

## Does Collusion Exist in the Baby Formula Industry?

The market structure for baby formula is oligopolistic. But since the passage of the Infant Formula Act of 1980, all the major brands are virtually identical. The market is dominated by five firms, the largest two holding 85 percent of the market. Fifty percent of the market is held by Ross Labs, which manufactures Similac and Isomil, 35 percent goes to Mead Johnson Nutritionals, which produces Enfamil; 9 percent belongs to the Wyeth-Ayerst, which makes Nursoy and SMA; and Carnation and Nestlé make up the other 6 percent of the market.

Approximately 40 percent of the market for baby formula is purchased by the federal government through the Special Supplemental Program for Women, Infants, and Children (WIC). Fearing collusion, the government started a competitive bidding process for the WIC program. The bid process has successfully brought the price of baby formula down slightly; however, profits in the industry are still extremely high, consistently around 25 percent.

Using the argument that pediatricians do not want the industry to advertise because advertis-

ing might entice mothers not to breast feed, baby formula producers use almost no advertising. Instead, they rely on hospitals and doctors to market their products for them. Each firm markets its products directly to doctors and hospitals by giving them free samples. Medical facilities then give these samples away to new mothers in maternity gift packages. This form of marketing apparently works well; almost 90 percent of the mothers who use formula stay with the brands given to them by their doctors.

Over the past few years, prices of baby formula have consistently risen at an average of 11 percent, which is 9 percent more than the price of milk has increased. The firms claim no collusion exists. However, large profits and rapidly increasing prices keep the Federal Trade Commission monitoring the situation.

Source: Barbara Presley Noble, "Price-Fixing and Other Charges Roil a Once-Placid Market," *The New York Times*, July 28, 1991.