

Manufacturers' Bids for Infant Formula Rebate Contracts, 2013–23

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What Is the Issue?

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides iron fortified infant formula to low-income and nutritionally vulnerable infants. Federal law requires that WIC State agencies operate cost containment systems to reduce formula costs. Most State agencies use competitive bidding to award contracts to issue a single manufacturer's infant formula as the first-choice formula to WIC participants. In return, the manufacturer offers State agencies a discount in the form of a rebate on each unit of formula purchased through WIC. State agencies award contracts to the manufacturer offering the lowest net wholesale price, which is the difference between the manufacturer's wholesale price and the rebate (summary figure).

USDA's Economic Research Service (ERS) periodically reports on WIC's infant formula costs, which are determined by contracts with formula manufacturers. This report examined manufacturers' bids for State agency contracts awarded from 2013 to 2023. This period was marked by U.S. birth rate declines, declines in the number of infants enrolled in WIC, as well as two major economic events impacting the infant formula market: the Coronavirus (COVID-19) pandemic and infant formula supply chain disruptions in 2022 (Hodges et al., 2024). Monitoring trends in infant formula rebate contracts is important because the contracts influence what WIC—and ultimately U.S. taxpayers—pay for infant formula. WIC receives a fixed amount in appropriations each year, so saving on the foods that WIC provides maximizes the number of participants the program can serve.

What Did the Study Find?

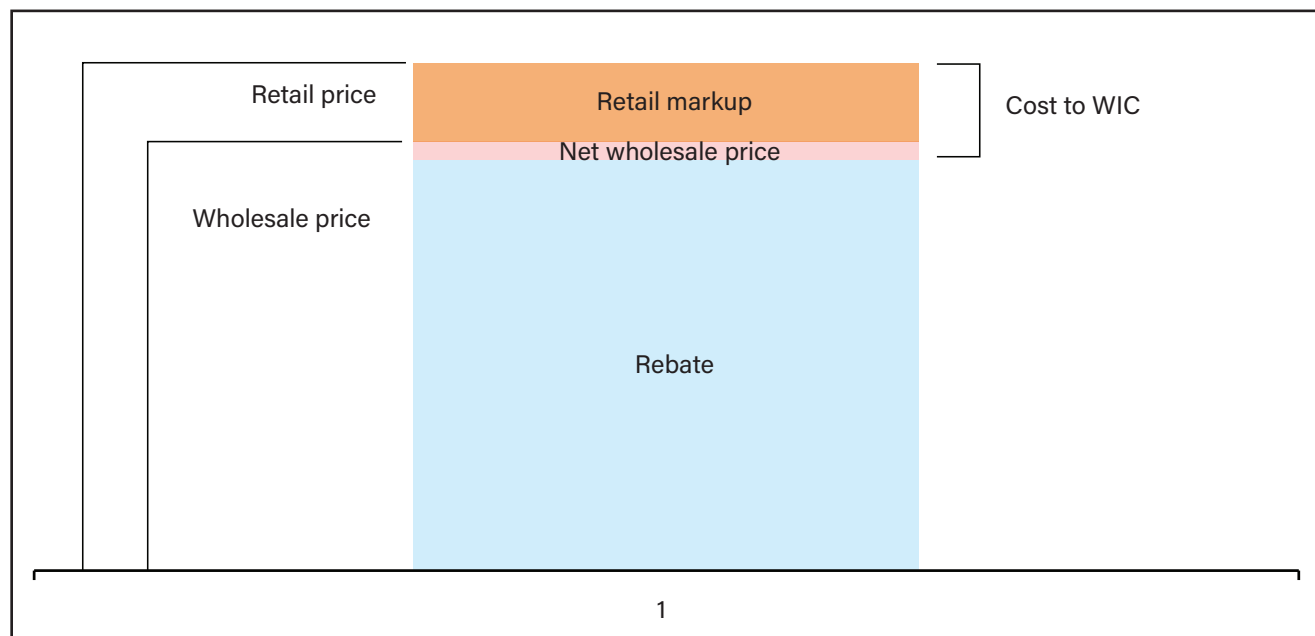
For infant formula rebate contracts in effect in March 2023, WIC State agencies, on average, received rebates that exceeded manufacturers' wholesale prices for their formula. The national average percent discount, or the rebate as a percentage of the wholesale price, was 108.6 percent.

Contracts in effect in March 2023 resulted in greater savings to WIC on infant formula purchases compared with previous contracts. Adjusting for inflation to 2023 dollars and holding caseloads constant, WIC State agencies paid an estimated \$131 million per year less on the wholesale price of infant formula under new contracts.



ERS is a primary source of economic research and analysis from the U.S. Department of Agriculture, providing timely information on economic and policy issues related to agriculture, food, the environment, and rural America.

Cost components for a unit of infant formula in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)



Note: Unit refers to a 12–13 ounce can of powder formula, about 90 reconstituted fluid ounces of formula; a 13-ounce can of liquid concentrate formula, 26 reconstituted fluid ounces of formula; and a 32–48 fluid ounce bottle of ready-to-feed formula.

Source: USDA, Economic Research Service.

Both lower wholesale prices of formula and higher rebates offered by manufacturers contributed to the savings. Real (i.e., inflation adjusted) wholesale prices decreased by an average of \$1.23 per 90 fluid ounces of reconstituted formula. Real rebates increased by an average of \$0.26 per 90 reconstituted ounces. Because of the decrease in wholesale prices and the increase in rebate amounts, real net wholesale prices (i.e., the amount of the wholesale price paid by WIC after the manufacturer rebate is applied) decreased by an average of \$1.49 per 90 reconstituted ounces.

Manufacturers' net wholesale price bids are positively correlated with the share of infants participating in WIC. On average, when the share of infants in a State participating in WIC decreases by 10 percentage points, net wholesale price bids decrease by an estimated \$1.14.

How Was the Study Conducted?

We examined the bids submitted to WIC State agencies by infant formula manufacturers for milk-based powder formula between July 2013 and March 2023, compiled by USDA, Food and Nutrition Service for programmatic purposes. Net prices were converted to a standard unit (i.e., 90 fluid ounces of reconstituted formula) and were adjusted for inflation to constant 2023 dollars using the Consumer Price Index for All Items for Urban Consumers (U.S. Department of Labor, Bureau of Labor Statistics (BLS), 2023).

We calculated and compared changes in net wholesale prices, wholesale prices, and rebates between contracts in effect in March 2023 and previous contracts. We used linear regression models with State agency fixed effects to analyze the association between net wholesale price bids and the share of infants participating in WIC. The fixed effects accounted for State agency specific factors that affected net wholesale prices and were constant over time.