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Trends in Infant Formula Rebate Contracts: Implications for the WIC Program

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What Is the Issue?

The U.S. Department of Agriculture's (USDA) Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides participating infants with free infant formula. WIC is the major purchaser of infant formula in the United States; well over half of all formula is purchased with WIC benefits. To reduce costs, WIC requires its State agencies to operate a cost-containment system for procuring infant formula. Typically, WIC State agencies obtain substantial discounts in the form of rebates from the infant formula manufacturers for each can of formula purchased through the program. In exchange for the rebate, a manufacturer is given an exclusive right to provide its infant formula to WIC participants in the State. Contracts are competitively awarded to the manufacturer offering the WIC State agency the lowest net price (as determined by the manufacturer's wholesale price minus the rebate).

WIC is a discretionary grant program funded annually by appropriations law. The number of participants who can be served within a fixed budget depends heavily on the program's food package costs, which in turn are significantly affected by rebates and the cost of infant formula. A previous Economic Research Service (ERS) study found that net prices paid by nearly all WIC State agencies were increasing. The report cautioned that if real net prices continued to increase, rising formula costs under newly negotiated contracts could constrain WIC's ability to serve all eligible applicants.

What Did the Study Find?

Among the 46 WIC State agencies that awarded new rebate contracts after December 2008, nearly all paid lower net prices in their current contracts (in effect in February 2013) than in their previous contracts after adjusting for inflation. Across the 46 WIC State agencies, real net price decreased by an average 43 percent (or 23 cents per 26 ounces of reconstituted fluid), allaying concerns about increasing real net prices. With lower net prices, combined with declining WIC purchases of infant formula, WIC State agencies paid \$107 million less for formula in their new contracts over the course of a year.

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The decrease in net prices occurred during a period of fewer births, higher breastfeeding rates, and decreases in the average amount of formula provided in the WIC infant food packages. In the face of a shrinking market for their product, formula manufacturers may compete more aggressively for WIC contracts in order to maintain their sales volume.

How Was the Study Conducted?

To examine trends or changes in net prices over time, this report compared the real net price in a State's contract that was in effect in February 2013 to that of its previous contract. The analysis was based primarily on data on infant formula rebate contracts, compiled by USDA's Food and Nutrition Service and by the Center on Budget and Policy Priorities, and infant formula wholesale prices as reported in the formula manufacturers' price list catalogs. Information on the characteristics of the infant formula market was based on a 2008 proprietary report prepared for ERS by the Nielsen Company.