Conclusions

This report presents the results of an analysis of the infant formula market and the retail prices of infant formula. Congress has expressed concern that since the WIC infant formula rebates began, “the number of suppliers has declined dramatically” (H.R. 106-157). However, the analysis indicates that, in both 1987 and 2000, three manufacturers accounted for about 99 percent of all infant formula sold in the United States. In both years, two companies—Mead Johnson and Ross—accounted for between 87 and 90 percent of total infant formula sold. The third largest producer in 2000, Carnation, entered the U.S. market after the rebate programs began. Wyeth, which withdrew from the domestic infant formula market in 1996, reentered the market in 1997 as a manufacturer for PBM Products, which does not itself produce infant formula. Carnation and PBM rely on direct consumer marketing and provide lower priced alternatives to the major brands of formula sold in the United States. Although Carnation accounts for only 6 percent of the WIC infant formula market by volume sold, its share of the non-WIC market is estimated at roughly 18 percent. The data indicate that along with Mead Johnson and Ross brands, Carnation brand infant formula is available in supermarkets throughout the United States, and formula manufactured by Wyeth and sold by PBM Products is available in supermarkets in most areas of the country.

Congress also directed ERS to compare the cost of formula included in the WIC rebate program with the cost of formula that is not included. This study's results indicate that within market areas there is not a clear and consistent relationship between a formula's being the WIC contract brand and having the highest average retail price. Among milk-based brands of formula (the most common form), the price of the WIC contract brand exceeded the prices of the noncontract brands in 23 of the 55 market areas for powdered formula and in 31 of the 55 market areas for liquid concentrate formula. For soy-based formula, which accounts for a small share of the market relative to milk-based formula, the price of the WIC contract brand exceeded the prices of the noncontract brands in 33 market areas for liquid concentrate formula and in 34 market areas for powdered formula.

The issue of how WIC affects infant formula prices is complex. ERS is continuing its analysis of the way that WIC and other factors influence infant formula prices.