



Find the full report at [www.ers.usda.gov/publications/eib-economic-information-bulletin/eib142](http://www.ers.usda.gov/publications/eib-economic-information-bulletin/eib142)

# Manufacturers' Bids for WIC Infant Formula Rebate Contracts, 2003-2013

David E. Davis and Victor Oliveira

## What Is the Issue?

The U.S. Department of Agriculture's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is a discretionary grant program funded annually by appropriations law—consequently, the number of participants who can be served within its fixed budget depends heavily on the program's food-package costs. WIC is the major purchaser of infant formula in the United States. To reduce costs, WIC State agencies are required to operate a cost-containment system for procuring infant formula. Typically, WIC State agencies obtain substantial rebates from infant formula manufacturers for each can of formula purchased through the program, and in return, the manufacturer gets an exclusive contract to provide its infant formula to WIC participants in the State. Contracts (which usually last about 4 years) are competitively awarded to the manufacturer offering the lowest net price (wholesale price minus the rebate). Some State agencies have formed multi-State alliances to jointly request net price bids.

The infant formula rebate program has been successful at reducing costs—rebates totaled \$1.9 billion in FY 2013. Net price bids vary across WIC State agencies, as well as for a given State agency over time, and not much is known about the reasons for this variation. Given the importance of infant formula rebates to the WIC program, it is important to understand the factors and patterns associated with the net price bids offered by infant formula manufacturers. This report documents and analyzes both the winning and losing net price bids offered by manufacturers seeking infant formula contracts with WIC agencies.

## What Did the Study Find?

Results of this study indicate that the bidding for WIC infant formula rebate contracts is highly competitive.

Key findings include:

- The infant formula market is highly concentrated, with three firms (Abbott, Mead Johnson, and Nestlé/Gerber) accounting for the vast majority of all formula sales. During the 2003-13 study period, only these three infant formula manufacturers bid on rebate contracts, and each of them submitted bids for most of the contracts awarded.
- Each manufacturer's net price bids varied greatly across the contracts. For example, Mead Johnson's bids ranged from \$0.16 to \$2.28 per 26 fluid ounces of reconstituted formula; Abbot's bids ranged from \$0.13 to \$4.14; and Nestlé/Gerber's bids ranged from \$0.07 to

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.

\$1.37 (in 2013 dollars). Furthermore, bids varied widely between the firms for a particular State's contract, suggesting that each manufacturer values the contracts differently than the other manufacturers.

- Regression analyses indicate that larger States/alliances generally get slightly lower net price bids than smaller States/alliances.
- Among all three manufacturers, winning net price bids increased until about 2007. The decrease in winning net prices observed since about 2008 may have been due, at least in part, to a decline in the total sales of infant formula. In the face of a shrinking market for their product, manufacturers may compete more aggressively for WIC contracts to maintain their sales volume.
- Holding a contract did not guarantee that a manufacturer would win that State/alliance's contract the next time it came up for bid, although it did increase the likelihood. Of the 55 contracts awarded during the study period, only 21 (or 38 percent) changed from one contract holder to another.
- There is a large disparity in the winning net price bid and the next closest bid in many States. Between 2003 and 2013, the average second-lowest net price bid was 1.8 times larger than the winning bid; however, the margins have narrowed since 2008. Prior to 2008, the average second-lowest net price bid was 2.0 times the winning bid, and from 2008-13, it was 1.6 times the winning bid. Many of the larger margins of victory before 2008 occurred when only two firms submitted bids.
- In recent years, every contract has received multiple bids, and contracts turn over regularly among firms (i.e., 38 percent of the time). Rebates are large (e.g., among contracts in effect in February 2013, rebates averaged 92 percent of the wholesale price).

## **How Was the Study Conducted?**

This report examines the net price bids submitted to WIC State agencies by infant formula manufacturers between 2003 and early 2013. The study focused on the predominant type of infant formula used in the WIC Program: milk-based powdered infant formula supplemented with the fatty acids docosahexaenoic acid (DHA) and arachidonic acid (ARA). Net prices were converted to a standard unit—26 fluid ounces of reconstituted infant formula—and were adjusted for inflation to constant 2013 dollars using the Consumer Price Index for All Products. The information on contracts offered for bid and the net price bids received was used to document bidding patterns for each manufacturer.