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Most Infant Formula Purchased Through WIC

About half of all infants born in the United States participate in USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Although WIC encourages breastfeeding, mothers who prefer to feed their infants formula receive WIC vouchers redeemable for formula at authorized retail stores. The high proportion of infants in WIC, along with their lower breastfeeding rates compared with non-WIC babies, makes WIC a major purchaser of infant formula.

A recent ERS study estimated WIC's share of the infant formula market using two different methods—one based on breastfeeding rates of WIC and non-WIC infants and the other based on infant formula sales data. The study determined that 57-68 percent of all infant formula sold in the United States in 2004-06 was purchased through WIC.

Typically, WIC State agencies obtain significant discounts in the form of rebates from infant formula manufacturers for each can of formula purchased at retail stores

with WIC vouchers. State WIC agencies reimburse the store for the full retail price of the formula but receive from manufacturers an average rebate of 85 percent of the wholesale price.

In fiscal year 2008, rebate savings totaled \$2 billion for State WIC agencies. Since WIC is a discretionary grant program funded by congressional appropriations, the number of participants that can be served each year depends on the annual appropriation and WIC's operating costs. The savings from rebates allow the agencies to provide benefits to more participants than in the absence of the rebates. In fiscal 2008, the rebates supported about 25 percent of the estimated average monthly WIC caseload.

In exchange for the rebate, the manufacturer's brand is the exclusive WIC-approved formula for the State. Contracts are awarded to the manufacturer offering the lowest net wholesale price (manufacturer's wholesale price minus the rebate).



Curtia Taylor, USDA/ERS

Manufacturers may be willing to offer large rebates partly because of spillover benefits of winning a WIC contract. For example, retailers may devote more shelf space and better product placement to the WIC contract brand, which results in greater product visibility and, in turn, may spur sales to non-WIC consumers.

However, as WIC's share of the infant formula market increases, the non-WIC share of the infant formula market shrinks, and manufacturers have less to gain from spillover effects. As a result, manufacturers may respond by reducing the amount of the rebate in future contracts, which would result in higher infant formula costs to WIC and potentially reduce the number of participants that the program could serve. \mathcal{W}

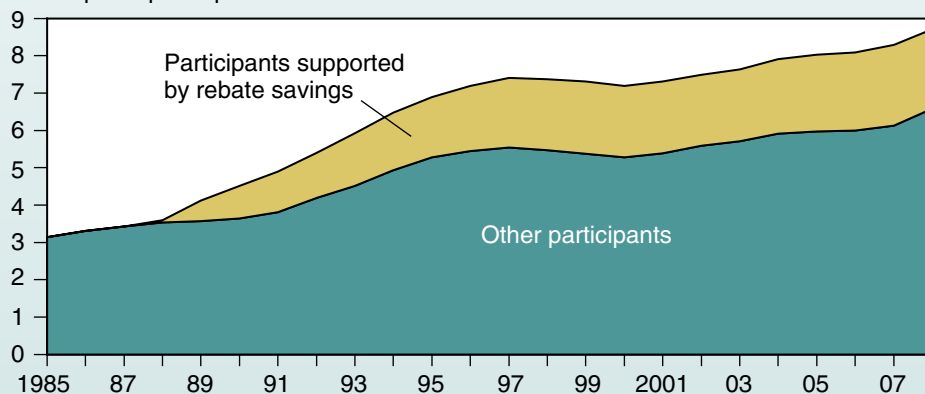
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This finding is drawn from . . .

Rising Infant Formula Costs to the WIC Program: Recent Trends in Rebates and Wholesale Prices, by Victor Oliveira, Elizabeth Frazão, and David Smallwood, ERR-93, USDA, Economic Research Service, February 2010, available at: www.ers.usda.gov/publications/err93/

Savings from infant formula rebates supported about one-quarter of WIC's caseload in 2008

Million participants per month



Note: WIC is the acronym for the Special Supplemental Nutrition Program for Women, Infants, and Children. The WIC program started in fiscal 1974, and the infant formula rebate program started in fiscal 1988.

Source: USDA, Economic Research Service using data from USDA, Food and Nutrition Service.