

### **Processor-Retailer Integration**

Changes in processor net returns associated with processor-retailer integration vary with respect to the proportion of milk handled by integrated plants and the relative operational efficiency of integrated versus independent plants. For each of the three levels of efficiency analyzed in this study, total net returns to processors increased with the proportion of milk handled by integrated plants. Likewise, for a fixed proportion of milk handled by integrated plants, total net returns to processors increased with respect to the relative efficiency of integrated plants. Processor-retailer integration would not increase net returns over the levels in a non-integrated structure unless at least 65 percent of the milk produced is moved through moderately efficient integrated plants or at least 35 percent of the milk is moved through highly efficient integrated plants. Apparently, when an interregional cooperative already exists, the gains in total net returns to processors from processor-retailer integration are meager.

### **Concluding Remarks**

The models developed and applied in this study are at a high level of aggregation. Hence, the impact of an interregional cooperative or processor-retailer integration on specific producers, processors and retailers was not analyzed. While a disaggregated model would be preferable, data limitations preclude its development. Milk consumption was not allowed to vary with consumer price because significant estimates of the own price elasticity of milk demand are lacking. This property of the model could invalidate the results and conclusions when consumer prices vary substantially. Fortunately, the relative variation in consumer milk prices in southeast Florida was small during the 1966-69 period. Assumptions made concerning price and cost adjustments associated with an interregional cooperative and processor-retailer integration had a direct effect on the results. Alternative assumptions would undoubtedly lead to somewhat different results and conclusions. However, the implications of alternative assumptions can be investigated by making minor changes in the parameters of the models.

For these reasons care should be exercised in applying the results of this study to the formulation of policies and market strategies. Results should be viewed in light of the underlying models and periodically updated to account for emerging changes in the structure and behavior of the southeast Florida milk market.