Conclusions

The cost that WIC pays for each can of formula provided through the program has two components: the net wholesale price, which goes to the manufacturer, and the retail markup, which goes to the retailer. Results from this study suggest that the costs associated with both of these two components have increased in recent years and that the retail markup exceeds the net wholesale price in most instances. Since WIC is a discretionary program with a fixed funding level, higher costs mean that fewer persons will be served, or that additional funds need to be appropriated.

There have been several important changes in bidding for infant formula in recent years. Prior to 2004, most infant formula rebate contracts were bid on by two manufacturers, usually Mead Johnson and Ross, with Nestlé bidding on just more than one-quarter of all contracts.[58] However, since 2004, Nestlé has joined the two other companies in bidding on nearly all contracts. The entrance of a third active bidder for contracts may make it less likely that a manufacturer will be able to win a contract with an unusually low or seemingly out-of-line rebate that would result in a high net wholesale price to the State.

[58] An exception was the contract for New York in 2003, with only one bid submitted. That bid had an unusually high net wholesale price (i.e., low rebate).

While having three companies bidding suggests increased competition for the contracts, the real net wholesale prices bid by Mead Johnson, Nestlé, and, to a lesser degree, Ross have increased in recent years. This has resulted in higher net wholesale prices in contracts awarded by the States, and therefore higher costs to WIC. Of the 16 States that have awarded infant formula rebate contracts since 2003, 10 (63 percent) saw a net increase in real net wholesale price relative to their latest pre-2003 contract for powder and 13 (81 percent) saw a net increase in real net wholesale price relative to their latest pre-2003 contract for liquid concentrate.

Some of this recent increase in net wholesale price can be attributed to the introduction of formulas supplemented with DHA and ARA. The wholesale prices of the supplemented formulas exceed those of the unsupplemented formulas. Thus, if the amount of the rebate is held constant, this will result in higher net wholesale prices. Although not all States currently offer these new formulas to their WIC recipients, recent legislation requires that all States offer them as of their next rebate contract, presuming that the manufacturers submit bids based on these supplemented formulas.

During the second quarter of 2004, the retail markup was substantially greater for the new DHA- and ARA-supplemented infant formulas than for unsupplemented formulas (retail markups for the new supplemented formulas were also found to exceed the markup of unsupplemented formulas from 1994 to 2000, indicating that retail markups to WIC have increased over time). This means that WIC State agencies are paying more for formula (or will be paying more in the future for those States not currently offering the supplemented formulas to their participants), holding net wholesale price constant.

In many cases, the retail markup that States pay retailers is the largest component of the cost to WIC of infant formula. However, it is because of the effectiveness of the rebate program that net wholesale prices are so low. If net wholesale prices were to increase to the level experienced in New York in 2003 (where net wholesale prices of powder were over three times the retail markup), total costs to States would increase significantly.

This analysis suggests that both cost components to WIC—net wholesale price and retail markup—have increased over time. However, much of the increase in costs is due to the higher priced DHA- and ARA-supplemented infant formulas. Because these supplemented formulas are relatively new to the market (first introduced in 2002), the market may still be adjusting to the new formulas. As a result, the conditions observed in this study may change once the market reaches long-term equilibrium.