



# COMPETITIVE BIDDING FOR WIC INFANT FORMULA: THE BASICS

## NWA'S MISSION

The National WIC Association (NWA) provides its members with tools and leadership to expand and sustain effective nutrition services for mothers and young children.

WIC strongly supports and encourages breastfeeding as optimal nutrition for infants,<sup>1</sup> and has successfully increased WIC breastfeeding rates in recent years – a remarkable achievement.<sup>2,3</sup> However, for women who do not fully breastfeed, WIC continues to provide infant formula. Without WIC's help, the high cost of formula – around \$150 per month<sup>4</sup> – would greatly strain limited food budgets. If formula runs out, serious malnutrition can quickly develop if babies are fed diluted formula or cow's milk as a substitute. WIC plays a critical role in preventing this dangerous outcome.<sup>5</sup>

Any parent knows that formula is expensive. WIC is the major purchaser of infant formula in the US, accounting for nearly two-thirds of infant formula sales in the US.<sup>6</sup> To contain these high food costs, federal law has, since 1989, required all state WIC programs to use sole-source, competitive bidding to procure this product, using a discount pricing process known as the infant formula rebate program.

## HOW WIC REBATES WORK IN FOUR STEPS<sup>7</sup>

1. A state WIC program awards a multi-year, competitively bid sole-source contract to one infant formula manufacturer, based on least-cost net formula "rebates" for all standard WIC-approved formulas.
2. WIC shoppers purchase the specified current contract brand of formula in their usual WIC-authorized grocery stores, using their WIC EBT cards or WIC formula checks.
3. The state WIC program reimburses the WIC-authorized stores for the full retail price of contract-brand formula purchased with WIC funds.
4. The state WIC program then bills the contract formula manufacturer for the discount, or rebate, that was offered in its winning bid.

As a result of competitive bidding, the cost to WIC for each container of infant formula is well below the normal retail price, with state WIC programs receiving substantial discounts in the form of monthly rebates from formula manufacturers. Average rebates for state contracts are currently running at 92% of the wholesale price.<sup>8</sup> In fact, WIC's infant formula bidding process is the program's most prominent cost containment measure and is highly cost-effective. Infant formula rebates generated over \$1.7 billion in FY 2017.<sup>9</sup> This in turn allows WIC to serve around two million more participants annually, which represent over one-quarter of WIC's total caseload.

## WHY COMPETITIVE BIDDING IS IMPORTANT TO WIC

Without competitive bidding, WIC would either need a much larger congressional appropriation or the program would have to terminate benefits for a huge number of women, infants, and young children at nutritional risk. Infant formula rebates are an excellent example of cost-effective government procurement that saves taxpayers billions of dollars.



## WHY COMPETITIVE BIDDING IS IMPORTANT TO FORMULA MANUFACTURERS

Although they are not required to do so, infant formula manufacturers consistently and aggressively compete for WIC sole-source rebate contracts. In recent years, USDA reports that rebates have been large (over 90% of wholesale price), with multiple bids and strong turnover.<sup>10</sup> The formula industry is highly concentrated, with three firms dominating the market. These companies charge premium prices and therefore are able to offer substantial discounts to WIC. Economists at USDA's Economic Research Service have shown that the winning bidders increase their overall state market share when a contract changes hands. This is due to increased brand loyalty among WIC shoppers, as well as more shelf space and better product placement, boosting sales among non-WIC consumers as well.<sup>11 12</sup>

Highly Cost-Effective. Center on Budget & Policy Priorities, 2015, at <https://www.cbpp.org/research/food-assistance/wics-competitive-bidding-process-for-infant-formula-is-highly-cost>.

<sup>5</sup> American Academy of Pediatrics, "Feeding and Nutrition" sections of Healthy Children website, at <https://www.healthychildren.org/English/ages-stages/baby/feeding-nutrition/Pages/default.aspx>.

<sup>6</sup> Oliveira V, Frazão E, Smallwood D. 2010. Rising Infant Formula Costs to the WIC Program: Recent Trends in Rebates and Wholesale Prices, ERR-93, USDA, Economic Research Service.

<sup>7</sup> For more detailed information, see Carlson, S, Greenstein, R. and Neuberger, Z. WIC's Competitive Bidding Process for Infant Formula is Highly Cost-Effective, Center on Budget & Policy Priorities, 2015, at <https://www.cbpp.org/research/food-assistance/wics-competitive-bidding-process-for-infant-formula-is-highly-cost>.

<sup>8</sup> Olivera, V. Infant Formula Manufacturers Offer Large Rebates to Win WIC Contracts. USDA ERS, October 2015, at <https://www.ers.usda.gov/amber-waves/2015/october/infant-formula-manufacturers-offer-large-rebates-to-win-wic-contracts/>.

<sup>9</sup> USDA WIC Program Data, Monthly State Level Participation by Category and Program Costs, 2017., at <https://www.fns.usda/pd/wic-program>.

<sup>10</sup> Davis, D. and Olivera, V. Manufacturers' Bids for WIC Infant Formula Rebate Contracts, 2003-2013, USDA ERS, July 2015, at <https://www.ers.usda.gov/publications/pub-details/?pubid=43997>.

<sup>11</sup> David Betson, Impact of the WIC Program on the Infant Formula Market, USDA ERS, January 2009 at <http://naldc.nal.usda.gov/catalog/32816>.

<sup>12</sup> Carlson, S, Greenstein, R. and Neuberger, Z., WIC's Competitive Bidding Process for Infant Formula is Highly Cost-Effective. Center on Budget & Policy Priorities, 2015, at <https://www.cbpp.org/research/food-assistance/wics-competitive-bidding-process-for-infant-formula-is-highly-cost>.

## WIC: EMPOWERING FAMILIES, STRENGTHENING COMMUNITIES

Please direct all questions to NWA at 202-232-5492.

<sup>1</sup> USDA FNS, "Breastfeeding is a Priority in the WIC Program," at <https://www.fns.usda.gov/wic/breastfeeding-priority-wic-program>.

<sup>2</sup> Joyce T, Reeder J. Changes in breastfeeding among WIC participants following implementation of the new food package. *Matern Child Health J* 2015;19:868-76.

<sup>3</sup> Langelier BA1, Chaparro MP, Wang MC, Koleilat M, Whaley SE The new food package and breastfeeding outcomes among women, infants, and children participants in Los Angeles County. *Am J Public Health*. 2014 Feb;104 Suppl 1:S112-8, at <https://www.ncbi.nlm.nih.gov/pubmed/24354843>.

<sup>4</sup> See footnote 4 in Carlson, S, Greenstein, R. and Neuberger, Z. WIC's Competitive Bidding Process for Infant Formula is



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