarkets to produce a report on the competitive implications of price discounting between retail grocery chains of home brand or generic drinking milk products in Australia.
How we approached the project	We examined the entire production chain for dairy products from raw milk collected at the farmgate to all of the various finished dairy products including drinking milk, skim milk powder, butter and cheese. We also looked at the drivers of raw milk farmgate prices, along with the implications of price discounting of drinking milk.
Our findings	<p>We found that only around a quarter of raw milk production is used for drinking milk and that a significant amount of finished dairy products were exported. On this basis, we concluded that international commodity prices for dairy products are the major determinant of raw milk farmgate prices.</p> <p>Our report suggests that price discounting by supermarkets of home brand products may erode the market power of milk processors from product differentiation of their branded products. This in turn would benefit consumers through lower prices, and lead to an increase in milk production. We concluded that price discounting of drinking milk is beneficial for consumers and does not threaten the viability of the Australian dairy industry.</p>
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