



ERS *Report Summary*

Economic Research Service

August 2011

U.S. Department of Agriculture



This is a summary
of an ERS report.

Find the full report at
[www.ers.usda.gov/
publications/err124](http://www.ers.usda.gov/publications/err124)

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.

The Infant Formula Market Consequences of a Change in the WIC Contract Brand

Victor Oliveira, Elizabeth Frazão, and David Smallwood

What Is the Issue?

USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is the major purchaser of infant formula in the United States. In addition to other benefits, the program provides participants with a food instrument, typically a voucher or electronic benefits transfer (EBT) card, that participants redeem for food—formula, in the case of infants—in authorized retail stores. To reduce the cost of infant formula to WIC, Federal law requires that WIC State agencies enter into cost-containment contracts with manufacturers of infant formula. Typically, WIC State agencies obtain substantial discounts in the form of rebates from infant formula manufacturers for each can of formula purchased through the program. In exchange for rebates, a manufacturer is given the exclusive right to provide its product to WIC participants in the State. These sole-source contracts are awarded on the basis of competitive bids. The brand of formula provided by WIC varies by State depending on which manufacturer holds the contract for that State.

What is the impact of WIC and its sole-source infant formula rebate program on market share? Does the program and its use of sole-source contracts have economic implications that extend beyond WIC? In this report, we examine the effect of the program on the infant formula market in supermarkets. We explore situations in which the holder of the WIC contract in a State switched from one manufacturer to another.

What Were the Study Findings?

The effect of WIC and its sole-source infant formula contracts on market share was significant. Following are some key findings among the 30 States that saw a shift in WIC contract brand from 2004 to 2009:

- The manufacturer of the WIC contract brand accounted for 84 percent of all milk-based formula (the predominant type of formula) sold by the three major formula manufacturers in supermarkets.
- The market share of the manufacturer of the new WIC contract brand increased by an average 74 percentage points after the contract change. This increase was almost completely offset by the loss in market share of the manufacturer that lost the contract.
 - Most of the shift in market share was a direct effect of WIC recipients switching to the new WIC contract brand.

www.ers.usda.gov

- Some of the shift in market share was due to spillover effects whereby sales of the contract manufacturer's formula purchased outside the WIC program also increased.
- The change in market shares was not explained by changes in the retail prices of the new WIC contract brand relative to the former WIC contract brand.

How Was the Study Conducted?

Our study is based on 2004-09 data from the Nielsen Company comprising weekly observations from store-based (point of sale) scanner data from over 7,000 supermarkets in 30 States that experienced a switch in the manufacturer that held the WIC contract. Supermarkets are a key component of the infant formula market, accounting for nearly two-thirds of all infant formula sales. We used a pre/post methodology to determine the overall effect on market share when the holder of the WIC contract changed. We compared each manufacturer's market share in a State in the 52 weeks prior to the contract change to its market share in weeks 13 to 52 after the contract change (weeks 0-12 were excluded to account for the potential lag in converting WIC participants to the new contract brand of formula during the transition period).