

# INFANT FORMULA AND FOLLOW-ON FORMULA MARKET STUDY

Final report

14 February 2025

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The Competition and Markets Authority has excluded from this published version of the final report information which it considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Some numbers have been replaced by a range. These are shown in square brackets. Non-sensitive wording is also indicated in square brackets.

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# 1. The CMA's work in the groceries sector – helping to contain cost-of-living pressures

## High level findings in the wider groceries sector

- 1.1 Being able to access affordable food and other groceries goes to the heart of why competition really matters to people's daily lives, particularly for the most vulnerable in society. Given our determination to focus on areas where people spend the most time and money, and on those who need the most help, the CMA has been investigating fairness and competition in the groceries sector, in the context of cost-of-living pressures and food price inflation.
- 1.2 In our 2023 review of the groceries sector,<sup>1</sup> we did not find widespread evidence of weak competition: profit margins were historically low; consumers were switching to get the best deals; and the lowest-price retailers were gaining market share from others. Nonetheless, we committed to have another look at this, and monitor margins as costs came down.
- 1.3 We provided a further update in July 2024.<sup>2</sup> Overall, this did not find evidence that groceries inflation was being driven at an aggregate level by weak competition between retailers.
- 1.4 At the time of our 2023 groceries report, the price of food and some other groceries in the UK had risen sharply in the period since the COVID-19 pandemic, and this was adding pressure on household finances that were also being stretched by rising energy, road fuel, and housing costs.
- 1.5 We noted in our July 2024 groceries update that aggregate food price inflation had since fallen consistently, from a high of 19.1% in March 2023 to 1.5% in June 2024 (Figure 1.1).<sup>3</sup> However, the level of food prices remained substantially elevated relative to average earnings, meaning that the average person would be paying out a higher proportion of their income for the same basket of groceries.

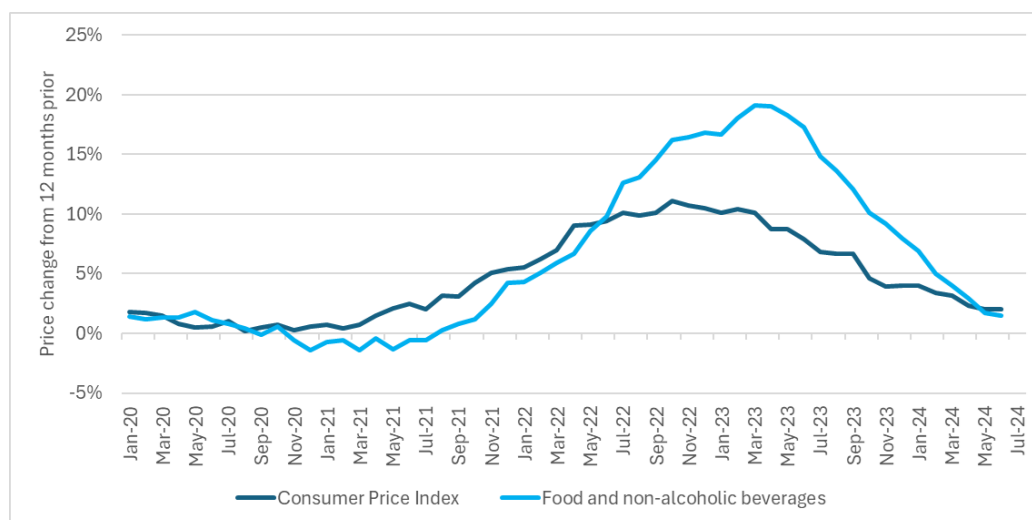
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<sup>1</sup> CMA (2023): [Competition, choice and rising prices in groceries - GOV.UK](#)

<sup>2</sup> CMA (2024): [Cost-of-living update](#) and CMA (2024): [Competition and profitability in the groceries sector - GOV.UK](#)

<sup>3</sup> At November 2024 it stood at 2%.

**Figure 1.1: Consumer Price Index and Food and Non-Alcoholic Beverage 12-month inflation rate, January 2020 to June 2024**



Source: Office for National Statistics (Consumer Price Index [All items](#) and Consumer Price Index [Food and non-alcoholic beverages](#))

## Why we came to focus on infant formula and follow-on formula

- 1.6 In contrast to the wider findings of our groceries review, and as set out in our November 2023 report,<sup>4</sup> we found signs that the market for infant formula was not delivering well for parents and carers (who we refer to collectively as parents), with significant price increases in recent years and limited own-label alternatives (unlike for most other grocery items).
- 1.7 Data from that report indicated that the average price of a pack of powdered cow’s milk based infant formula had risen by over 25% between March 2021 and April 2023. It also highlighted concerns that weak or ineffective competition in the infant formula market might be causing prices to be higher than they would otherwise be. We were concerned that suppliers may face insufficient incentives to offer infant formula at competitive prices, and that consumers may not always be well equipped to make well-informed choices.
- 1.8 This product is a vital part of the weekly shop for many parents and carers across the UK. Naturally, parents want to give their babies the best possible start in life. As such, many are not focused on comparing prices when they need to make a decision to start buying formula, and once they have started with a product that seems to work well for their baby, they are reluctant to switch. It is vital that people are able to make the best choices and get good value for money when they are buying formula. Given this background, we launched a market study to get to the bottom of these issues.

<sup>4</sup> CMA (2023): [Price inflation and competition in food and grocery manufacturing and supply](#) - GOV.UK



## Affordability concerns

- 1.9 Responses to a 2018 inquiry into the cost of infant formula in the United Kingdom carried out by the All-Party Parliamentary Group on Infant Feeding and Inequalities indicated that the cost of infant formula was having a negative impact on a number of families in the UK, and that this might lead to unsafe feeding practices or families limiting their own food intake or that of other children. Particular risks were described for low income families, those living in temporary accommodation, asylum seeking families and those with no recourse to public funds.<sup>5</sup>
- 1.10 Such concerns persist, with research indicating that those least able to afford formula are more likely to be reliant on it.<sup>6</sup> The unit cost for a standard-sized pack of most brands of infant formula currently exceed the value of the UK Government's Healthy Start<sup>7</sup> and Scottish Government's Best Start Food<sup>8</sup> scheme payments for eligible claimants. There have been recent calls for the Healthy Start Scheme to be reviewed to ensure that low-income families who need or choose it can access infant formula.<sup>9</sup>
- 1.11 The Food Foundation reported that 24% of households with a child under the age of four experienced food insecurity in January 2024.<sup>10</sup> The charity Feed, responding to our interim report, submitted that inability to afford infant formula can lead to unsafe practices. It noted that food-insecure families are still often buying the most expensive products, with parents sometimes forgoing food themselves to afford this. It noted that the reasons for this are complex, and that lower income families may feel increased stigma and judgment about their parenting which may drive some of these choices towards brands deemed 'higher quality'.<sup>11</sup>
- 1.12 As discussed in Section 5 Consumer behaviour: Consumer vulnerability, a number of respondents to our interim report emphasised that families on lower incomes are more likely to be using formula, as well as more likely to experience financial difficulties, so the issues we are considering in the market study have a disproportionate impact on them. Our market study therefore aligns with the CMA's commitment to have particular regard to consumers who need the help the most.<sup>12</sup>

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<sup>5</sup> APPG on infant feeding and inequalities (2018), [Inquiry into the cost of infant formula in the United Kingdom](#).

<sup>6</sup> See, for example, The Food Foundation's response to the CMA's interim report, p2.

<sup>7</sup> [Healthy Start - GOV.UK](#). For children until they are one year old the payment is £8.50 a week.

<sup>8</sup> [Best Start Grant and Best Start Foods - mygov.scot](#). Best Start Foods is paid every 4 weeks. For each child until they are one year old the 4-weekly payment is £42.40.

<sup>9</sup> See, for example, The Food Foundation's response to the CMA's interim report, p9.

<sup>10</sup> The Food Foundation (February 2024): [Kids Food Guarantee – first infant formula February 2024 update](#).

<sup>11</sup> Feed's response to the CMA's interim report, p4.

<sup>12</sup> [CMA Annual Plan 2024/25](#), p14.

## 2. Our approach to the market study

### Scope and focus of the market study

- 2.1 In our [invitation to comment](#) dated 20 February 2024, we said we would focus on the supply of infant formula and follow-on formula to consumers in the UK, looking at both the manufacturing and retailing segments of the market. In particular, the scope encompasses:
- (a) Infant formula and follow-on formula as defined in Commission Delegated Regulation (EU) 2016/127;<sup>13</sup> and
  - (b) Formulas labelled by manufacturers as ‘foods for special medical purposes’ developed to satisfy the nutritional requirements of infants as defined in Commission Delegated Regulation (EU) 2016/128 and, specifically, that are (a) suitable from birth, and (b) can be sold directly to consumers without prescription.<sup>14</sup> This includes, for example, certain ‘anti-reflux’ and ‘comfort’ formulas.
- 2.2 Our primary focus is on infant formula due to its essential, non-substitutable nature for the first six months of a baby’s life. Infant formula is the only alternative to breast milk that can satisfy, by itself, the nutritional requirements of healthy babies during this period. The difficulty of starting (or re-starting) breastfeeding once a mother’s milk supply has ceased underscores the importance of this product.
- 2.3 Follow-on formula is included in our study, as after the introduction of complementary feeding, typically from six months, parents can continue with infant formula or switch to follow-on formula. Follow-on formula is a substitute for infant formula for babies aged six to twelve months. It is subject to distinct marketing regulations, potentially impacting the infant formula market’s operation.
- 2.4 Formulas labelled by manufacturers as ‘foods for special medical purposes’ (FSMP) that meet the nutritional needs of babies from birth are included within the scope of the market study. These products are generally sold alongside infant and follow-on formula, and share similar packaging despite differing regulatory standards.<sup>15</sup>
- 2.5 For ease of reference in the remainder of this report, we refer to ‘anti-reflux’, ‘comfort’, and ‘hungry baby’ formula products as ‘special milks’.<sup>16</sup> Note that our

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<sup>13</sup> [Commission Delegated Regulation \(EU\) 2016/127](#) (Assimilated direct legislation).

<sup>14</sup> [Commission Delegated Regulation \(EU\) 2016/128](#) (Assimilated direct legislation).

<sup>15</sup> We have included FSMP products to the extent they are available to purchase without a prescription. Note that some FSMP products are also available on prescription.

<sup>16</sup> We have not specifically analysed other product types, for example goat’s milk formula, lactose-free formula, or hypoallergenic formula, since we understand (from retailer data submitted to us) that these have very low levels of sales and are not widely available across the major brands.

use of the term 'special milks' (purely for convenience in this report) is distinct from the term FSMP, though there may be some overlap depending on if/how manufacturers designate their products as FSMP.

- 2.6 Growing-up milks marketed for children over twelve months, also known as toddler milks or 'stage 3' and 'stage 4' milks are also included in the scope of the market study, but only to the extent that they impact competition in the infant and follow-on formula markets.
- 2.7 Formulas available only on prescription for babies aged from birth to twelve months are excluded from this study.
- 2.8 Finally, we do not take a view on public health policy objectives that relate to this market, as this is a matter for governments. We want our final recommendations to drive better outcomes for parents, without compromising the compositional standards and safety of infant formula and follow-on formula or undermining governments' wider policy objectives for this market, including not discouraging breastfeeding.
- 2.9 In response to our invitation to comment, we received calls to widen the scope of the market study. The two main issues we were asked to consider were: including formulas available only on prescription and adjacent products such as baby snacks, probiotics, and a substitute product (donor milk). Having carefully considered all the representations we received on these matters, we decided not to expand the scope of the study because:
- With regards to the proposed inclusion of formula milk available only on prescription, the issues raised primarily related to the reasons for prescribing formula milk and it would not be appropriate for the CMA to comment on formula use following expert medical advice.
  - The adjacent and substitute products proposed for inclusion are quite different from the products in the original proposed scope of the market study, and the issues raised regarding the potential for these products to cross-promote infant formula are already being examined within the existing scope of the market study.
- 2.10 One respondent also called for the CMA to look at the safety of products, but this is outside of the CMA's remit.

## **How we gathered evidence**

- 2.11 During this market study we have gathered information from a wide range of sources to develop our understanding of the infant formula and follow-on formula market. Our information gathering activities included the following:

- We issued an invitation to comment when we launched the market study and received 11 responses to this, which are published on our website.
- We have engaged with the UK, Northern Ireland, Scottish and Welsh governments, including in the context of the Nutrition Labelling Composition and Standards (NLCS) Group.<sup>17</sup>
- We have engaged with Trading Standards Services responsible for enforcing the relevant regulations and the Advertising Standards Authority (ASA).
- We issued detailed compulsory information requests to, and received responses from, the largest infant formula manufacturers and 13 retailers.
- We met with a range of parties involved in or with an interest in the sector, including: manufacturers (including meetings with four manufacturers in January 2025 to provide them with the opportunity to expand on any points from their submissions on the interim report), consumer groups, governments, the NHS, healthcare bodies, industry bodies, industry experts/academics, national competition authorities, international bodies including Unicef UK Baby Friendly Initiative and the World Health Organisation, and potential new entrants.
- We commissioned consumer research, which was awarded to the independent research company, Thinks Insight and Strategy. This was first published alongside our interim report, and an updated version published alongside our final report.<sup>18</sup>
- We obtained and analysed research commissioned or held by manufacturers and stakeholders.
- We conducted an extensive literature review to better understand the issues with the market.
- We published an interim report on the market study on 8 November 2024, setting out our emerging findings and potential options for governments to address our provisional concerns. We received 35 responses to our interim report and have considered these carefully to inform our conclusions and recommendations for actions. We held three roundtables with governments

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<sup>17</sup> While nutrition law is an area of devolved competency in the UK, and responsibility for overseeing and enforcing the infant formula and follow-on formula regulations sits with each of the UK's devolved nations, the UK, Northern Ireland, Scottish and Welsh Governments cooperate in relation to nutrition related labelling, composition and standards under a [draft common framework](#). The framework notes that it will enable the functioning of the UK Internal Market, while acknowledging policy divergence. The statement notes that while local enforcement is devolved and therefore out of scope... all parties agree that a level of commonality is beneficial, particularly for those businesses who operate across UK borders.

<sup>18</sup> The updated version published alongside our final report contains additional methodological information (see 2.4. Breakdown of sample delivered, p10).

and public bodies to consider the possible options we set out in the interim report.

## **Market investigation reference decision**

2.12 Within six months after the launch of a market study, the CMA has a legal obligation to decide whether or not to consult on a market investigation reference. We announced our decision not to make a market investigation reference at this stage<sup>19</sup> on 16 August 2024. As set out in the update<sup>20</sup> that we published alongside that decision, based on the evidence reviewed to date, the CMA had identified significant concerns that the combined effect of the current regulatory framework, the behaviour of manufacturers and suppliers, and the needs and reactions of people buying formula, are resulting in poor market outcomes. The CMA considered that these concerns would be best addressed by progressing with the market study and developing recommendations to governments to improve market outcomes, rather than moving to a more extensive market investigation. The August update briefly summarised the CMA's concerns to date and explained the decision not to make a market investigation reference at that point.

## **Final report**

2.13 This final report sets out our conclusions from the market study and makes recommendations to UK, Northern Ireland, Scottish and Welsh governments, in collaboration with other organisations, for action to deliver better outcomes for parents who depend on infant formula to feed their babies.

2.14 The package of measures we are recommending to governments, along with next steps, is set out in Section 8.

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<sup>19</sup> CMA (2024): [Notice of decision not to make a market investigation reference](#)

<sup>20</sup> CMA (2024): [August 2024 update](#)

## 3. Market overview

### Introduction

- 3.1 This section provides an overview of the infant formula market. It covers:
- (a) The products we have been considering as part of the market study;
  - (b) The regulatory and policy framework;
  - (c) Market structure and market participants; and
  - (d) Other key stakeholders.

### The products

- 3.2 Infant formula is an essential product for many families across the UK. While not discouraging breastfeeding is a public health priority for UK governments, and as we discuss below there are regulations in place to support this policy objective,<sup>21</sup> there can be circumstances where breastfeeding is not possible, or only possible in combination with bottle feeding. Alternatively, parents may make a choice not to breastfeed, or to combine breast and bottle feeding. Infant formula is designed for use in the first months of life and is the only substitute for breast milk which can satisfy, by itself, the nutritional requirements of healthy babies until appropriate complementary feeding is introduced.<sup>22</sup> It is sold in various formats (powder, ready-to-feed (ie liquid), and tabs), and in different package sizes.
- 3.3 The NHS provides information on types of formula milks including to indicate suitability for infants of various ages.<sup>23</sup> Formula milks are typically classified by stage, according to product suitability for babies and toddlers of different ages:
- (a) Infant formula, also called first infant formula/milk and given the number 1 on packaging, describes a food suitable for infants from birth to 12 months and satisfying by itself the nutritional requirements of such infants until the introduction of appropriate complementary feeding. Infant formula based on modified cow's milk is the most commonly marketed infant formula, though it can also be made from goat's milk, soya, or hydrolysed proteins.<sup>24</sup>

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<sup>21</sup> See, for example, [Public Health England guidance \(updated 2021\): Early years high impact area 3: Supporting breastfeeding](#).

<sup>22</sup> DHSC (updated April 2024): [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#).

<sup>23</sup> NHS, Types of formula, [Types of formula - NHS, accessed 17/10/24](#).

<sup>24</sup> Hydrolysed protein formulas (or hypoallergenic formulas) are intended for babies experiencing digestive issues or cow's milk protein intolerance. Through the process of hydrolysis, the proteins present are broken down into smaller fragments called peptides.

- (b) Follow-on formula, given the number 2 on packaging, is suitable for use as the principal liquid element in the diet of infants during the period when appropriate complementary feeding is introduced (ie between 6 and 12 months).<sup>25</sup> NHS guidance states that: ‘Research shows that switching to follow-on formula at 6 months has no benefits for your baby. Your baby can continue to have first infant formula as their main drink until they are 1 year old.’<sup>26</sup>
- (c) Growing-up milk, also called toddler milk and given the numbers 3 and 4 on the packaging, is suitable for infants over the age of 12 months. NHS guidance states that: ‘Growing up and toddler milks are marketed as an alternative to whole cow’s milk for toddlers and children over 1 year old. There is no evidence to suggest that these products provide extra nutritional benefits for young children. Whole cow’s milk is a suitable choice as a main drink for your child from age 1. Semi-skimmed cow’s milk is a suitable main drink for children over 2 who are eating a balanced diet.’<sup>27</sup>

3.4 As noted in Section 2 Our approach to the market study, infant formula and follow-on formula are included in the scope of this market study. Growing-up milks are included only to the extent that they impact competition in the infant and follow-on formula markets.

## Regulatory and policy framework

3.5 Infant formula and follow-on formula products are highly regulated in the UK and the EU.

3.6 The Department of Health and Social Care (DHSC) has stated that the regulations for infant formula and follow-on formula in the UK are designed to: ensure that infant formula and follow-on formula products provide essential nutrients for infants and are safe; provide accurate labelling to inform consumer choice and minimise the risk of consumers being misled, and ensure marketing and advertising does not discourage breastfeeding. DHSC also explained that the regulatory framework allows for growing scientific understanding and development.

3.7 DHSC’s role and that of other competent authorities in the UK is described below. Enforcement of the regulations is primarily carried out by local authorities.<sup>28</sup>

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<sup>25</sup> Follow-on formula should not be fed to a baby under 6 months old.

<sup>26</sup> NHS, Types of formula, [Types of formula - NHS, accessed 17/10/24](#).

<sup>27</sup> NHS, Types of formula, [Types of formula - NHS, accessed 17/10/24](#).

<sup>28</sup> Additionally, the ASA enforces the CAP and BCAP Codes which have provisions relating to the promotion and marketing of infant formula and follow-on formula – see Section 6 Impact of the regulatory framework and regime: Compliance and enforcement for further detail.

- 3.8 Further detail on the regulatory framework is set out in Appendix A Regulatory and policy framework.

### **Regulatory responsibility**

- 3.9 Nutrition law is an area of devolved competency in the UK, and responsibility for overseeing and enforcing the infant formula and follow-on formula regulations sits with each of the UK's devolved nations.<sup>29</sup> DHSC, the Scottish Government, and the Welsh Government are the competent authorities for the purposes of infant formula and follow-on formula regulations for each nation in Great Britain, and the Food Standards Agency in Northern Ireland is the competent authority for Northern Ireland. The four UK nations have entered into a framework which sets out arrangements for co-operation between officials in the DHSC, Food Standards Scotland, the Welsh Government, and the Food Standards Agency in Northern Ireland in relation to nutrition related labelling, composition, and standards policy (NLCS Framework).<sup>30,31</sup> DHSC explains in guidance<sup>32</sup> that the NLCS Framework seeks to ensure that any impacts of regulatory divergence on the UK internal market are limited and, in particular, emphasises that Northern Ireland continues to play a vital role in policy development for nutrition legislation in the UK.<sup>33</sup>

### **Overview of regulatory framework**

- 3.10 The principal regulation relating to the composition, labelling and marketing of infant formula and follow-on formula in the UK is Commission Delegated Regulation (EU) 2016/127 (Regulation 2016/127) (assimilated direct legislation).<sup>34</sup> Regulation 2016/127 gives effect in part to the provisions of the World Health Organization's International Code of Marketing of Breast-milk Substitutes which is an international health policy framework designed to encourage better regulation of the marketing of breast milk substitutes in order to protect and promote breastfeeding (WHO Code).<sup>35,36</sup>
- 3.11 Regulation 2016/127 sets out provisions relating to the following key objectives:
- (a) Ensuring that all infant formula and follow-on formula products are safe and contain essential nutrients to meet the nutritional requirements of infants;

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<sup>29</sup> As set out in more detail in Appendix A Regulatory and policy framework EU legislation relating to nutrition continues to be directly applicable in Northern Ireland.

<sup>30</sup> DHSC (2020), [Nutrition Related Labelling Composition and Standards Provisional Common Framework - October 2020](#).

<sup>31</sup> In accordance with the NLCS Framework, a group has been formed of representatives from each of the four nations which meets to discuss and agree common recommendations regarding policy proposals within the scope of the NLCS Framework.

<sup>32</sup> DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#).

<sup>33</sup> DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#).

<sup>34</sup> [Commission Delegated Regulation \(EU\) 2016/127](#) (assimilated direct legislation).

<sup>35</sup> Please see Appendix A Regulatory and policy framework for further information on the WHO Code.

<sup>36</sup> Please see Appendix A Regulatory and policy framework for further information on the regulatory framework.



- (b) Ensuring accurate labelling. This includes prohibiting health and nutrition claims<sup>37</sup> on infant formula products;
- (c) Ensuring marketing and advertising does not discourage breastfeeding; and
- (d) Ensuring informational and educational equipment or materials relating to the feeding of babies contains objective and consistent information including on the benefits and superiority of breastfeeding.

3.12 The provisions relating to marketing and advertising restrict the advertising and promotion of infant formula in order to implement certain recommendations set out in the WHO Code. The provisions include the following:

- (a) Advertising of infant formula is restricted to publications specialising in baby care and scientific publications, and such advertisements can only include information that is of a scientific and factual nature.<sup>38</sup>
- (b) Point-of-sale advertising, the giving of samples and other promotional devices to induce sales of infant formula directly to parents at the retail level are prohibited (for example special displays, discount coupons, loss leaders, or special sales).<sup>39</sup> DHSC has stated that this provision does not prevent infant formula manufacturers or distributors from reducing the price of infant formula. However, promotional activities around the price reduction may be seen as an inducement to purchase infant formula. Where loyalty card schemes seek to induce the sale of infant formula through rewards, incentives or price reductions they are likely to be prohibited by the regulations.
- (c) There is a requirement for infant formula and follow-on formula products to be clearly distinct from each other to avoid any risk of confusion between them and to enable consumers to make a clear distinction between them, in particular as to the text, images, and colours used.<sup>40</sup> The purpose of this provision is to ensure appropriate product use and prevent harm by feeding babies unsuitable formula. DHSC's guidance on Regulation 2016/127<sup>41</sup> states that this provision also serves to prevent cross promotion and the indirect marketing of infant formula by advertising a follow-on formula product that looks very similar.
- (d) Manufacturers and distributors of infant formula must not provide free or subsidised products, samples or any other promotional gifts to members of

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<sup>37</sup> Health claims and nutrition claims are defined in [Regulation \(EC\) 1924/2006](#) which also sets out conditions for the use of such claims and mandates that the appropriate health authority (being DHSC) shall maintain a register of approved health and nutrition claims. Please see Appendix A Regulatory and policy framework for further information.

<sup>38</sup> [Commission Delegated Regulation 2016/127](#), Article 10(1).

<sup>39</sup> [Commission Delegated Regulation 2016/127](#), Article 10(2).

<sup>40</sup> [Commission Delegated Regulation 2016/127](#), Article 6(6).

<sup>41</sup> [DHSC \(updated April 2024\), Guidance on Commission Delegated Regulation \(EU\) 2016/127](#).

the general public including pregnant women, mothers or members of their families directly or via the healthcare system or health workers. This includes free or low-priced products, samples or any other promotional gifts.<sup>42</sup>

- (e) Donations or low-price sales of supplies of infant formula to institutions or organisations, whether for use in the institutions or for distribution outside them, shall only be used by or distributed for babies who have to be fed on infant formula and only for as long as required by such babies.<sup>43</sup>

## **Role of government and public bodies**

### **DHSC**

#### *Compliance role*

- 3.13 When manufacturers place infant formula, specific follow-on formulas, and FSMP products on the market in Great Britain they must notify the competent authority and send a copy of the label to be included on the product packaging, along with any further information the competent authority reasonably requests to establish compliance with Regulation 2016/127. DHSC is the competent authority for England and also co-ordinates the notification process on behalf of Scotland and Wales. In Northern Ireland, manufacturers make notifications to the Food Standards Agency Northern Ireland. Through the arrangements of the NLCS Framework, information on notifications is shared between the nations of the UK.
- 3.14 If DHSC considers that, based on the information provided, the label may not comply with Regulation 2016/127 it will notify the manufacturer of its concern and request that the manufacturer amends and resubmits the labelling. Once DHSC receives an amended label it provides a letter of acknowledgement which confirms completion of the notification process. This is not confirmation of compliance with the regulations. Where there may be any difference in views between DHSC and a manufacturer, DHSC may issue an amended acknowledgement letter that highlights its concerns. Acknowledgement letters are shared with enforcement authorities, including where DHSC has raised concerns. DHSC guidance explains that it is the responsibility of individual businesses to ensure their compliance with the law and Regulation 2016/127 states that infant formula and follow-on formula products may only be placed on the market if they comply with this Regulation.<sup>44</sup>

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<sup>42</sup> [Commission Delegated Regulation 2016/127](#), Article 10(3).

<sup>43</sup> [Commission Delegated Regulation 2016/127](#), Article 10(4).

<sup>44</sup> [DHSC \(updated April 2024\), Guidance on Commission Delegated Regulation \(EU\) 2016/127](#).

## *Guidance*

- 3.15 DHSC has produced guidance on Regulation 2016/127<sup>45</sup> which is designed to support manufacturers by providing information and advice and to set out DHSC's interpretation of the regulation as well as to support local authorities responsible for enforcing legislation in this area. Where this guidance is relevant to our market study we make reference to it in this interim report.

## *Updating the Regulations*

- 3.16 The regulations may be updated where appropriate. For example, DHSC told us that over many years, the composition of infant formula has evolved due to advances in scientific evidence, with legislation on compositional standards updated to reflect this, which has led to better outcomes for infants. In 2006, for instance, the European Commission adopted a new Directive on infant formula and follow-on formula (Commission Directive 2006/141/EC) which updated the 1991 legislation to reflect updated recommendations from the European Scientific Committee for Food (SCF) based on the latest scientific developments and discussions at an international level in the Codex Alimentarium forum.
- 3.17 Following the UK's exit from the European Union, updates to Commission Delegated Regulation (EU) 2016/127 (assimilated direct legislation), affecting England, Scotland and Wales, have become a matter of UK law.<sup>46</sup> In many cases, updates can be made through secondary legislation,<sup>47</sup> preceded by a public consultation.<sup>48</sup> Further, any changes to the compositional requirements for infant formula or follow-on formula would be made following liaison with the relevant agencies and committees. For example, the Foods Standards Agency and the Subgroup on Maternal and Child Nutrition of the Scientific Advisory Committee on Nutrition. In circumstances where there is not a power to amend Regulation 2016/2017 by secondary legislation, this may be done by primary legislation.

## **Enforcement of Regulation 2016/127**

- 3.18 Legislation relating to infant formula and follow-on formula is enforced separately in each of the nations of the UK. In each case, the enforcement regulations state that a 'food authority' is responsible for enforcing the regulation (usually, the responsibility for enforcement will be given to local trading standards services or environmental health departments at local councils). In enforcing Regulation 2016/127, local authorities in England have a range of interventions at their

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<sup>45</sup>DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#).

<sup>46</sup> See footnote 10 above in relation to Northern Ireland.

<sup>47</sup> For example, Articles 11 and 16A of [Regulation \(EU\) No 609/2013](#), or section 15 of the [Retained EU Law \(Revocation and Reform\) Act 2023](#).

<sup>48</sup> [Regulation \(EC\) No 178/2002](#), Article 9 which lays down the general principles and requirements of food law states that 'there shall be open and transparent public consultation, directly or through representative bodies, during the preparation, evaluation and revision of food law, except where the urgency of the matter does not allow it'.

disposal: enforcement may start with a discussion with a ‘food business operator’ (which we understand would be typically a manufacturer) about a potential breach and, where necessary, escalated to issuing an improvement notice requiring the food business operator to take action to become compliant with the potential for court action (and a fine on summary conviction<sup>49</sup>) if the food business operator fails to take the necessary action.

## ASA

- 3.19 The ASA regulates advertising across all media in the UK including advertisers’ own marketing communications on their own websites and advertising on social networking sites.
- 3.20 The ASA administers and enforces the CAP Code<sup>50</sup> in relation to non-broadcast advertising and the BCAP Code<sup>51</sup> in relation to broadcast advertising. The CAP and BCAP Codes include specific provisions on infant formula and follow-on formula which reflect Regulation 2016/127. The ASA advises marketers to have regard to this regulation and other relevant food law when preparing marketing communications and adverts. The CAP and BCAP Codes state that marketing communications/adverts for infant formula are not permitted<sup>52</sup> and that marketing communications/adverts must not confuse consumers between infant formula and follow-on formula.<sup>53</sup> There are also provisions in each code restricting the use of health and nutrition claims. As such, whilst the ASA does not enforce Regulation 2016/127, its enforcement of the CAP and BCAP Codes still impacts how infant formula and follow-on formula products are marketed in the UK.
- 3.21 The ASA will review complaints it receives and, if there is merit to the complaint, may issue an informal advice notice to the marketer in the first instance. There may also be instances where the marketer admits a breach and agrees to take remedial action. If a marketer ignores an advice notice or does not take adequate remedial action the ASA may decide to formally investigate and adjudicate on the possible breach of the CAP Code or BCAP Code. In this case, the ASA publishes its ruling and, if it finds there is a breach of the CAP or BCAP Code, requires the marketer to remove its advert.

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<sup>49</sup> [The Food for Specific Groups \(Food for Special Medical Purposes for Infants, Infant Formula and Follow-on Formula\) \(Information and Compositional Requirements\) \(Amendment etc.\) \(England\) Regulations 2020, paragraph 4\(3\).](#)

<sup>50</sup> ASA (2014) – The UK Code of Non-broadcast Advertising and Direct & Promotional Marketing (CAP Code) [CAP Code, Edition 12](#).

<sup>51</sup> ASA (2010) – The UK Code of Broadcast Advertising (BCAP Code) [BCAP Code](#).

<sup>52</sup> ASA – CAP Code, Rule 15.10 [CAP Code](#) and ASA – BCAP Code, Rule 13.8 - [BCAP Code](#).

<sup>53</sup> ASA – CAP Code, Rule 15.10.1 [CAP Code](#) and ASA – BCAP Code, Rule 13.8.1 - [BCAP Code](#).

## Market structure and market participants

### Manufacturers

- 3.22 Manufacturers are the upstream suppliers of formula milk. There are both manufacturers that supply their own branded products (such as Danone with its Aptamil and Cow & Gate brands) and contract manufacturers that supply products sold in the UK.
- 3.23 The largest manufacturers<sup>54</sup> that supply within the UK, and the brands (and sub-brands) that they supply, are:
- (a) Danone: Aptamil (Aptamil and Aptamil Advanced) and Cow & Gate;
  - (b) Kendal Nutricare (Kendal):<sup>55</sup> Kendamil and Bonya;
  - (c) Nestle: SMA (SMA and SMA Advanced) and Little Steps;
  - (d) HiPP: HiPP Organic; and
  - (e) Contract manufacturers [✂].
- 3.24 Manufacturers distribute their products in the UK through several different channels. These include major grocery retailers, large discounters,<sup>56</sup> other grocery retailers, large pharmacy chains, independent pharmacies, online-only pharmacies, other online-only retailers, wholesalers, and NHS Trusts. Some manufacturers also sell direct-to-consumer through their websites.
- 3.25 At firm level, we are aware of five examples of entry in the supply of formula milks in the UK within the past ten years, of which three remain in the market currently (see more in Section 4 Market outcomes: Shares of supply and Section 7 Competition in the market: Barriers to entry and expansion).
- 3.26 At brand level, we are aware of a few examples in the past decade of existing manufacturers introducing new brands; for example, Nestle introduced both Little Steps and SMA Advanced in 2019,<sup>57</sup> and Kendal introduced Bonya in 2024. Manufacturers also sometimes re-formulate, re-brand, or offer new formats for

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<sup>54</sup> This market study has considered the supply of infant formula and follow-on formula in the UK. Several suppliers of infant formula and follow-on formula that we refer to in this final report are part of corporate groups. Some of their business activities and operations are performed outside of the UK. Our focus has been on operations, sales, production, decisions, transactions and/or other activities that are relevant to the UK market, irrespective of where these activities are performed.

<sup>55</sup> [✂].

<sup>56</sup> For the purposes of this report, this refers to Aldi, Iceland, and Lidl.

<sup>57</sup> SMA, [About Us | Who We Are As a Brand | SMA Baby](#), accessed 17/10/24.

certain product ranges within their portfolio;<sup>58</sup> and also sometimes cease supply of certain product ranges.<sup>59</sup>

## Retailers

- 3.27 Retailers include major grocery retailers, large discounters, other grocery retailers, large pharmacy chains, independent pharmacies, online-only pharmacies, and other online-only retailers. These retailers combined represent by far the largest sales channel for manufacturers, representing [80-90%] of manufacturers' aggregate revenues in 2023.<sup>60</sup>
- 3.28 We requested from thirteen of the largest retailers data for the infant formula and follow-on formula products they supply in the UK.<sup>61</sup> Of these, Asda, Boots, Morrisons, Sainsbury's, and Tesco are the five largest retailers of formula milks in the UK, accounting for a combined [60-70%] of manufacturers' total revenues for infant formula in 2023.<sup>62</sup>

## NHS supply

- 3.29 Supply to the NHS is another sales channel. Most NHS Trusts will stock some infant formula in case parents need it (often unexpectedly) after giving birth. Procurement for NHS Trusts occurs through the NHS Supply Chain framework in England and Wales; through the National Procurement and Logistics in Scotland; and through the Procurement and Logistics Service in Northern Ireland – see Section 7 Competition in the market: Barriers to entry and expansion for further detail on this.

## Other key stakeholders

### Healthcare practitioners

- 3.30 Healthcare practitioners are stakeholders in this market given their role in relation to infant feeding. For example, guidance for NHS England recommends that

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<sup>58</sup> For example, Danone launched Aptamil in the format of pre-measured tabs in 2021. [Danone launches UK's 1st formula milk in an innovative, pre-measured tab format, accessed 17/10/24](#). Nestle refreshed its packaging design on its entire formula range in 2018. [About Us | Who We Are As a Brand | SMA Baby, accessed 17/10/24](#).

<sup>59</sup> For example, Danone de-listed its Aptamil Organic infant formula range in 2023.

<sup>60</sup> Aggregate revenues of grocery retailers, discounters, pharmacies, and online-only retailers, comprising infant formula, follow-on formula, growing-up milks, and special milks.

<sup>61</sup> We requested data from the following thirteen retailers: Aldi, Amazon, Asda, Boots, Coop, Iceland, Lidl, Morrisons, Ocado, Sainsburys, Superdrug, Tesco, and Waitrose. Our analysis does not include independent groceries and pharmacies, or discounters and wholesalers (such as Costco).

<sup>62</sup> CMA analysis based on manufacturers' 2023 sales channels data. The same top five retailers are consistent across all product categories of formula milks.

parents speak to a midwife, health visitor or GP for advice or concerns regarding formula milk.<sup>63</sup>

3.31 Representative bodies of healthcare practitioners similarly have an interest in infant feeding. These groups include the Institute of Health Visiting, the Nursing and Midwifery Council, the Royal College of Midwives, the Royal College of Nursing, and the British Specialist Nutrition Association Ltd (BSNA).

### **NGOs/nutrition groups**

3.32 There is a range of wider groups with an interest in infant feeding. These include:

- Charities such as the British Pregnancy Advisory Service (BPAS), Feed, and First Steps Nutrition Trust (FSNT);
- Non-governmental organisations such as UNICEF and WHO; and
- Consumer groups, including Citizens Advice, Which? and parenting forums such as Mumsnet.

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<sup>63</sup> NHS England, [Types of formula](#), accessed 28/08/24.

## 4. Market outcomes

- 4.1 In this section we describe the outcomes we have observed in the market. We set out our analysis of:
- (a) Shares of supply of formula milk products;
  - (b) Retail pricing;
  - (c) Manufacturers' and retailers' variable gross margins; and
  - (d) How manufacturers seek to differentiate their products.

### Shares of supply

- 4.2 We have estimated shares of supply based on sales data requested from the largest manufacturers of infant formula (Danone, Nestle, HiPP, Kendal, and contract manufacturers [X]) for the period January 2019 through to November 2024.<sup>64</sup> The additional months of data we have added since our interim report now capture sales of Bonya (manufactured by Kendal) and Lidl's Lupilu (manufactured by a contract manufacturer [X]).
- 4.3 Our share of supply estimates for the infant formula product category are presented in Table 4.1 and Figure 4.1.

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<sup>64</sup> Our shares of supply estimates are based on 'product-specific revenue' data, which we requested from manufacturers. By 'product-specific revenue', we mean revenue entitled to be received in exchange for each unit of product (including any refunds, discounts, volume-based rebates, price concessions, credits, incentives or similar items, provided that they are directly attributable to the exchange of a particular unit of product). Throughout the rest of this report, where we refer to 'revenue', we mean 'product-specific revenue', unless otherwise specified. Please see Appendix E Margins methodology for more details of the types of transactions which are included and how we took into account representations from some of the manufacturers.



**Table 4.1: UK shares of supply, based on revenues, for infant formula**

Manufacturer	Brand	2019	2020	2021	2022	2023	2024 YTD
Danone	Aptamil	✂	✂	✂	✂	✂	✂
		[40-50%]	[40-50%]	[40-50%]	[40-50%]	[30-40%]	[30-40%]
	Cow & Gate	✂	✂	✂	✂	✂	✂
		[20-30%]	[20-30%]	[20-30%]	[20-30%]	[20-30%]	[20-30%]
	Total	✂	✂	✂	✂	✂	✂
		[70-80%]	[70-80%]	[60-70%]	[60-70%]	[60-70%]	[50-60%]
Kendal	Kendamil	✂	✂	✂	✂	✂	✂
		[0-5%]	[0-5%]	[0-5%]	[5-10%]	[10-20%]	[20-30%]
	Bonya	-	-	-	-	-	✂
							[0-5%]
Total	✂	✂	✂	✂	✂	✂	
		[0-5%]	[0-5%]	[0-5%]	[5-10%]	[10-20%]	[20-30%]
Nestle	SMA	✂	✂	✂	✂	✂	✂
		[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]
	Little Steps	✂	✂	✂	✂	✂	✂
		[0-5%]	[0-5%]	[0-5%]	[0-5%]	[0-5%]	[0-5%]
Total	✂	✂	✂	✂	✂	✂	
		[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]
HiPP	HiPP Organic	✂	✂	✂	✂	✂	✂
		[5-10%]	[5-10%]	[5-10%]	[5-10%]	[5-10%]	[0-5%]
Mamia contract manufacturer [✂]	Mamia (Aldi own-label)	✂	✂	✂	✂	✂	✂
		[0-5%]	[0-5%]	[0-5%]	[0-5%]	[0-5%]	[0-5%]
Lupilu contract manufacturer [✂]	Lupilu (Lidl own-label)	-	-	-	-	-	✂
							[0-5%]
Little Ones contract manufacturer [✂]	Little Ones (Sainsbury's own-label)	✂	✂	-	-	-	-
		[0-5%]	[0-5%]				
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CMA's calculations based on manufacturers' sales revenue data.

Data has been received for the first 11 months of 2024.

In our interim report we reported that HiPP Organic had a [5-10%] revenue share in 2024, however this was an error and in fact HiPP Organic had a [0-5%] share in the first 11 months of 2024.

**Figure 4.1: UK shares of supply, based on revenue, for infant formula**

[REDACTED]

*Source: CMA's calculations based on manufacturers' sales revenue data.  
Data has been received for the first 11 months of 2024.*

- 4.4 The infant formula product category is highly concentrated, with the top three manufacturers (Danone, Kendal, and Nestle) accounting for [90-100%] of the share of supply by revenue in the first 11 months of 2024.
- 4.5 Danone is the largest manufacturer of infant formula products, with a combined revenue share across its brands (Aptamil and Cow & Gate) of [50-60%] in the first 11 months of 2024, falling from [70-80%] in 2019. Aptamil's share of supply was [30-40%] in the first 11 months of 2024, making it the largest infant formula brand, followed by Cow & Gate with a share of [20-30%].
- 4.6 Kendal (with its Kendamil and Bonya brands) is now the second largest manufacturer by revenue share ([20-30%]) ahead of Nestle (with its SMA and Little Steps brands), which had a revenue share of [10-20%], in the first 11 months of 2024. HiPP was the fourth largest manufacturer, accounting for [0-5%] in the first 11 months of 2024.
- 4.7 Most manufacturers lost market share from 2019 to 2024. Kendal's Kendamil was the only brand that materially increased its presence, from less than [0-5%] in 2019 to [20-30%] in the first 11 months of 2024. Kendal overtook Nestle as the second largest manufacturer of infant formula products in 2023.
- 4.8 Own labels are scarcely present in this product category. The only established own-label is Aldi's Mamia, manufactured by [REDACTED], which accounted for [0-5%] of the revenue share of supply in the first 11 months of 2024. Lidl's own-label product, manufactured by [REDACTED], entered in August 2024 and accounted for [0-5%] of the revenue share of supply in the first 11 months of 2024. Sainsbury's Little Ones, which was manufactured by [REDACTED], was de-listed in 2020 and had a revenue share of [0-5%] in 2019.
- 4.9 We have also calculated shares of supply based upon sales revenue data for follow-on formula and this has shown similar results, as seen in Table 4.2 and Figure 4.2.

**Table 4.2: UK shares of supply, based on revenues, for follow-on formula**

Manufacturer	Brand	2019	2020	2021	2022	2023	2024 YTD
Danone	Aptamil	✂	✂	✂	✂	✂	✂
		[40-50%]	[40-50%]	[40-50%]	[40-50%]	[40-50%]	[40-50%]
	Cow & Gate	✂	✂	✂	✂	✂	✂
		[20-30%]	[20-30%]	[20-30%]	[20-30%]	[20-30%]	[20-30%]
Total	✂	✂	✂	✂	✂	✂	
		[70-80%]	[70-80%]	[70-80%]	[60-70%]	[60-70%]	[60-70%]
Kendal	Kendamil	✂	✂	✂	✂	✂	✂
		[0-5%]	[0-5%]	[0-5%]	[5-10%]	[10-20%]	[10-20%]
	Bonya	-	-	-	-	-	✂
							[0-5%]
Total	✂	✂	✂	✂	✂	✂	
		[0-5%]	[0-5%]	[0-5%]	[5-10%]	[10-20%]	[10-20%]
Nestle	SMA	✂	✂	✂	✂	✂	✂
		[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]
	Little Steps	✂	✂	✂	✂	✂	✂
		[0-5%]	[0-5%]	[0-5%]	[0-5%]	[0-5%]	[0-5%]
Total	✂	✂	✂	✂	✂	✂	
		[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]
HiPP	HiPP Organic	✂	✂	✂	✂	✂	✂
		[5-10%]	[5-10%]	[5-10%]	[5-10%]	[5-10%]	[5-10%]
Mamia contract manufacturer [✂]	Mamia (Aldi own-label)	✂	✂	✂	✂	-	-
		[0-5%]	[0-5%]	[0-5%]	[0-5%]		
Lupilu contract manufacturer [✂]	Lupilu (Lidl own-label)	-	-	-	-	-	✂
							[0-5%]
Little Ones contract manufacturer [✂]	Little Ones (Sainsbury's own-label)	✂	✂	-	-	-	-
		[0-5%]	[0-5%]				
	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CMA's calculations based on manufacturers' sales revenue data. Data has been received for the first 11 months of 2024.

**Figure 4.2: UK share of supply, based on revenue, for follow-on formula**

[✂]

Source: CMA's calculations based on manufacturers' sales revenue data. Data has been received for the first 11 months of 2024.

4.10 The follow-on formula product category is also highly concentrated, with Danone the largest manufacturer in terms of revenue, accounting for a share of [60-70%] in the first 11 months of 2024. The two largest brands are both Danone's, with

Aptamil and Cow & Gate having [40-50%] and [20-30%] share of supply, respectively, in the first 11 months of 2024.

- 4.11 Kendal (with Kendamil and Bonyta) is now the second largest manufacturer of follow-on formula by revenue share ([10-20%]) in the first 11 months of 2024, overtaking Nestle. Nestle, which is now the third largest manufacturer, had a [10-20%] share across its brands (SMA and Little Steps) in the first 11 months of 2024, followed by HiPP with a [5-10%] revenue share in the first 11 months of 2024. Aldi's Mamia follow-on formula product was discontinued in 2022, due to [X], previously having had a share of between [0-5%] in 2019 – 2022. Lidl's own-label product, manufactured by [X], entered in August 2024 and accounted for [0-5%] of the revenue share of supply in the first 11 months of 2024.
- 4.12 The supply of special milks (anti-reflux formula, comfort formula, and hungry baby formula) is more concentrated, due to the only very recent entry of Kendal into comfort formula and the absence of any own-label products across all special milks. Danone is the largest manufacturer, with a larger than 80% combined revenue share across its brands in anti-reflux formula and hungry baby formula and larger than 70% share in comfort formula through the period 2019 to the first 11 months of 2024. Danone's Aptamil brand was the largest brand for the anti-reflux formula and comfort formula product categories, followed by Cow & Gate. For hungry baby formula, Cow & Gate was the largest brand, followed by Aptamil. Nestle was the second largest manufacturer in each of these categories with a revenue share of around 10-20% in each, until 2024. Kendal entered the comfort formula product category in 2024 and in the first 11 months of 2024 had a revenue share of [10-20%], replacing Nestle as the second largest manufacturer in this product category. HiPP, the only other manufacturer active in these product categories, had a range of shares between [0-10%] across the special milk product categories. HiPP is no longer present in hungry baby formula.
- 4.13 Shares of supply in growing-up milk are broadly similar to those in infant formula and follow-on formula. The only difference was that in 2023, Nestle's SMA was the third largest brand with [10-20%] share, ahead of Kendamil's [10-20%] share of supply. However, in the first 11 months of 2024, Kendamil's share rose to [10-20%] and was ahead of SMA's [10-20%] revenue share of supply. There are no own-label growing-up milk products available.
- 4.14 Our shares of supply analysis, as noted earlier in this section, is largely consistent with third party market research data reviewed by the CMA.
- 4.15 The results from retailers' data for the shares by sales revenues of infant formula, follow-on formula, special milks, and growing-up milk are consistent with the results from manufacturers' data presented in Table 4.1. For further detail see Appendix C Shares of supply methodology and additional findings.

## Retail pricing

### Our approach to the analysis

- 4.16 The CMA analysed data from the five largest UK retailers of infant formula (Asda, Boots, Morrisons, Sainsbury's, and Tesco),<sup>65</sup> as well as three discounter retailers (Aldi, Lidl, and Iceland). The data included the monthly average selling price for each formula milk product stocked by each retailer, from January 2019 to November 2024.
- 4.17 We have focused most of our analysis on the best-selling product format: 800g powder tubs (or 900g for some brands).<sup>66</sup> These accounted for [70-80%] of manufacturers' aggregate revenues from infant formula in 2023.<sup>67</sup> We have also considered individual ready-to-feed bottles (200ml or 250ml), as these were the most purchased form of liquid infant formula, comprising [10-20%] of manufacturers' aggregate revenue from infant formula in 2023.<sup>68,69</sup>
- 4.18 We have focused on the following brands: Danone's Aptamil and Cow & Gate; Kendal's Kendamil and Bonya; Nestle's SMA and Little Steps; HiPP's HiPP Organic; and two own-label products in Aldi's Mamia and Lidl's Lupilu; examining separately also the sub-brands Aptamil Advanced, SMA Advanced, and Kendamil Organic as their pricing differs substantially from that of Aptamil, SMA, and Kendamil, respectively.<sup>70</sup> We have analysed prices across the five major retailers, but in most of our analysis below we show a single representative price for simplicity. In the charts and tables below, where a single price is shown, this is Tesco's price (or Aldi's price for Mamia, and Lidl's price for Lupilu), unless otherwise specified. Tesco is the largest UK groceries retailer. Furthermore, as we discuss further below, prices do not vary substantially between the five largest retailers.

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<sup>65</sup> The CMA identified the largest retailers of infant formula based on retailers' 2023 sales revenues.

<sup>66</sup> For each of the major brands of infant formula, the best-selling infant formula and follow-on formula products in 2023 (by revenue) were in the form of 800g or 900g powder tubs. Mamia sold 900g (rather than 800g) powder products in 2023. Kendamil sold both 800g and 900g powder products in 2023.

<sup>67</sup> CMA analysis based on manufacturers' 2023 sales revenues.

<sup>68</sup> CMA analysis based on manufacturers' 2023 sales revenues. HiPP and Kendamil sold 250ml ready-to-feed products rather than 200ml at times during the period 2019-2024. The price has not been pro-rated for these products, as ready-to-feed products are instructed to be used within 24hrs once opened (unlike powder products, which can be used for four weeks once opened), and are generally 'single-serving' products.

<sup>69</sup> For each of the major brands of infant formula which sold ready-to-feed products, the best-selling ready-to-feed infant formula and follow-on formula products in 2023 (by revenue) were in the form of 200ml or 250ml liquid bottles (or multipacks thereof).

<sup>70</sup> Mamia and Kendamil sold 900g (rather than 800g) powder products at times in the period from January 2019 to November 2024 - for these products, the price has been pro-rated to show the 800g-equivalent price.

## Our findings

### Products and range

- 4.19 All of the major retailers sold infant formula products from almost all of the major brands as of November 2024, though the exact range of brands and products available in individual stores differs somewhat, depending on their size and location.<sup>71,72</sup> The major brands are widely available in the major retailers' larger stores, usually in both powder and ready-to-feed format, while smaller stores generally only stock certain brands, and often do not have both formats available.
- 4.20 The range at discounter retailers (Aldi, Lidl, and Iceland) is substantially more limited compared to the major retailers, especially for ready-to-feed products. Aldi does not currently sell any infant formula or follow-on formula products other than its own-label 'Mamia' infant formula powder.<sup>73</sup>

### Price trends

- 4.21 Retail prices of infant formula products rose substantially in the period from 2019 to 2023 (see Figure 4.3). For products that were available throughout this period, prices of the major brands' 800g powder infant formula products rose by 29-59%, and prices of 200ml ready-to-feed infant formula products rose by 38-57%.<sup>74</sup> For context, the UK's overall consumer price index rose by 24% over this period, and overall food prices rose by 32%.<sup>75</sup> Aptamil, the market-leading brand, saw the price of 800g infant formula rise from £10.85 in March 2019, to £14.60 in December 2023, an increase of £3.75 or 35%. Similarly, the price of Aptamil's 200ml ready-to-feed rose from £0.85 to £1.34, a price increase of £0.49 or 58% (Figure 4.4).<sup>76</sup> In this period (2019 to 2023), there were no significant price decreases for any of the major brands' 800g powder or 200ml ready-to-feed

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<sup>71</sup> All the major retailers sold infant formula products from all the major brands, until November 2024 when Tesco de-listed Little Steps infant formula products. Bonya (launched by Kendal in November 2024) was only available at Tesco and Sainsbury's as of November 2024. As of January 2025, it is now also available at Boots.

<sup>72</sup> CMA analysis of a sample of retailers' product listings at different store sizes suggests Little Steps appears to be widely available in retailers' large stores (>1,400m<sup>2</sup>), but is generally unavailable in smaller stores.

<sup>73</sup> Aldi's Mamia follow-on formula product was de-listed in [REDACTED] 2022.

<sup>74</sup> CMA analysis comparing average selling prices in Tesco from March 2019 to December 2023.

Note that for the 800g infant formula product with the largest price increase (HiPP Organic), the price at Tesco was below recommended retail prices (RRP) in March 2019 ([REDACTED]); if this price had matched RRP, the top end of the range of price increases in 800g infant formula powder would have been lower.

When including 800g products which became available in major retailers between 2019 and 2023, namely SMA Advanced, Kendamil, and Kendamil Organic, the smallest price increase was for SMA Advanced (6%, available in Asda from October 2019). On the same basis for 200ml ready-to-feed infant formula products, the smallest price increase was for Little Steps (31%, available from June 2020), and the largest was for Kendamil (59%, available from March 2022). Lupilu and Bonya have not been included in this analysis as they were launched in 2024.

<sup>75</sup> CMA analysis based on data from the Office for National Statistics ([Consumer Price Index 00: All Items 2015=100 14 August 2024 \(Series ID: D7BT\)](#) and [Consumer Price Index 01.1: Food 2015=100 14 August 2024 \(Series ID: D7C8\)](#)).

<sup>76</sup> Monthly average selling price data from Tesco.

products, with one exception.<sup>77</sup> In addition, Mamia 900g powder saw two price decreases (in July 2019 and July 2020), each of less than £0.50.

- 4.22 In the period from 2019 to 2023 – during which time Kendamil’s market share was increasing significantly (as noted earlier in this section in Shares of supply) – we do not observe an obvious price response by incumbents.<sup>78</sup>
- 4.23 The most rapid increases in formula prices occurred from late 2021 to late 2023. Prices of 800g powder infant formula products rose by 18-36% across brands between December 2021 and December 2023.<sup>79,80</sup>
- 4.24 In late 2023 and early 2024, we have seen some instances of falling retail prices of infant formula.<sup>81</sup> The price of 800g powder infant formula fell in Tesco for Aptamil Advanced (by 5%), Aptamil (by 8%), SMA (by 6%), and Little Steps (by 19%),<sup>82</sup> while the price of Mamia at Aldi fell by 15% over several months from late 2023. There have been no significant price increases for any brand’s 800g or 200ml ready-to-feed infant formula since the start of 2024, except for three products at one retailer.<sup>83</sup> Despite the price decreases that occurred in late 2023 and early 2024, for most brands (with the exception of Little Steps and Mamia), prices as of November 2024 remain similar to, or above, their levels at the start of 2023.

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<sup>77</sup> The price of SMA Advanced fell in retailers between December 2019 and August 2020, by £2.50.

<sup>78</sup> This is our interpretation; however, it is not possible to definitively prove this, since it is possible that competitors’ prices would have risen even faster in the absence of Kendamil.

<sup>79</sup> Based on CMA analysis of the prices of 800g infant formula powder products (or pro-rated equivalent price for 900g products) for each of the major infant formula brands, in Tesco. We exclude SMA Advanced from this range, as its price varied more substantially between retailers at which it was sold in this time period; depending on the retailer, its price rose by between 13% and 20% from December 2021 to December 2023.

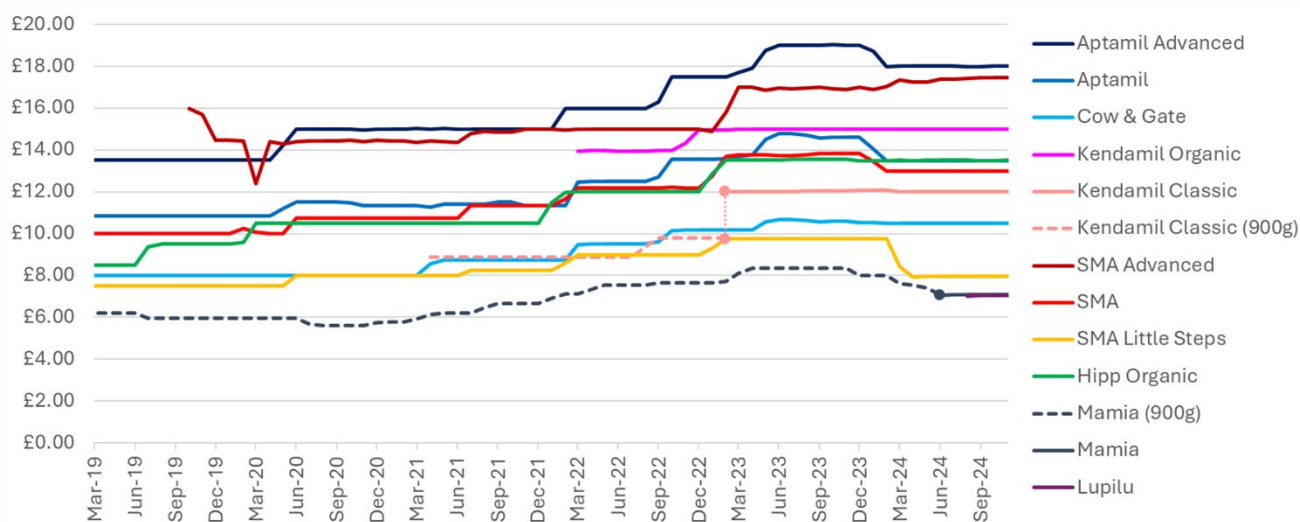
<sup>80</sup> This mirrors the period of the more general cost-of-living crisis. Over this period, the consumer price index rose by 15%, and food prices rose by 26%. CMA analysis based on data from Office of National Statistics ([Consumer Price Index 00: All Items 2015=100 14 August 2024 \(Series ID: D7BT\)](#) and [Consumer Price Index 01.1: Food 2015=100 14 August 2024 \(Series ID: D7C8\)](#)).

<sup>81</sup> Here we focus on price changes at Tesco as representative of the wider market. In Section 7 Competition in the market: Competition between retailers, we discuss in more detail instances of retailer-led price cuts in 2023 and 2024.

<sup>82</sup> Change in average prices of the major brands’ 800g infant formula products at Tesco, from November 2023 to May 2024. No further price decreases occurred for these products between May 2024 and November 2024. The price of SMA fell only at Tesco and Sainsbury’s, and the price of Little Steps fell only at Tesco, Asda and Morrisons. The prices of Aptamil Advanced and Aptamil fell at all of the major retailers.

<sup>83</sup> Between January 2024 and November 2024, at Asda, the price of SMA Advanced 800g infant formula increased by £0.56, and the price of Kendamil Organic 800g and SMA 800g infant formula increased by £0.24 and £0.23 respectively. In addition we note that, at Sainsbury’s, the price of Aptamil 200ml ready-to-feed infant formula increased by £0.06, and at Asda, the price of Aptamil 200ml and SMA 200ml ready-to-feed infant formula increased by £0.06 and £0.05 respectively.

**Figure 4.3: Monthly average retail selling price of 800g infant formula products, March 2019 to November 2024**

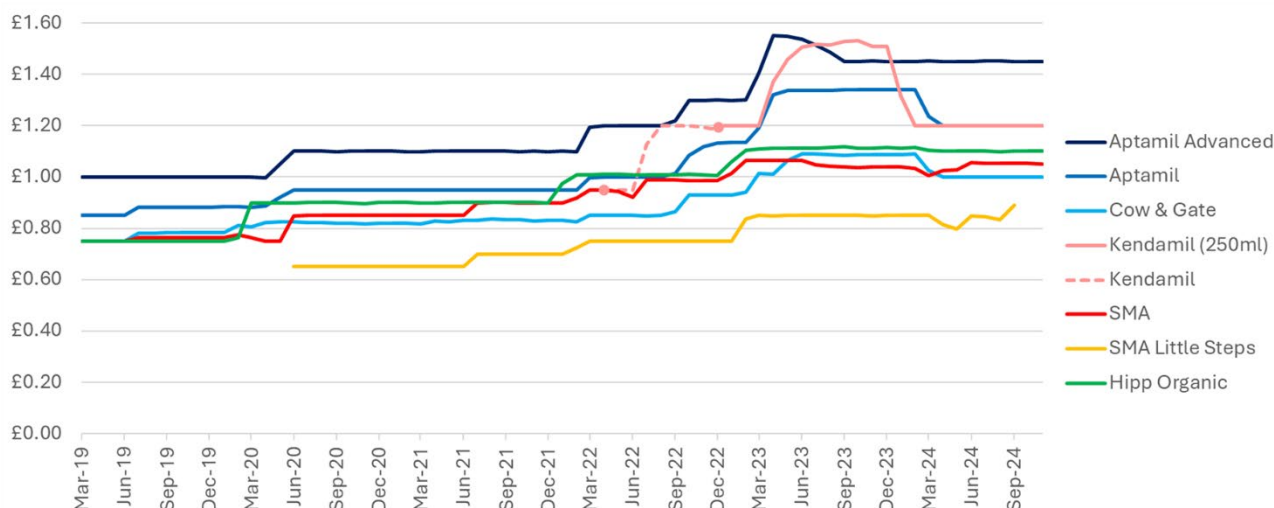


Source: CMA analysis based on retailers' monthly average selling price data.

Price shown is that at Tesco, except for own-label products Mamia and Lupilu where the price shown is that at Aldi and Lidl respectively, and SMA Advanced where the price shown is that at Asda (as SMA Advanced was not sold at Tesco across the period). For ease of comparison, the prices of 900g products have been pro-rated to 800g-equivalent prices.

Note that Kendamil Classic and Mamia infant formula resized from 900g to 800g in this period – the 900g product is shown (with a dotted line) until the 800g product enters the retailer.

**Figure 4.4: Monthly average retail price of 200ml ready-to-feed infant formula products, March 2019 to November 2024**



Source: CMA analysis based on retailers' monthly average selling price data.

Price shown is that at Tesco. The prices of 250ml ready-to-feed products have not been pro-rated.

Note that Kendamil Classic ready-to-feed infant formula resized from 200ml to 250ml in this period – the 200ml product is shown (with a dotted line) until the 250ml product enters Tesco.

4.25 Retail prices of follow-on formula have followed largely the same pattern as those of infant formula, albeit with more volatility arising from price promotions. The average selling price of all major brands' 800g/900g follow-on formula products rose between January 2019 and December 2023, and then fell in 2024 for several brands including Aptamil, Aptamil Advanced (except at Asda), Cow & Gate, and

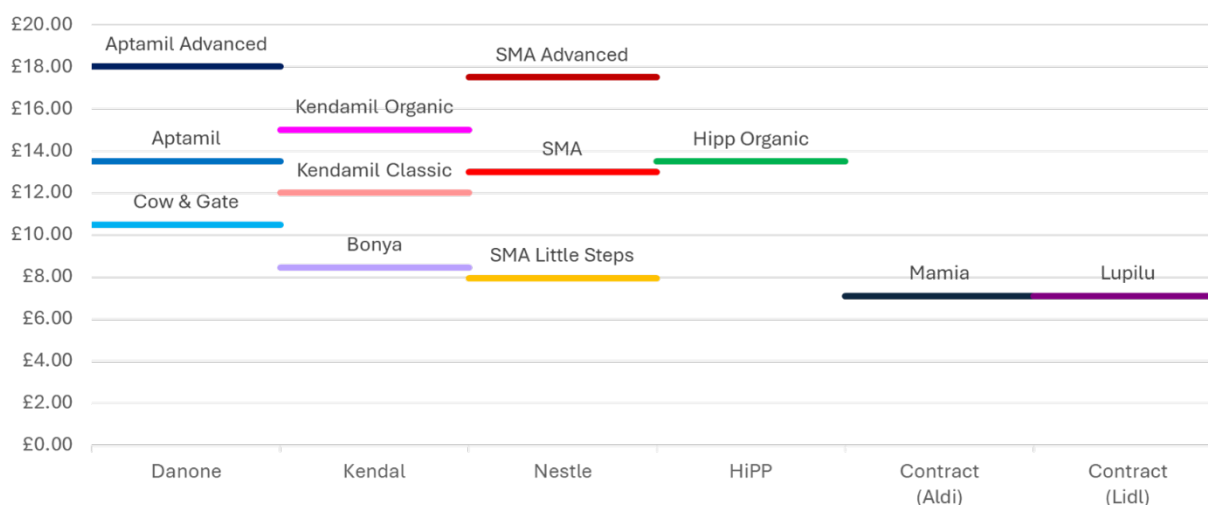


Little Steps (only in Tesco).<sup>84</sup> In 2024, the price of Cow & Gate 800g follow-on formula fell at several retailers, despite no price falls for the corresponding infant formula product. See further detail, including charts for follow-on formula pricing, in Appendix D Pricing analysis methodology and additional findings.

### Price position of brands

4.26 There is a consistent pattern of relative pricing among infant formula brands, which is generally the same across retailers. Based on pricing of 800g powder infant formula in November 2024, Aptamil Advanced (£18.00) is the most expensive major brand, followed by SMA Advanced (£17.45); Kendamil Organic (£15.00); Aptamil (£13.50); HiPP Organic (£13.50), SMA (£13.00); Kendamil (£12.00); Cow & Gate (£10.50); Bonya (£8.45); Little Steps (£7.95 – the least expensive branded product); and the least expensive products overall being the own-label products, Mamia (£7.09) and Lupilu (£7.09).<sup>85</sup>

**Figure 4.5: Price positions of 800g infant formula products, November 2024**



Source: Approximate average selling prices of 800g infant formula products in November 2024, at Tesco except for own-label products Mamia and Lupilu where the price shown is that at Aldi and Lidl respectively, and SMA Advanced where the price shown is that at Asda.

4.27 Aptamil (supplied by Danone), Kendamil (supplied by Kendal), and SMA (supplied by Nestle), each have sub-brands priced at a premium compared to the ‘standard’ products – Aptamil Advanced, Kendamil Organic, and SMA Advanced. In November 2024, at Tesco, Aptamil Advanced cost £18.00, while Aptamil cost £13.50, thus the premium was 33% (or £4.50); this premium has risen since 2019, when it was 24% (or £2.65). In November 2024, SMA Advanced cost £17.45 (at Asda), while SMA cost roughly £13.25 (at Asda), thus the premium was similar at

<sup>84</sup> This price fall came as Little Steps 800g follow-on formula was de-listed by Tesco, in February 2024.

<sup>85</sup> We note that relative pricing between brands may be slightly different if calculated on a price-per-feed basis, as manufacturers’ feeding guidance varies slightly between brands and products.

32% (or £4.20).<sup>86</sup> Kendamil Organic cost £15.00, while Kendamil 'Classic' cost £12.00, thus the premium was 25% (or £3.00). Additionally, Danone supplied Aptamil Advanced and Aptamil in 200ml ready-to-feed form; for these products, the premium fluctuated but remained around 15%, with a maximum of 21% (£0.25) in 2024.

- 4.28 As of November 2024, three of the major manufacturers also produce less expensive brands – Danone (Cow & Gate), Kendal (Bonya), and Nestle (Little Steps) – each of which is priced below their other brands of Aptamil, Kendamil, and SMA, respectively. In November 2024, Cow & Gate was £10.50, making it 22% (or £3.00) cheaper than Aptamil; this difference has reduced as a percentage of the Aptamil price since 2019, when Cow & Gate was 26% (or £2.85) cheaper. Little Steps was £7.95, making it 39% (or £5.05) cheaper than SMA; this difference has widened since 2019, when Little Steps was 25% (or £2.50) cheaper.<sup>87</sup> Upon its introduction in November 2024, Bonya was £8.45, making it 30% (or £3.55) cheaper than Kendamil.
- 4.29 The difference in prices between brands leads to substantial differences in the cost over a baby's first year of life, such that brand choice has a sizeable financial impact on parents. Buying the current market leader Aptamil's 800g tubs at the Tesco price (in November 2024) would cost around £700 for a baby exclusively formula-fed from birth to 12 months, based on the feeding guidance stated on the pack.<sup>88</sup> On an equivalent basis, Little Steps (one of the cheapest widely available 800g products) would cost around £400; therefore, choosing Little Steps over Aptamil – as an example – could save parents around £300 over the first year of their baby's life.<sup>89</sup> Choosing Little Steps instead of Aptamil Advanced, meanwhile, could save parents around £540.
- 4.30 Since 2020, some retailers have sold 1.2kg packs of Aptamil, Cow & Gate, and SMA infant formula.<sup>90</sup> These products were introduced at different times across retailers, and are not as widely available as the 800g tubs (only Cow & Gate is available in each of the major retailers, as of November 2024). Compared to the 800g products, these 1.2kg products were cheaper per gram by 16-24% across

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<sup>86</sup> SMA Advanced had a very small market share in this period and did not have widespread availability (it was listed only in Asda, Sainsbury's and Boots, as of November 2024). In addition, its price has varied more substantially over time compared to the other main brands and sub-brands; therefore its price premium over SMA has been more volatile over time than with other brands.

<sup>87</sup> Based on RRP's provided by Nestle, the recommended retail price difference between SMA and Little Steps was between [20-30%] throughout the period. From January 2024, several major retailers (including Tesco) reduced the price of Little Steps to around £7.95, hence resulting in a greater difference of 39% (£5.05) compared to SMA.

<sup>88</sup> Based on CMA calculations of the total volume of infant formula powder implied by the recommendations on the product packaging, assuming no formula is wasted. Prices based on average selling price at Tesco in November 2024.

<sup>89</sup> Tesco de-listed Little Steps in November 2024. From November 2024, the cheapest infant formula brand has been Bonya. Based on the equivalent comparison between Bonya and Aptamil, parents would also save around £300 over the first year of their baby's life.

<sup>90</sup> See further discussion of the 1.2kg products in Section 7 Competition in the market: Manufacturers' pricing strategies.

retailers. In 2024, the price of Aptamil and Cow & Gate 1.2kg infant formula products fell at several retailers.<sup>91,92</sup>

### Price variation across retailers

- 4.31 From 2019 to November 2024, the price of any particular infant formula product under a particular brand tended to be the same or similar across all the top five retailers; therefore, there would have been very little benefit in shopping around.<sup>93</sup> There was effectively no variation in price of Danone's brands between the major retailers. The other branded products – Kendamil Organic, Kendamil, Bonya, SMA, Little Steps, and HiPP Organic – were all priced the same across retailers for the majority of the period, though there was some variation in the timing of price changes.<sup>94</sup> (As of November 2024, Boots has not reduced the price of Little Steps as the other retailers did in early 2024). For charts of retail prices across retailers, see Appendix D Pricing analysis methodology and additional findings: Reference tables and additional findings.
- 4.32 Iceland currently sells some infant formula products at a lower price than the other major retailers. This comes after it reduced prices across its infant formula range in August 2023 by an average of 17% (9-34% across brands), and introduced two additional brands (SMA and Little Steps) at prices below those of the major retailers. This lower price for Little Steps was quickly matched by most other major retailers. Aldi and Lidl, as the other two major discount retailers, did not consistently sell branded infant formula products at a lower price than the major retailers during the period 2019 to 2024. By February 2024, Aldi had opted not to sell any branded infant formula other than its own-label product.<sup>95</sup>
- 4.33 For follow-on formula, there were more substantial differences in prices between retailers. Prices of these products generally have been more volatile, due to the presence of temporary price promotions. But there also appear to have been differences between retailers in the (non-promotional) base prices for many products.

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<sup>91</sup> For Aptamil, this price fall for the 1.2kg product was preceded by a fall in the price of Aptamil 800g at Asda and Tesco, such that the difference in price per gram between the two products remained roughly the same. At Morrisons, although the price of Aptamil 800g fell, there was no fall in price for the 1.2kg product, so the difference in price per gram became smaller.

<sup>92</sup> For Cow & Gate, there has not been a corresponding fall in the price of the 800g product (as of November 2024) at major retailers, so the difference in price per gram between the two products increased from 21% to 24%. Boots was already selling Cow & Gate 1.2kg at this lower price, so the difference in price per gram remained constant at 24%.

<sup>93</sup> We note that prices for some products may be more expensive at retailers other than the top five retailers of infant formula as presented here. In response to our interim report, The Food Foundation submitted that its analysis shows some significant price differences across retailers for the same brand's product. Specifically, it submitted data showing that the prices of Aptamil and Cow & Gate 800g infant formula products were higher at Co-op than in other retailers, in October 2024. [Kids Food Guarantee: First Infant Milk Formula Update October 2024 | Food Foundation](#) (accessed 06/01/2025). The Food Foundation's response to the CMA's invitation to comment, p3.

<sup>94</sup> We note that SMA Advanced had more substantial price variation across retailers, though this product had a very small market share and lacked widespread availability across the major retailers.

<sup>95</sup> However, Aldi did continue to sell the remaining stock it held of certain other brands, up to June 2024.

## Relative cost of follow-on formula and growing-up milk versus recommended alternatives

- 4.34 On average, follow-on formula products have been somewhat cheaper (by £0.36 for 800g over the first 11 months of 2024)<sup>96</sup> than their equivalent infant formula products (ie those from the same brand), largely due to the presence of price promotions on follow-on formula, which create temporarily lower prices.
- 4.35 Growing-up milk is intended only for infants older than 12 months, and hence is not a substitute for infant formula or follow-on formula. The NHS advises that 'When your baby is one year old, they can start to drink whole cows' milk or sheep's or goats' milk (as long as these milks are pasteurised).'<sup>97</sup> Growing-up milk is substantially more expensive than cow's milk. We have estimated that families could save approximately £140 to £330 (depending on the brand of growing-up milk) over the course of a year, by feeding their toddler cow's milk instead of growing-up milk.<sup>98,99</sup>

### Special milks

- 4.36 Special milks (comfort, anti-reflux, and hungry baby milks) are sold at each of the top five retailers, though not in every store. In the period from January 2019 to November 2024, special milks were produced under the Aptamil, Cow & Gate, SMA, and HiPP Organic brands, with Kendamil introducing a comfort formula in January 2024. There are no special milks sold under the Little Steps brand.
- 4.37 Special milks are typically priced in relation to other formula products of the same brand. Hungry milks are typically priced at the same level as the standard infant formula product. Comfort and anti-reflux products are typically priced together, at a premium above the standard product of 14-33% across brands.<sup>100</sup> As with other infant formula, there is not substantial variation in the price of any given special milk product between retailers.

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<sup>96</sup> Based on the average of monthly price differences per sale at Tesco. The average price difference at the other five largest retailers was £0.08 (Sainsbury's), £0.20 (Morrisons), £0.40 (Asda), and £1.43 (Boots).

<sup>97</sup> NHS, Types of formula, [Types of formula - NHS](#), accessed 23/07/24.

<sup>98</sup> CMA analysis comparing the cost of a year's supply of growing-up milk (of each brand available at Tesco) to that of Tesco's own-label whole cow's milk (4-pint bottle), based on Tesco's online prices as of 6 January 2025, excluding any promotions or Clubcard pricing. The calculation assumes a toddler being fed the amount of growing-up milk recommended per day on the packaging (which varies by brand, from 300-400ml), versus 350ml cow's milk per day (as recommended by the NHS ([What to feed young children - NHS \(www.nhs.uk\)](#), accessed 17/10/24).

<sup>99</sup> Additionally, comparing brands of organic growing-up milk (HiPP Organic and Kendamil Organic) to Tesco own-label organic cow's milk (4-pint bottle) on the same basis, families could save approximately £50 to £200 over the course of a year, based on Tesco's online prices as of 29 August 2024. We did not use prices from 6 January 2025 as the comparable organic milk products were out of stock on this date.

<sup>100</sup> Based on average selling prices at Tesco, between March 2024 and November 2024.

## Conclusions on retail pricing

- 4.38 There are large price differences across infant formula brands, which translate into substantial differences in the cost of formula-feeding a baby from birth to 12 months. Aldi's Mamia infant formula (and, more recently, Lidl's Lupilu since its launch in August 2024) have consistently remained the cheapest infant formula product (per 800g) on the market,<sup>101</sup> with the architecture of pricing across brands/sub-brands remaining fairly consistent over time.<sup>102</sup> Prices for any given infant formula product do not generally vary much across the five largest retailers or discount retailers (with the exception of Iceland since August 2023).
- 4.39 Prices for infant formula have risen across the period from 2019 to 2023, by 29-59% across brands for the best-selling product formats. In late 2023 and early 2024, we observed reductions in the retail prices of some branded products, while others have remained stable. Despite this, prices are still at or above their levels at the start of 2023 for all but the least expensive brands.
- 4.40 The least expensive brands of infant formula have not seen material growth in their shares of supply since 2019 (see Table 4.1), despite the substantial rise in formula prices across the board. Mamia, the sole own-label product available between 2020 and mid-August 2024, has not grown its share of supply of around [0-5%]. Little Steps, the least expensive brand across this period, has seen some growth since its launch in March 2019, but its share remains very small at around [0-5%]. Cow & Gate, the next cheapest brand available across this period, saw its share of supply fall from [30-40%] in 2019 to [20-30%] in the first 11 months of 2024. Two additional less expensive brands have been launched, namely Kendal's Bonya (launched November 2024) and Lidl's own-label Lupilu (launched August 2024) – however, it is too early to assess their impact on the market (as discussed further in Section 7 Competition in the market).

## Variable gross margins

### Our approach to the analysis

- 4.41 In this section, we present data on the evolution of manufacturers' and retailers' variable gross margins from the supply of infant and follow-on formula. We consider the implications of our margins analysis alongside other evidence as part of our overall assessment of competition in the market in Section 7 Competition in the market.

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<sup>101</sup> With the exception of the period April to November 2023, when Cow & Gate 1.2kg was available at selected retailers at a cheaper price per gram. Mamia has consistently been the cheapest available 800/900g product.

<sup>102</sup> There have been two products recently introduced in the least expensive 'value' tier, namely Kendal's Bonya (launched in November 2024) and Lidl's own-label Lupilu (launched in August 2024).

- 4.42 In Appendix E Margins methodology, we set out our methodology for calculating manufacturers' and retailers' variable gross margins. We use the term 'variable gross margin' to refer to the percentage of product-specific revenue<sup>103</sup> remaining after deduction of manufacturers' variable costs relating to the exchange of a particular unit of infant formula or follow-on formula,<sup>104</sup> unless stated otherwise.
- 4.43 Our most important consideration was to take a consistent approach across all manufacturers and to use data provided by them, noting that they likely have different business structures and accounting policies. To that end, we focused only on variable costs. For manufacturers, our analysis was focused on the following cost components:
- (a) Variable raw material costs;
  - (b) Variable labour costs; and
  - (c) Variable packaging costs.
- 4.44 Notwithstanding that we used a narrow definition of revenue and costs for our analysis, we note that there are limitations in the quality of the data. For example, one manufacturer told us that, instead of providing details of its variable labour costs, it could only provide a broader category of 'industrial costs'. Another manufacturer submitted that its monthly data could include accruals and subsequent reconciliations based on its actual sales volumes. We also heard that a degree of subjective judgement is sometimes used to allocate variable costs to specific products.
- 4.45 We have mitigated the potential impact of these limitations on our analysis by:
- (a) calculating variable gross margins on an annual basis; and
  - (b) placing less weight on comparisons between the level of manufacturers' variable gross margins than we have on how each manufacturer's variable gross margins have changed over time and their spreads.
- 4.46 We have used the data which manufacturers have provided in response to our information requests, notwithstanding any limitations. This means that, in the case of the manufacturer which only holds records of its labour costs in the normal course of its operations under a broader category of 'industrial costs', we have used that data for our calculations.

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<sup>103</sup> Product-specific revenue' means revenue entitled to be received in exchange for each unit of product (including any refunds, discounts, volume-based rebates, price concessions, credits, incentives or similar items, provided that they are directly attributable to the exchange of a particular unit of product).

<sup>104</sup> Variable costs are those that change directly with the sales volume; such as raw materials, direct labour, and packaging.

## Our findings

### Manufacturers' variable gross margins

4.47 We set out below our analysis of the following:

- (a) Comparison between infant formula and follow-on formula variable gross margins;
- (b) Trends over the period from January 2019 to November 2024;
- (c) Differences between manufacturers' variable gross margins; and
- (d) Comparisons with variable gross margins generated in other markets.

#### *Comparison between infant formula and follow-on formula variable gross margins*

4.48 Figure 4.6 below shows the aggregate variable gross margins for infant formula and follow-on formula weighted by revenue across the manufacturers' brands.<sup>105</sup>

4.49 We observe that manufacturers' variable gross margins arising from the supply of infant formula and follow-on formula, in aggregate and weighted by revenue, have largely moved in line with each other.

#### *Trends over the period from January 2019 to November 2024*

4.50 In our November 2023 groceries report, we said that:

- (a) 'Manufacturer price rises have been significant in recent years, and this has contributed to material increases in profit per unit for some manufacturers';
- (b) 'Current profitability as a share of revenue is either below or broadly in-line with historical levels';<sup>106</sup> and
- (c) 'Manufacturers have increased their unit prices for infant formula by a higher amount than their costs have increased, leading to increasing unit profitability (in £ per kg)'.<sup>107</sup>

4.51 In aggregate across all manufacturers, we calculate that absolute gross margins (revenues after deduction of manufacturers' cost of sales stated in pounds) arising

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<sup>105</sup> Aptamil, Aptamil Advanced, Cow & Gate, SMA, SMA Advanced, Little Steps, Kendamil, Bonya, HiPP Organic, Mamia, Lupilu and Little Ones.

<sup>106</sup> CMA (2023), [Price inflation and competition in food and grocery manufacturing and supply](#), Appendix A, paragraph A.5.

<sup>107</sup> CMA (2023), [Price inflation and competition in food and grocery manufacturing and supply](#), paragraph 5.42.

from the sale of infant formula and follow-on formula products have increased over the period we have analysed.

- 4.52 The data we have obtained shows that manufacturers, in aggregate and weighted by revenue, have largely passed on cost increases to their customers. Their variable gross margins (in aggregate and weighted by revenue) have broadly been stable in percentage terms over the period from January 2019 to November 2024 for both infant formula and follow-on formula (staying within a range of [0-5] percentage points).
- 4.53 We observe that manufacturers' variable gross margins from the supply of infant formula and follow-on formula have followed different trends over the period we have analysed:
- (a) [REDACTED].
  - (b) [REDACTED].
  - (c) [REDACTED].
  - (d) [REDACTED]<sup>108</sup> [REDACTED].
  - (e) [REDACTED].
- 4.54 [REDACTED].<sup>109</sup> [REDACTED].<sup>110</sup>
- 4.55 As noted earlier in this section, Kendal's share of supply has increased from [0-5%] in 2019 to [20-30%] in 2024 (January to November). However, we have not seen good evidence that other manufacturers have responded to Kendal's growth to date by taking actions (ie lowering prices relative to costs) that substantially reduce their variable gross margins; see Section 7 Competition in the market for further details.<sup>111</sup>
- 4.56 As shown in Figure 4.6 below, in aggregate across all of the manufacturers and weighted by revenue, variable gross margins from the supply of infant formula and follow-on formula have broadly been stable in percentage terms over the period we have analysed.
- 4.57 Using the methodology set out earlier in this subsection, we calculate that, on an in aggregate, weighted by revenue basis (that is to say, across all of the manufacturers) between January 2019 and November 2024:

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<sup>108</sup> [REDACTED]

<sup>109</sup> See shares of supply set out in Table 4.1 and Table 4.2 above.

<sup>110</sup> See shares of supply set out in Table 4.1 and Table 4.2 above.

<sup>111</sup> We consider that, in order to fully assess how manufacturers have responded to the growth in Kendal's share of supply based on gross profit margin data, we would need to make a comparison of their gross margins against a counterfactual which does not feature Kendal's growth.



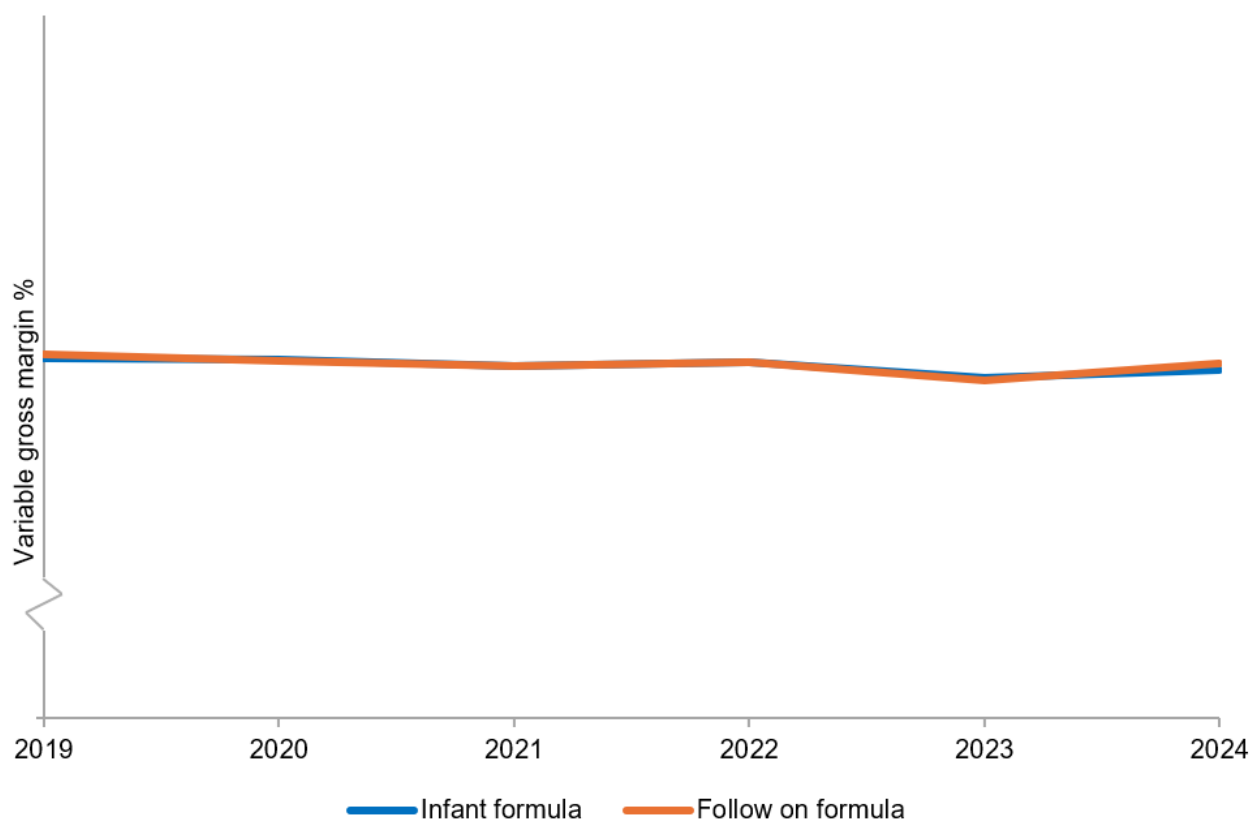
- (a) The level of manufacturers' variable gross margins was always within a 25 percentage point range (degree of accuracy) of 50% to 75%.
- (b) Within this 25 percentage point range, manufacturers' variable gross margins were broadly stable, staying within a range of [0-5%] percentage points (between around [X] and [X]), which indicates that they have largely passed on cost increases to their customers.

4.58 There was a small decrease of around [0-5%] percentage points in variable gross margins around 2023 driven by higher input costs. As noted earlier in this section, retail prices of infant formula products rose substantially in this period.

4.59 We observe that, while the variable gross margins (in aggregate and weighted by revenue) have broadly been stable, there has been a wide spread of variable gross margins generated by individual manufacturers over the period. That is to say, some manufacturers have generated variable gross margins lower than 50%.

4.60 Variable gross margins, in aggregate and weighted by revenue, returned to around [50-75%] in 2024 because of a combination of lower input costs and stable prices.

**Figure 4.6: Manufacturers' annual variable gross margins from January 2019 to November 2024 arising from the supply of infant formula and follow-on formula, in aggregate weighted by revenue (vertical axis values redacted, vertical axis size not to scale)**



Source: CMA's calculations based on manufacturers' variable revenue and variable cost of goods sold data (raw material costs, labour costs, and packaging costs).

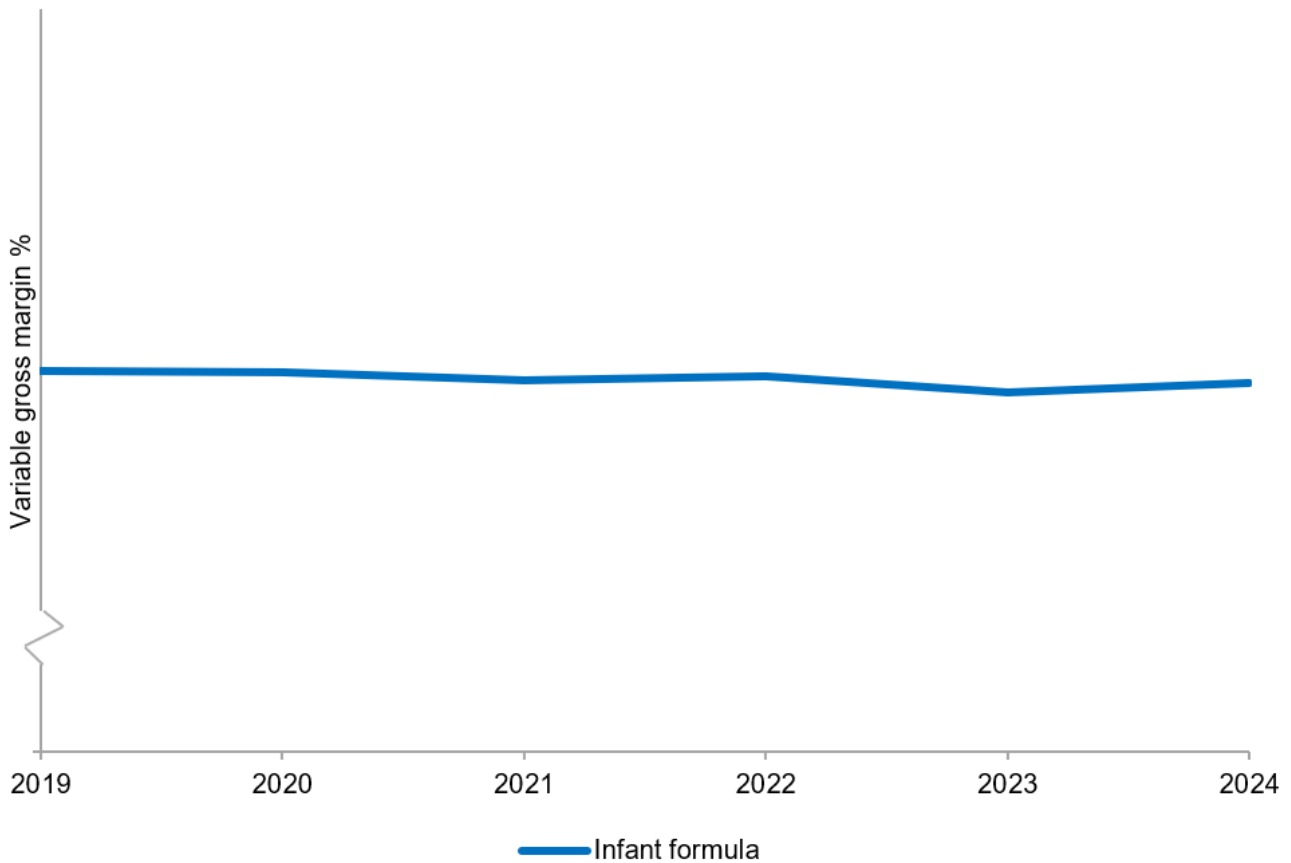
*Differences between manufacturers' variable gross margins*

4.61 There have been significant differences between the variable gross margins generated by:

- (a) different manufacturers; and
- (b) different brands.

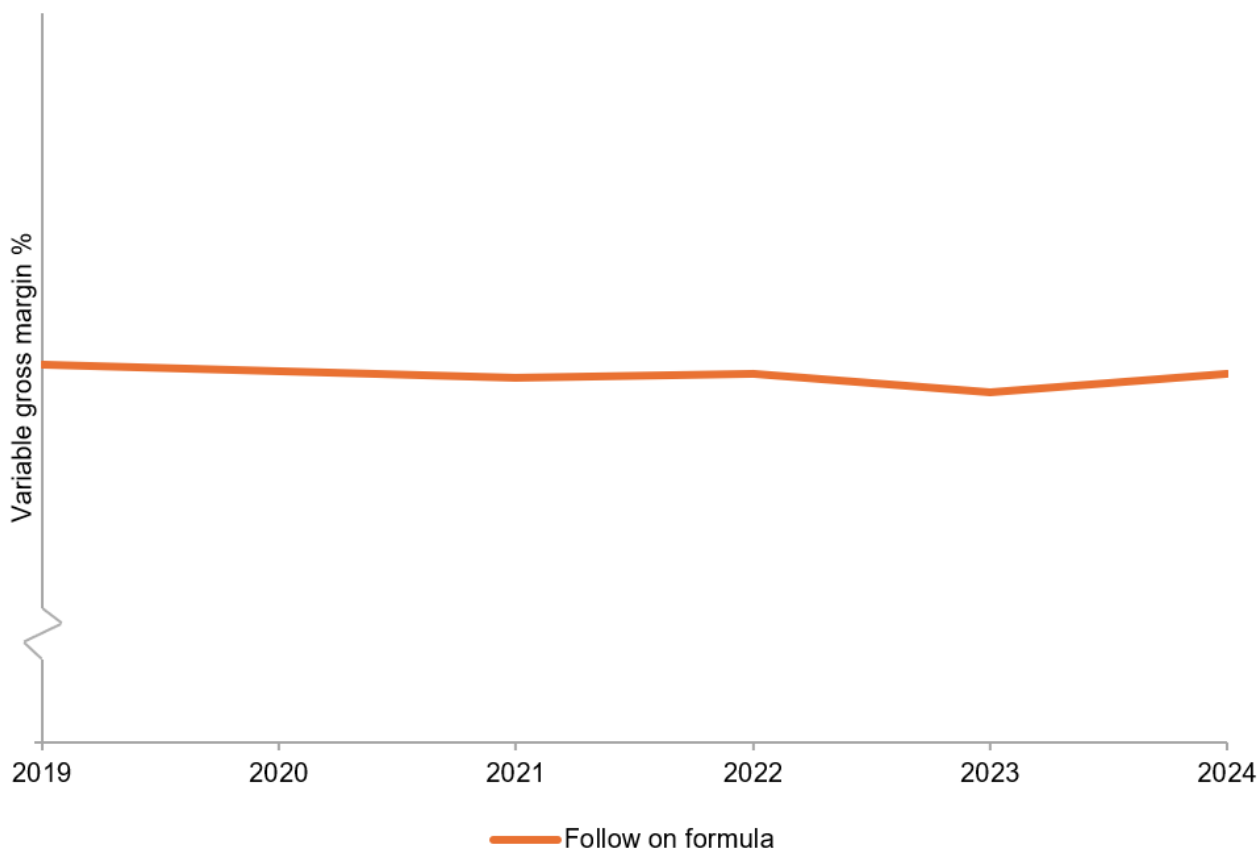
4.62 Figure 4.7 and Figure 4.8 below show the aggregate variable gross margins from the supply of infant formula and follow-on formula, respectively, weighted by revenue across the manufacturers' brands.

**Figure 4.7: Manufacturers' annual variable gross margins from January 2019 to November 2024 arising from the supply of infant formula, in aggregate weighted by revenue (vertical axis values redacted, vertical axis size not to scale)**



Source: CMA's calculations based on manufacturers' variable revenue and variable cost of goods sold data (variable raw material costs, variable labour costs, and variable packaging costs).

**Figure 4.8: Manufacturers' annual variable gross margins from January 2019 to November 2024 arising from the supply of follow-on formula, in aggregate weighted by revenue (vertical axis values redacted, vertical axis size not to scale)**



Source: CMA's calculations based on manufacturers' variable revenue and variable cost of goods sold data (variable raw material costs, variable labour costs, and variable packaging costs).

4.63 The differences between the variable gross margins from the supply of infant formula generated by different manufacturers and by different brands are partly explained by differences between their product prices, as described earlier in this section. In addition, based on the data we have obtained, there are differences in the cost of producing infant formula between products which share similar characteristics (eg the same container size and form).<sup>112</sup> We consider that there are two key reasons for these cost differences:

- (a) **Different raw materials:** Different brands appear to use different raw materials and/or different proportions of raw materials.<sup>113</sup> We have found that the variable gross margins arising from the supply of higher priced products can be lower than the variable gross margins arising from the supply of lower priced products because the former can have higher raw material costs.

<sup>112</sup> We note that some differences in the cost of raw materials may be due to differences between manufacturers' recognition of costs in their accounting systems. However, we observe that the differences are still present even where the higher priced and cheaper products are supplied by the same manufacturer and, therefore, where we would expect their accounting methodologies to be the same.

<sup>113</sup> Based on our analysis, we calculate that the cost of raw materials can differ quite significantly between brands.

- (b) **Outsourced production:** Most of the manufacturers we have analysed outsource at least some of their production to third party producers. The manufacturers' variable gross margins generated from the supply of outsourced products are typically lower, which we assume is attributable to the inclusion of the third party producers' fixed costs (overheads). [✂].

*Comparisons with variable gross margins generated in other markets*

- 4.64 In our November 2023 groceries report, we said that 'some suppliers have seen modest reductions in overall profitability in recent years, but as a share of revenue, margins of major suppliers of infant formula remain among the highest of all the product categories we have considered'.<sup>114</sup>
- 4.65 We have obtained more detailed financial information from manufacturers which is consistent with our initial view that their variable gross margins from the supply of infant formula and follow-on formula, in aggregate and weighted by revenue, have been among the highest of the grocery products we considered in our November report (for example, branded beans, mayonnaise, and lemonade).<sup>115</sup> However, we place limited weight on comparisons between gross margins generated by different manufacturers on different types of products as they are not directly comparable with infant formula or follow-on formula. We therefore did not seek further information on the variable gross margins generated from the supply of other types of products.

*Conclusions on manufacturers' variable gross margins*

- 4.66 It is our view that, over the period from January 2019 to November 2024:
- (a) Manufacturers' variable gross margins arising from the supply of infant formula and follow-on formula, in aggregate and weighted by revenue, have largely moved in line with each other.
  - (b) Manufacturers, in aggregate and weighted by revenue, have largely passed on cost increases and therefore maintained stable variable gross margins.<sup>116</sup>
  - (c) There have been significant differences between the levels of variable gross margins generated by different manufacturers and by different brands. The differences are partly explained by differences between their product prices. In addition, based on the data we have obtained, there are also differences in

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<sup>114</sup> CMA (2023), [Price inflation and competition in food and grocery manufacturing and supply](#), paragraph 5.42.

<sup>115</sup> CMA Autumn Update report: [Price inflation and competition in food and grocery manufacturing and supply](#), [Appendix A: Evidence and findings for individual product categories](#).

<sup>116</sup> In aggregate across all manufacturers, weighted by revenue.

the cost of producing infant formula between products which share similar characteristics (for example, the same container size and form).

- (d) While Kendal's share of supply has increased from [0-5%] in 2019 to [20-30%] in 2024 (January to November), we have not seen good evidence that other manufacturers have responded to its growth by taking actions (ie lowering prices relative to costs) that substantially reduced their variable gross margins.

### **Retailers' variable gross margins**

4.67 We set out below our analysis of the following:

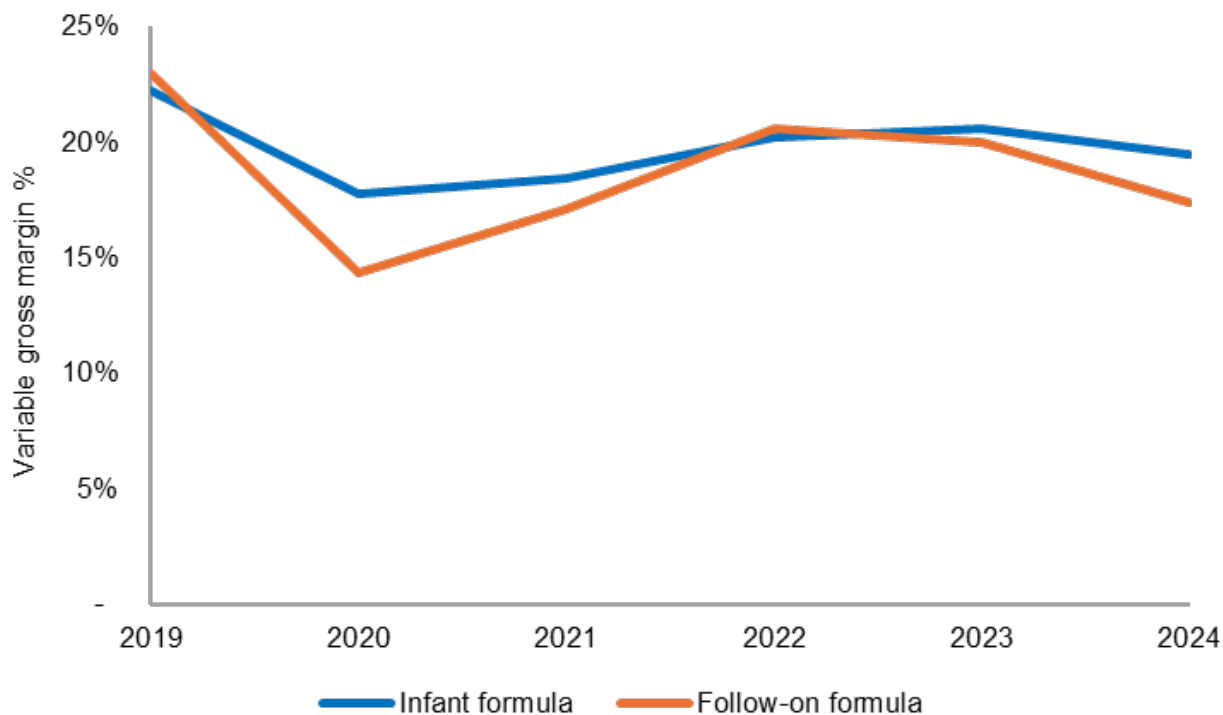
- (a) Comparison between infant formula and follow-on formula variable gross margins;
- (b) Trends over the period from January 2019 to November 2024;
- (c) Differences between retailers' variable gross margins; and
- (d) Comparisons with variable gross margins generated in other markets.

#### *Comparison between infant formula and follow-on formula variable gross margins*

4.68 We observe that retailers' variable gross margins, in aggregate and weighted by revenue, arising from the supply of infant formula and follow-on formula have been similar over the period we have analysed, albeit that there has been slightly more volatility (plus and minus around one to three percentage points) in variable gross margins from the supply of follow-on formula compared with infant formula. We note that this may be a result of regulations permitting advertising and promotion of follow-on formula but not infant formula.

4.69 Figure 4.9 below shows retailers' variable gross margins arising from the supply of infant formula and follow-on formula, in aggregate and weighted by revenue, from January 2019 to November 2024.

**Figure 4.9: Retailers' annual variable gross margins from January 2019 to November 2024 arising from the supply of infant formula and follow-on formula, in aggregate weighted by revenue.**



Source: CMA's calculations based on retailers' variable revenue and variable cost of finished goods sold data.

*Trends over the period from January 2019 to November 2024*

4.70 In aggregate across the [redacted] retailers, we calculate that their variable gross margins (weighted by revenue) arising from the sale of:

- (a) Infant formula has stayed within a relatively narrow range of around four percentage points over the period we have analysed (between around 18% and 22%); and
- (b) Follow-on formula has stayed within a slightly broader range of around nine percentage points over the period we have analysed (between around 14% and 23%).

4.71 This shows that, with regard to both infant formula and follow-on formula, retailers have largely passed on cost increases and maintained stable variable gross margins.

4.72 We observe that retailers' variable gross margins decreased slightly around 2020,<sup>117</sup> which coincided with the COVID-19 pandemic, and then returned to around their previous level.

*Differences between retailers' variable gross margins*

4.73 Figure 4.10 and Figure 4.11 below show retailers' variable gross margins from the supply of infant formula and follow-on formula respectively, in aggregate and weighted by revenue.

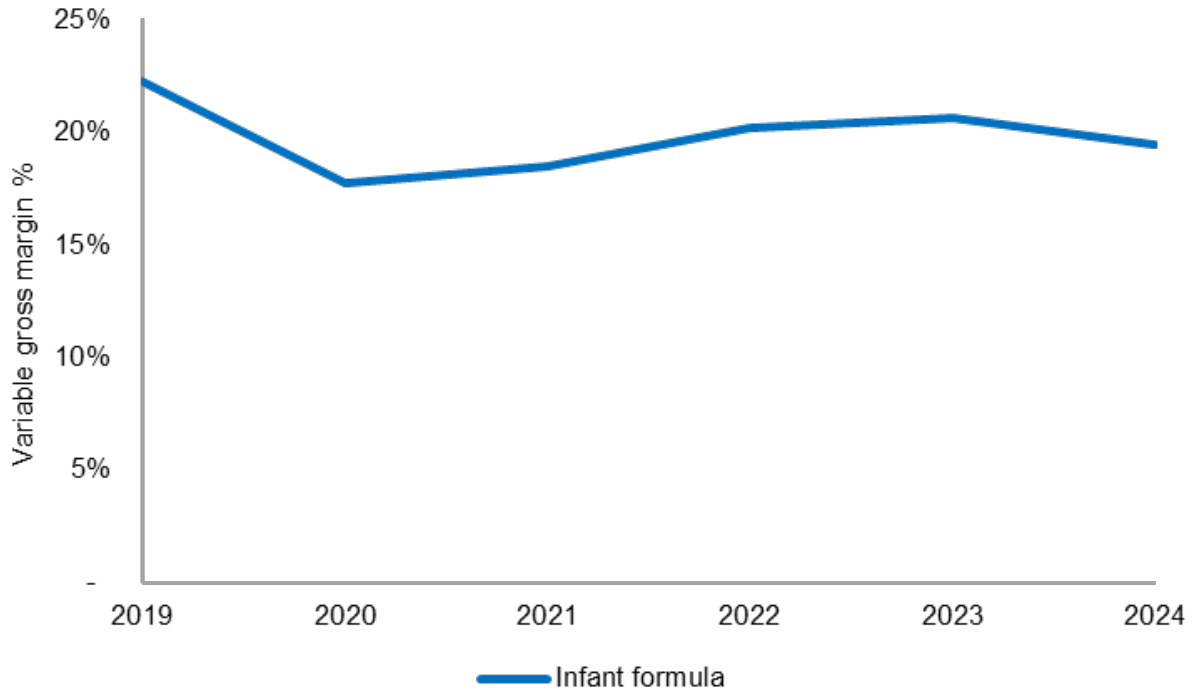
4.74 With regard to the supply of both infant formula and follow-on formula over the period from January 2019 to November 2024, we note that:

- (a) There has been a broad spread of variable gross margins generated by different retailers over the period. While several retailers have consistently generated margins around 20 percent or higher, others have generated much lower margins.
- (b) In aggregate, weighted by revenue, we note that retailers' variable gross margins have broadly been stable, which means that they have passed on cost increases and cost reductions to their customers.

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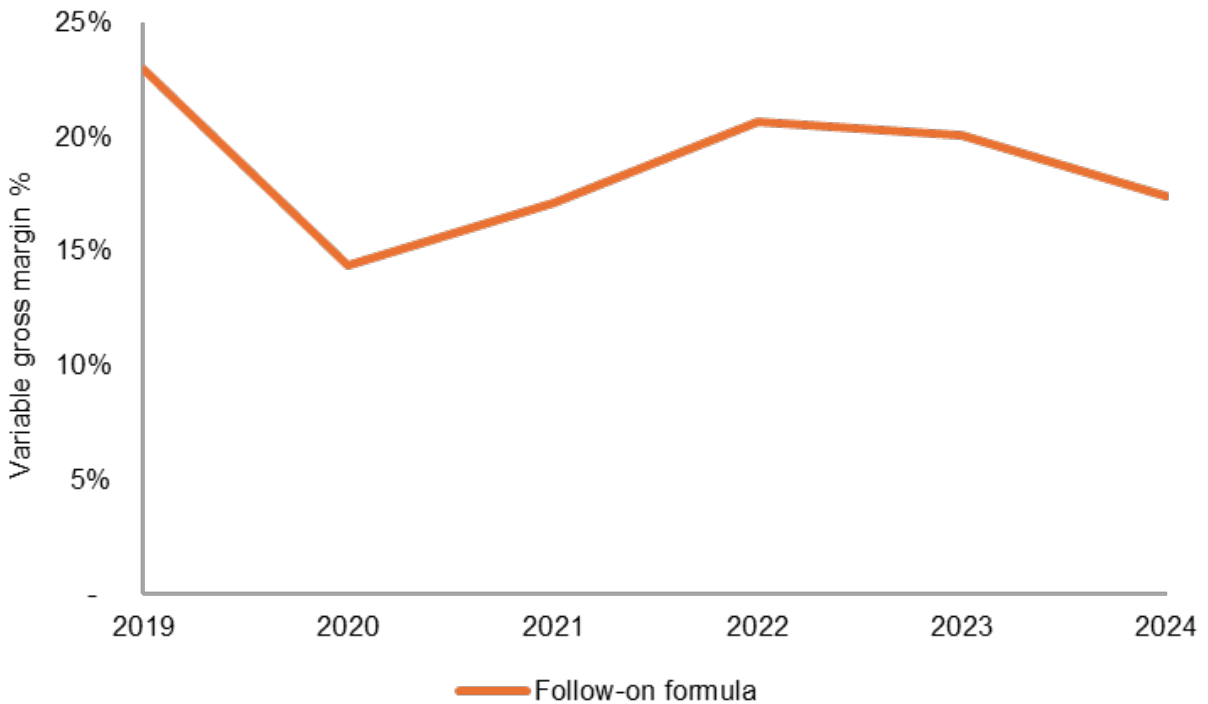
<sup>117</sup> Infant formula: decrease of around four percentage points. Following on formula: decrease of around nine percentage points.

**Figure 4.10: Retailers' annual variable gross margins from January 2019 to November 2024 arising from the supply of infant formula, in aggregate weighted by revenue.**



Source: CMA's calculations based on retailers' variable revenue and variable cost of goods data.

**Figure 4.11: Retailers' annual variable gross margins from January 2019 to November 2024 arising from the supply of follow-on formula, in aggregate weighted by revenue.**



Source: CMA's calculations based on retailers' variable revenue and variable cost of goods sold data.



- 4.75 We observe that the majority of retailers generated annual variable gross margins from the supply of infant formula and follow-on formula within a spread of between around 15% to 25% over the period (across multiple brands and product ranges).
- 4.76 It is our view that differences in the variable gross margins between retailers are largely driven by two factors:
- (a) **Different purchasing costs:** Differences between retailers' purchasing costs (against each other for the same infant formula products in the same time period). As noted earlier in this section, the retail price of any particular infant formula product has tended to be the same or similar across all of the top five retailers, so any differences in retailers' purchasing costs are typically reflected in differences in their variable gross margins.
  - (b) **Different product mixes:** Differences in the product mix between retailers. For example, parents shopping at one retailer will choose different brands and different forms (eg powder, liquid or tabs) compared to parents shopping at another retailer.

*Comparisons with variable gross margins generated in other markets*

- 4.77 We observe that retailers' variable gross margins levels from the supply of infant formula have tended to be at the lower end of their gross profit margin levels arising from their supply of other grocery products.<sup>118</sup>

*Conclusions on retailers' variable gross margins*

- 4.78 It is our view that, over the period from January 2019 to November 2024:
- (a) Retailers' annual variable gross margins, in aggregate and weighted by revenue, generated from their supply of infant formula and follow-on formula have been similar over the period we have analysed, albeit there is slightly more volatility in gross margins from the supply of follow-on formula compared with infant formula. We note that this may be a result of regulations permitting advertising and promotion of follow-on formula but not infant formula.
  - (b) Retailers, in aggregate and weighted by revenue, have largely passed on cost increases and therefore maintained stable annual variable gross margins.
  - (c) The majority of retailers generated annual variable gross margins from the supply of infant formula and follow-on formula within a spread of between

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<sup>118</sup> CMA's calculations based on retailers' variable revenue and variable cost of goods data.

around 15% to 25% over the period (across multiple brands and products sold).

- (d) Retailers' variable gross margin levels from the supply of infant formula and follow-on formula have tended to be at the lower end of their variable gross margin levels arising from their supply of other grocery products.

### **Conclusions on variable gross margins**

4.79 It is our view that, with regard to the supply of infant formula and follow-on formula:

- (a) Manufacturers' annual variable gross margins, in aggregate and weighted by revenue, arising from the supply of infant formula and follow-on formula have been around the same level in percentage points and have largely moved in line with each other.
- (b) Retailers' annual variable gross margins, in aggregate and weighted by revenue, arising from the supply of infant formula and follow-on formula have been similar over the period we have analysed, albeit there has been slightly more volatility in variable gross margins from the supply of follow-on formula compared with infant formula. We note that this may be a result of regulations permitting advertising and promotion of follow-on formula but not infant formula.
- (c) Manufacturers and retailers, in aggregate and weighted by revenue, have passed on cost increases and therefore maintained relatively stable margins.
- (d) While Kendal's share of supply has increased from [0-5%] in 2019 to [20-30%] in 2024 (January to November), we have not found good evidence that other manufacturers have responded to this growth by taking actions (ie lowering prices relative to costs) that reduced their variable gross margins.
- (e) There are significant differences between the variable gross margins from the supply of infant formula generated by different manufacturers and from different products supplied by the same manufacturer. This is partly explained by differences between their product prices and partly by differences in the cost of producing the products, even where they share similar characteristics (eg the same container size and form).
- (f) Retailers' annual variable gross margin levels from the supply of infant formula and follow-on formula have tended to be at the lower end of their gross margin levels arising from their supply of other grocery products.

## Product differentiation

- 4.80 Within the constraints of regulations, formula manufacturers seek to appeal to different consumers in various ways including through: the appearance of packaging; the messaging about their products (eg advertising and statements on labels); different formats (powder, ready-to-feed, and tabs); and offering multiple brands at different price points (eg, as described earlier in this section, Danone has Cow & Gate, Aptamil, and Aptamil Advanced; Nestle has Little Steps, SMA, and SMA Advanced; and Kendal has Bonya and Kendamil) and varieties (eg special milks and organic versions).
- 4.81 We explore the role and extent of product differentiation in this market further below.

## Government policy and legislation on nutritional composition

- 4.82 Government policy and legislation<sup>119</sup> seek to ensure that all infant formulas meet compositional standards (which includes minimum and maximum levels of essential nutrients). That means that all infant formulas provide all the nutrients a healthy baby needs for development and growth. Legislation also ensures that infant formula and follow-on formula contain only safe ingredients, so they do not endanger the health of babies.
- 4.83 The regulations may be updated where appropriate. For example, DHSC told us that over many years, the composition of infant formula has evolved due to advances in scientific evidence, with legislation on compositional standards updated to reflect this, which has led to better outcomes for infants. Following an assessment in 2014, in 2020 it became mandatory to include docosahexaenoic acid (DHA) in infant formula and follow-on formula. DHA is considered beneficial for babies' brain and eye development.<sup>120</sup> In the same assessment, the European Food Safety Authority considered various other nutrients but did not mandate their inclusion in all infant formulas. For example, for non-digestible oligosaccharides (ie FOS and GOS) it concluded that there was an 'absence of convincing evidence of any beneficial effects [...] on infant health'.<sup>121,122</sup>
- 4.84 The CMA considers that the legislation, therefore, has the effect of maintaining a certain level of homogeneity between infant formulas through the need to ensure that safety standards are met and the products contain all the nutrients a healthy

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<sup>119</sup> Detail on the regulatory and legislative framework relating to infant formula is set out in Section 3 Market overview.

<sup>120</sup> The European Food Safety Authority's (EFSA) assessment found that there was 'no necessity' to require manufacturers add a number of other things to infant formula or follow-on formula. For example it found that 'there is no necessity to add arachidonic acid, eicosapentaenoic acid, non-digestible oligosaccharides, "probiotics" or "synbiotics", chromium, fluoride, taurine and nucleotides to infant and follow-on formulae'. EFSA (2014), [Scientific Opinion on the essential composition of infant and follow-on formulae](#), p3.

<sup>121</sup> EFSA (2014), [Scientific Opinion on the essential composition of infant and follow-on formulae](#), p38.

<sup>122</sup> In response to our interim report, Danone submitted that [X]. Danone also submitted that [X].

baby needs for development and growth (and no harmful ingredients). It also allows for any new scientific developments which are assessed by the relevant committee<sup>123</sup> to be of benefit to babies to be included in all infant formulas.

4.85 However, it is also our view that the legislation does not lead to complete homogeneity of nutritional provision. Provided the compositional standards are met, it is possible for manufacturers to add other nutrients and ingredients that have been proven to be suitable (in terms of benefits and safety considerations) through a systemic review of the available data and, where necessary, appropriate studies.<sup>124</sup>

### **Manufacturers' approaches to product differentiation**

4.86 Manufacturers seek to differentiate their products in a range of ways, including:

- (a) Nutritional composition (eg the macro- and micro-nutrients within the formula);<sup>125</sup>
- (b) Ingredients and their quality or provenance (eg organic milk or no palm oil);
- (c) Other aspects of formula content or its production which parents value, perhaps because they align with beliefs and/or preferences (for example, being halal, kosher, or vegetarian); and
- (d) Features that are not about formula content, but instead about aspects such as packaging or ease of use (eg recyclable packaging, ready-to-feed, or tabs).

4.87 To some extent these categories overlap, for example, where parents value some features as both 'high-quality ingredients' and for their environmentally-friendly credentials. Further, manufacturers will often combine more than one point of difference into a given brand or product.

4.88 Manufacturers may signal trustworthiness and superiority in more subtle ways, including by connoting intangible and/or non-verifiable benefits through the use of words or phrases such as 'inspired by research' or 'advanced', or through their

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<sup>123</sup> Currently this is the Scientific Advisory Committee on Nutrition.

<sup>124</sup> [Commission Delegated Regulation \(EU\) 2016/127](#), Article 3 states that suitability 'shall be demonstrated by the food business operator through a systemic review of the available data relating to the expected benefits and to safety considerations as well as, where necessary, appropriate studies'. See also the introductory text of [Commission Delegated Regulation \(EU\) 2016/127](#), which states (at paragraph 6): 'In order to ensure innovation and product development, the voluntary addition to infant formula and follow-on formula of ingredients not covered by specific requirements of this Regulation should be possible. All ingredients used in the manufacture of infant formula and follow-on formula should be suitable for infants and their suitability should have been demonstrated, when necessary, by appropriate studies. It is the responsibility of food business operators to demonstrate such suitability and of national competent authorities to consider, on a case-by-case basis, whether this is the case'.

<sup>125</sup> As noted in Section 6 Impact of the regulatory framework and regime, 'health and nutrition' claims are not permitted on infant formula and we have found broad compliance with this requirement.

packaging design. We discuss use of such language in Section 6 Impact of the regulatory framework and regime: On-pack messaging.

- 4.89 Manufacturers told us that they invest significant sums in research and development (R&D), enabling them to develop differentiated products that deliver benefits for babies, and that future beneficial nutritional innovation is possible. For further detail on manufacturers' submissions and R&D spending, see Section 7 Competition in the market.
- 4.90 Some product differences are more easily interpreted and assessed by parents. For example, there is a well-established process for verifying organic provenance, and trial-and-error will quickly establish for a parent how easy a given product is to use. We would typically view competition on product differences such as these as beneficial for consumers.
- 4.91 For other differences, however, an accurate assessment of their benefit would be near-impossible for parents – for example, the nutritional benefit of a non-mandatory additive.
- 4.92 Section 5 Consumer behaviour: Drivers of brand choice explores parental decision-making, and the impact of product differentiation on brand and product choice, in depth.
- 4.93 In response to our interim report, most respondents who commented on product differentiation were of the view that there is a high level of nutritional similarity for infant formulas<sup>126</sup> and some submitted that parents are misled by manufacturers' claims and/or find them hard to interpret or verify.<sup>127</sup> The majority of these respondents have expertise in the area, including specialists in nutrition and healthcare, academics and a public health body. For example:
- (a) The Behavioural Science Workstream of the Healthy Weight Policy Research Unit submitted that although all formula brands include essential nutrients, they can differ in non-essential nutrients, which parents are not equipped to analyse and understand.<sup>128</sup>

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<sup>126</sup> Baby Milk Action, member of the International Baby Food Action Network (IBFAN)'s response to the CMA's interim report, p1. Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London's response to the CMA's interim report, p3. Scottish Infant Feeding Advisor Network (SIFAN)'s response to the CMA's interim report, p2. The Food Foundation's response to the CMA's interim report, p4. Committee of the Paediatric Specialist Group, the Association of UK Dietitians' response to the CMA's interim report, p4. Caroline King, retired Neonatal Dietitian, formerly at Imperial NHS Healthcare Trust London's response to the CMA's interim report, p1.

<sup>127</sup> Feed's response to the CMA's interim report, p2. Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London's response to the CMA's interim report, p3. First Steps Nutrition Trust compiled on behalf of Baby Feeding Law Group UK's response to the CMA's interim report, p6. SIFAN's response to the CMA's interim report, p2. Caroline King, retired Neonatal Dietitian, formerly at Imperial NHS Healthcare Trust London's response to the CMA's interim report, page 1. Public Health Wales's response to the CMA's interim report, p2.

<sup>128</sup> Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London's response to the CMA's interim report, p3.

- (b) First Steps Nutrition Trust submitted that manufacturers differentiate products for marketing purposes with features that do not genuinely provide a different quality. These differentiating features (for example relating to the source of ingredients or addition of non-mandatory ingredients) have no demonstrable health, safety, environmental or other advantages, but are used to achieve higher product prices.<sup>129</sup>
- (c) A retired neonatal dietician submitted that the nutrients guidelines in effect reduce differences between products to those components which are wrongly implied to be necessary or to other attributes such as appearance or cost.<sup>130</sup>
- (d) Public Health Wales submitted that current legislation does not lead to complete homogeneity between products and that manufacturers are then using these differences to 'exploit' parents via different methods.<sup>131</sup>
- (e) The Faculty of Public Health said that manufacturers use various strategies to differentiate formula products: appealing to environmental sustainability, non-mandatory ingredients, and mis-categorisation of the product (eg hungry baby formulas). These efforts to highlight characteristics that are non-verifiable, offer no additional nutritional benefits, or offer non-essential features, are 'designed to increase competition and price, putting additional pressures on families relying on these products'.
- (f) The Breastfeeding Network said that parents are misled by claims and branding into buying what they believe to be a superior, premium product. This is 'exploitative', as all infant formula is nutritionally equivalent by law, and additional ingredients are unnecessary and potentially harmful.<sup>132</sup>

4.94 On the other hand, some respondents (primarily manufacturers) indicated that there are important quality differences between infant formula products and/or the potential for future product innovations.<sup>133</sup> Specifically:

- (a) Nestle supported the messaging that all formula is nutritionally 'complete'. However, it also said that manufacturers have an important role in providing evidence-based factual information on any additional nutritional benefits. For

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<sup>129</sup> First Steps Nutrition Trust compiled on behalf of Baby Law Feeding Group UK's response to the CMA's interim report, p6.

<sup>130</sup> Caroline King, retired Neonatal Dietitian, formerly at Imperial NHS Healthcare Trust London's response to the CMA's interim report, p1.

<sup>131</sup> Public Health Wales's response to the CMA's interim report, p2.

<sup>132</sup> The Breastfeeding Network's response to the CMA's interim report, p2.

<sup>133</sup> Anonymous response to the CMA's interim report noted that the messaging 'all formulas are nutritionally the same' 'ignores differences between formula brands' which it said 'deliver product[s] [...] of differing quality levels'. (Anonymous response to the CMA's Interim Report). Nestle's response to the CMA's interim report, p4. Danone's response to the CMA's interim report, p10. HiPP's response to the CMA's interim report, p4. BSNA's response to the CMA's interim report, p2.

example, it said that the current regulations restrict it from referring directly to the inclusion of certain ingredients in its SMA Advanced range.<sup>134</sup>

- (b) Danone noted that legislation only imposes a minimum nutritional standard and does not restrict manufacturers from developing their product offerings to bring further nutritional improvements.<sup>135</sup> It also said that the CMA does not have the expertise to assess whether product differentiation is 'genuine' or achievable, nor whether further innovation on nutritional quality or other IF features is possible.<sup>136</sup>
- (c) HiPP argued that current legislation reduces incentives to innovate as it prevents some benefits being communicated to parents.<sup>137</sup>
- (d) The BSNA (the trade association representing infant formula manufacturers) submitted that not all infant formulas are the same and innovative product formulations and manufacturing processes have been developed using additional, non-mandated nutritional elements, following their proven safety and efficacy.<sup>138</sup>
- (e) The Neonatal Dietitians Group, British Dietetic Association submitted that formula companies' investment in research 'drives continual improvement of the composition of formula'.<sup>139</sup>

## Conclusions on product differentiation

4.95 Regarding Danone's submission about our ability to assess whether product differentiation is 'genuine' and the potential for further innovation, we acknowledge that certain aspects of product differentiation, especially regarding nutritional differences, are difficult for us and parents to assess. As such, we have considered the views of others, accounting for their areas of expertise and their incentives to put forward certain views. In particular, we note we have considered the findings of the most recent assessment by the relevant independent scientific committee<sup>140</sup> (which mandated the inclusion of DHA, but did not mandate the inclusion of any of the other nutrients it assessed) alongside the impact of the regulations on current and future product differentiation. In addition, we have carefully considered the submissions of manufacturers and other experts in the market.

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<sup>134</sup> Nestle's response to the CMA's interim report, p4.

<sup>135</sup> Danone's response to the CMA's interim report, p10.

<sup>136</sup> Danone's response to the CMA's interim report, p10.

<sup>137</sup> HiPP's response to the CMA's interim report, p4.

<sup>138</sup> BSNA's response to the CMA's interim report, p2.

<sup>139</sup> Neonatal Dietitians Group, British Dietetic Association's response to the CMA's interim report, p1.

<sup>140</sup> The European Food Safety Authority (EFSA).

4.96 Manufacturers seek to differentiate their products in various ways. Where these differences can be easily interpreted and assessed by parents, for example easy to use or organic products, we consider that these differences enable parents to make choices which reflect their preferences. However, in our view, the responses to our interim report, including from those with expertise on this topic, strongly indicate that the nutritional composition of these products does not currently vary in important ways. This is a result of government policy and legislation on nutritional composition which has the effect of limiting the extent to which formula products can vary. Manufacturers, who considered that there are or could be important differences between products, have strong commercial incentives to assert the merits of their products including, where permitted, their nutritional benefits. As such, and in the context of our findings on how parents behave, we consider that the strong emphasis placed by manufacturers on asserting the additional nutritional benefits of their products, conveyed via signalling, has a disproportionate influence on consumer choice, as discussed in the next sections.



## 5. Consumer behaviour

- 5.1 As noted in our interim report, to inform our market study we have analysed the impact of consumer behaviour in this market on the outcomes we have observed. To do this we conducted a literature review, held evidence-gathering meetings with relevant stakeholders, and requested any surveys undertaken or commissioned by manufacturers and retailers on consumer behaviour. We also commissioned a qualitative research study from Thinks Insight and Strategy (referred to as 'our consumer research') on experiences using infant formula and follow-on formula. When reporting on the findings of this research, 'consumers' relates to the participants of the research sample and should not be extrapolated to the broader population, though given the robust sample size it may be indicative of wider trends.
- 5.2 Appendix B The consumer journey outlines the evidence we reviewed to lead us to the findings on consumer behaviour set out below as well as our approach to ensuring our provisional conclusions based on this evidence are robust.
- 5.3 Where stakeholders commented on our findings on consumer behaviour in their responses to our interim report, this was almost universally to express agreement with our findings. We have carefully considered and responded below or in Appendix B The consumer journey where stakeholders provided additional relevant information, or, in one case, challenged the methodology underpinning our consumer research.

### Formula milk use

- 5.4 A large proportion of mums<sup>141</sup> plan to breastfeed their baby. One survey, Survey A,<sup>142</sup> found that, by the end of the third trimester of pregnancy, almost all mums (94%) had made a plan as to how they intended to feed at birth, and around two thirds said they planned exclusive breastfeeding. Our analysis of World Health Organisation survey data for the UK found that 84% of survey respondents planned during pregnancy to only breastfeed their baby following the first two weeks of birth, 10% to combination feed from birth and 5% to formula feed only.<sup>143</sup>
- 5.5 However, most parents use formula milk at some point. Official statistics indicate that within two months of birth more than two thirds of babies are given at least

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<sup>141</sup> Where 'mums' is used in place of 'consumers' this is because the research in evidence of the statements was based only on their experiences and did not also include dads or other carers.

<sup>142</sup> See Appendix B The consumer journey for more detail on Survey A, including on its methodology.

<sup>143</sup> CMA analysis of UK data: World Health Organization and the United Nations Children's Fund (UNICEF) (2022), [Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report](#).

some formula milk.<sup>144</sup> Survey A found that exclusive breastfeeding dropped off from 42% at birth, to 36% at 2-3 months, to 18% at 6-7 months and then to 17% at 10-11 months. This suggests that from the age of 7 months more than four in five babies are being given at least some formula, with the figures showing that around two thirds of these are exclusively fed on formula. Which? found that 75% of parents used formula milk in their child's first 12 months. Our analysis of World Health Organisation survey data for the UK found that formula use was far less likely to have been planned than exclusive breastfeeding, especially for those who were combination feeding or who introduced formula after starting with breastmilk. Of those not feeding as planned, 87% said they had fed formula more, longer or earlier than planned.<sup>145</sup>

- 5.6 In terms of the stage of product used, approximately half of mums are using infant formula milk in the first 6 months. This then drops as follow-on milk begins to be introduced, though approximately one quarter of mums use infant formula milk in the 7-12 months period. This is in line with NHS advice that 'research shows that switching to follow-on formula at 6 months has no benefits for your baby. Your baby can continue to have first infant formula as their main drink until they are 1 year old.'<sup>146</sup> However, a higher proportion of mums (39%) do use follow-on formula when the baby is aged between 7 and 12 months. Following 12 months, approximately 1 in 5 mums are using toddler / growing-up milk.
- 5.7 Greater use of infant formula (as opposed to breastfeeding) has been found in the UK among younger mothers (below age 30); those living in more deprived areas; and those who finished education earlier.<sup>147</sup> Higher rates of breastfeeding and lower use of infant formula have been found among minority ethnic groups.<sup>148</sup>
- 5.8 There was an even split between mums determining which brand of formula milk to use pre- and post-birth. Around half of mums who had decided which brand of formula to use made their choice before birth, with one in five making that choice even before pregnancy. A quarter made their brand choice at birth (which we know usually takes place in a healthcare setting<sup>149</sup>) and just over a quarter during their baby's first year.

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<sup>144</sup> Office for Health Improvement and Disparities (2023), experimental data, [Breastfeeding at 6 to 8 weeks after birth, Apr 22 to Mar 23](#); Public Health Scotland (2023), [Infant feeding statistics Financial year 2022 to 2023](#); and HSC Public Health Agency (2024) [Health Intelligence Briefing](#). Data is for England, Scotland and Northern Ireland.

<sup>145</sup> CMA analysis of UK data: World Health Organization and the United Nations Children's Fund (UNICEF) (2022), [Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report](#).

<sup>146</sup> NHS, Types of formula, [Types of formula milk - NHS \(www.nhs.uk\)](#), accessed 17/09/24

<sup>147</sup> Official Statistics, [Infant Feeding Survey 2010](#)

<sup>148</sup> Official Statistics, [Infant Feeding Survey 2010](#)

<sup>149</sup> Statista, [Number of live births in England and Wales from 2010 to 2022, by place of delivery](#), accessed 23/10/24

## Brand loyalty and switching

- 5.9 It is well-established in consumer research that once parents have chosen a brand of formula, they rarely switch unless they experience health or feeding issues. Almost four in five stay loyal to their brand of first choice. Further, most parents do not switch brands if they move through the stages to follow-on formula and toddler milk. For example, one survey, Survey C<sup>150</sup> found that across three brands (SMA, Aptamil, and Cow & Gate), around one in five consumers who went on to use follow-on formula, switched to a different brand from that used for infant formula.
- 5.10 Limited switching was echoed in responses to our invitation to comment. For example, First Steps Nutrition Trust<sup>151</sup> told us that ‘brand loyalty is high’<sup>152</sup> and Danone that ‘parents and caregivers do not often switch’.<sup>153</sup> While not commenting on switching rates, Nestle stated that their ‘research shows that the most commonly stated factor for switching infant formula is baby not getting on well with formula/ experiencing stomach issues’.<sup>154</sup>
- 5.11 Similarly, our consumer research found that most parents have internalised the belief that switching is ‘bad for their infant’ so they are very unlikely to switch unless they need to for health reasons. It also found that as a baby gets older and feeding is well-established, brand loyalty tends to become more entrenched. It also found that most parents continue to use the same brand with subsequent children.<sup>155</sup>
- 5.12 We note that parents’ loyalty to a particular brand means that they typically continue to buy that brand, regardless of increases to the price of the brand.

## Drivers of brand choice

- 5.13 The evidence we reviewed shows that personal recommendations are the main factor driving parents’ choice of infant formula brand. Other important drivers of choice were availability and visibility in-store, online presence, and visibility in hospitals. Here we discuss these decision-making factors, along with the role of price and brand awareness and reputation.
- 5.14 Before turning to these factors, we note that decision-making in this market can be challenging, given parents are purchasing a product which is exclusively for the

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<sup>150</sup> See Appendix B The consumer journey for more detail on Survey A, including on its methodology.

<sup>151</sup> The Baby Feeding Law Group UK was founded by Baby Milk Action in 1997 and has been working for over 25 years to strengthen UK baby feeding laws in line with UN recommendations.

<sup>152</sup> First Steps Nutrition Trust compiled on behalf of Baby Feeding Law Group UK’s response to the CMA’s invitation to comment, p10

<sup>153</sup> Danone’s response to the CMA’s invitation to comment, p3

<sup>154</sup> Nestle’s response to the CMA’s invitation to comment, p5

<sup>155</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp6-9, 46

use of someone else who cannot verbalise their feelings about the product and whose non-verbal signals can be difficult to interpret.

### **Personal recommendations**

- 5.15 The evidence we have reviewed shows that recommendations, from family, friends, or healthcare professionals, are the key factor driving brand decisions on infant and follow-on formula. Their importance exceeds all other factors. For example, Survey A found that recommendations from family or friends were the most common 'main influence' on choice at all times of decision and were particularly important for those choosing before or during pregnancy and for first-time mums.
- 5.16 Around one in five of all mums using formula cited healthcare professional recommendations as a 'main influence' on brand choice. These recommendations were particularly important when making a brand choice at birth, cited by 42% of mums. While we understand that the NHS does not endorse any brand of formula, it is likely that simply seeing a brand in hospital creates a perceived recommendation.
- 5.17 Recommendations are inherently linked to brand awareness and reputation. Our consumer research found that, 'personal recommendations and brand reputation are the key driving factors in brand choice. Consumers want to hear from others who have used a specific brand and reported positive experiences of this, and a brand that is therefore familiar due to being used by family and friends previously is reassuring.'<sup>156</sup> <sup>157</sup>

### **Other factors driving brand choice**

- 5.18 The following factors were all highlighted in the evidence we reviewed as significant drivers of parents' brand choice, but were all less important than personal recommendations:
- **Availability and visibility in store:** Many parents browse the baby aisles ahead of the birth of their baby and start to think about products. It is also important to parents that their chosen brand will be available in their local shop. For those making a snap decision, availability is the key factor.<sup>158</sup>

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<sup>156</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p5.

<sup>157</sup> These findings are based on qualitative methodology and are therefore based on the strength of feeling of interview participants

<sup>158</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp33, 42.

- **Online presence:** Many parents search for information about formula milk online, with product reviews and parents' blogs being particularly important sources of information.
- **Visibility in hospitals:** For some parents (usually those who begin using formula in hospital at birth because of unexpected difficulties breastfeeding), brand visibility in hospitals is a significant driver of decision-making.
  - For example, Which? found that 'what was available in hospital' was cited by 14% of survey respondents as a top three reason for choosing a particular brand of formula milk. In addition, our analysis of World Health Organisation survey data for the UK found that 22% of respondents said that a reason for their infant formula brand choice was that they were 'given this brand in hospital/ health clinic'.<sup>159</sup>
  - NHS Trusts typically purchase one or more of Aptamil, Cow & Gate, and SMA, so parents are most likely to see one or more of these brands in hospital.<sup>160</sup> Consistent with this, the Royal College of Midwives told us that the brands available on wards are generally one or two of Aptamil, SMA, and Cow & Gate. The Royal College of Midwives noted that the availability of brands on wards may 'confer some sense of recommendation' by midwives that these are superior milks, which parents would typically want to continue with.

### **Brand reputation is a consistent theme in all these drivers of choice**

5.19 Brand awareness and reputation play an important role when parents are deciding which brand of formula milk to purchase. For example, a survey for Which? showed almost two thirds (61%) of respondents citing 'trusted brand name' as a top reason for choosing a particular brand of formula milk. In relation to three brands (SMA, Cow & Gate, and Kendamil), one survey, Survey D<sup>161</sup> found that 'I don't know much about this brand' was the top barrier to consideration for each of these brands. This was also a significant reason cited by one in five respondents in relation to another brand (Aptamil), trumped only by 'this brand is too expensive'. Similarly, our consumer research found that brand reputation was one of two 'key driving factors in brand choice' (alongside personal recommendations).<sup>162</sup>

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<sup>159</sup> CMA analysis of UK data: World Health Organization and the United Nations Children's Fund (UNICEF) (2022), [Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report](#).

<sup>160</sup> See sub-section 'The availability of information to support an informed brand choice' later in this section.

<sup>161</sup> See Appendix B The consumer journey for more detail on Survey D, including on its methodology.

<sup>162</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p5.

- 5.20 Further, it is notable that it is brand reputation that is cited by parents as a key driver of their decision-making, rather than concrete attributes of the product. For example, parents cite that brand desire is driven by factors such as ‘closeness;’ ‘trust;’ and ‘reflects my values’.
- 5.21 All the drivers of brand choice, that is recommendations, visibility in-store, online presence and visibility in hospitals, are points at which brand awareness and reputation can factor into parents’ decision-making. Equally, these are points at which manufacturers can seek to build brand awareness and reputation amongst parents. For example, when a personal recommendation is given, a perspective on a brand’s reputation is being shared, which in turn helps inform someone else’s view of a brand.
- 5.22 Parents can also form perceptions of brands when they are going about their daily lives before they are actively in the market (known as the ‘priming stage’). There is evidence of a strong priming stage in this market, with one survey showing only 7% of parents buying infant milk with no priming bias towards a particular brand.
- 5.23 Danone expressed concern in its response to our interim report that we had ‘underestimated’ the value of product safety as a ‘key dimension of consumer demand’.<sup>163</sup> <sup>164</sup> Product safety naturally underpins consumer demand as no parent would want to use a product that was unsafe for their baby. However, it was not cited as a driver of brand choice in any of the consumer surveys we reviewed, nor did it appear as a front of mind consideration for parents in our own consumer research. As discussed in Appendix B The consumer journey, our consumer research found that parents felt that all brands on sale in the UK must meet a certain base of nutrition and quality standards. Beyond these perceived basic essentials, factors such as the quality of ingredients, the presence or absence of additives, or the inclusion of certain beneficial vitamins or minerals were what they felt set their preferred brand apart from others. Additionally, during our consumer research parents did not pro-actively raise safety as a reason for brand trust. Rather, brand familiarity and the previous experience of friends and family were the key components of trust in a brand.<sup>165</sup>

### **The role of price in decision-making**

- 5.24 The evidence we have reviewed clearly shows that doing what is best for their baby is the overriding motivator for parents, both in their decisions between breast milk and formula and in their brand choice once they have decided to use formula.

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<sup>163</sup> Danone’s response to the CMA’s interim report, p12.

<sup>164</sup> Danone also stated in their response that ‘the nature of IF means that many consumers place a very high value on innovation, safety and trust when choosing an IF product, given that they “[u]nderstandably...want to do the best for their babies” Danone’s response to the CMA’s interim report, p9.

<sup>165</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp23, 34.

- 5.25 Often, parents use price as a proxy for quality and so would actively choose higher-priced products. For example, Survey A found that three quarters of mums agreed with the statement, 'My child must have the best I can afford.' First-time parents and those feeling guilty about formula use are particularly likely to choose premium products.<sup>166</sup>
- 5.26 However, for some parents 'lower price' was a key factor in choosing an infant formula brand. Which? found that 21% of survey respondents cited 'low price' as a top three reason for choosing a particular brand of formula. However, even when parents are looking for a cheaper product, there is evidence that they are still focused on doing what is best for their baby and tend to prefer a trusted brand. Our consumer research found widespread scepticism of own-label products in this market.<sup>167</sup>

### **The availability of information to support an informed brand choice**

- 5.27 Parents may receive or proactively access information to support their infant formula brand choice from one or more of the following sources:
- The NHS, other health services, and the UK governments;
  - Formula milk manufacturers and retailers; and
  - Other sources such as online forums, parenting websites, and word of mouth.

### **Information provision through the NHS and UK governments**

- 5.28 The UK governments consider supporting breastfeeding to be a public health priority<sup>168</sup> and, as such, the focus of infant feeding information provided by the NHS to parents relates to this.
- 5.29 There is some guidance and information for parents relating to formula feeding. This includes information on baby feeding given during the antenatal period via the NHS<sup>169</sup> (although we were told that antenatal classes are not always universally available) and booklets and information given out through the 'Start for Life' programme.<sup>170</sup> We found that the information provided by the NHS focuses on

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<sup>166</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp9, 32.

<sup>167</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp9, 33.

<sup>168</sup> Public Health England, [Guidance Early years high impact area 3: Supporting breastfeeding](#), accessed 05/08/24, Welsh Government (2019), [All Wales Breastfeeding Five Year Action Plan](#), p1, Scottish Government (2019), [Becoming Breastfeeding Friendly Scotland](#): report, p1, Public Health Agency (2024), [Health Intelligence Briefing](#), p4.

<sup>169</sup> National Institute for Health and Care Excellence (NICE) (2021), [Antenatal care](#), paragraphs 1.3.15 and 1.3.20.

<sup>170</sup> NHS, [Bottle feeding - NHS](#), accessed 04/08/24.

safe feeding and ensuring parents know they can continue to use first infant milk until their baby is one year old.

- 5.30 Some information is available on nutritional sufficiency. For example, the NHS's Start for Life website states that 'All infant formulas will meet your baby's nutritional needs, regardless of brand or price.'<sup>171</sup> The Scottish government's Parent Club website<sup>172</sup> and the NHS Wales website<sup>173</sup> contain similar information, as do materials published by the Public Health Agency in Northern Ireland.<sup>174</sup>
- 5.31 However, our consumer research found that many parents did not feel they had received enough information from the NHS on formula feeding. Overall, the NHS was seen by respondents to our consumer research, and to the World Health Organisation survey we analysed, as a trusted source of information and parents welcome advice from healthcare professionals.<sup>175,176</sup> Some parents also felt supported by the NHS when they began to use formula. However, there were many examples of parents who did not feel they had received enough information, particularly ahead of the birth of their baby, as clinical guidelines recommend. Many parents wished they had been better prepared for unexpected feeding situations.<sup>177</sup>
- 5.32 All of the healthcare professional groups and infant feeding charities with whom we spoke supported the view that the NHS could provide more and better information on formula feeding.<sup>178</sup> Concerns we heard included:
- The NHS does not have the resources to combat the influence of powerful and sophisticated marketing of infant formula;
  - Consumers accessing unreliable information online; and
  - Information provided being anecdotal rather than evidence-based.
- 5.33 Survey E on the views and experiences of healthcare professionals, provided in response to our interim report, found that healthcare professionals often do not feel they have the information they need to advise on formula feeding.

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<sup>171</sup> NHS, [Bottle feeding - NHS](#), accessed 19/08/24.

<sup>172</sup> Scottish Government, [Formula feeding | Parent Club](#), accessed 15/08/24.

<sup>173</sup> NHS Wales, [Bottle feeding - Betsi Cadwaladr University Health Board \(nhs.wales\)](#), accessed 15/08/24.

<sup>174</sup> Public Health Agency, Bottlefeeding, [Bottlefeeding Final 0124.pdf \(hscni.net\)](#), accessed 19/08/24.

<sup>175</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp15, 23.

<sup>176</sup> CMA analysis of UK data: World Health Organization and the United Nations Children's Fund (UNICEF) (2022), [Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report](#).

<sup>177</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp18, 55.

<sup>178</sup> Healthcare professional groups we spoke to, see also: Feed's response to the CMA's invitation to comment, p1, The Food Foundation's response to the CMA's invitation to comment, p3, First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's invitation to comment, pp5-6, Baby Milk Action, member of the International Baby Food Action Network (IBFAN)'s response to the CMA's invitation to comment, pp4-5.



### *Consumer beliefs about the similarity of products*

- 5.34 Messaging on nutritional sufficiency (as discussed earlier in this sub-section) is a key piece of information in helping parents make an informed brand choice. We have therefore investigated to what extent parents know about nutritional sufficiency and believe there is similarity or difference between products.
- 5.35 As we discuss in Appendix B The consumer journey, our consumer research found that parents generally understand that all infant formulas must meet a certain standard but still see ‘fundamental’ differences between brands. It also found that parents using more expensive brands (which our consumer research found can be linked to guilt around formula use) were most likely to be sceptical that brands were largely the same, as were those who switched brands due to a reported feeding issue.<sup>179</sup> Reflecting these findings, Which? found that 78% of survey respondents thought there was a difference between products and Survey A found that 69% of mums surveyed believed that there was a difference between brands.

### **Information from manufacturers and retailers**

- 5.36 Parents may also receive or access information from manufacturers or retailers which can inform their choice of infant formula brand<sup>180</sup> as well as their perceptions of the brand as a whole. As detailed in Appendix B The consumer journey, sources of information include product labels, baby clubs and websites, social media, digital and search advertising, consumer reviews, and in-store information (eg shelf edge labelling, aisle fins, floor stickers, and baby events).
- 5.37 These can be helpful sources of information for parents when deciding which infant formula brand to choose. They can also be employed as marketing tools to build brand awareness and reputation and, as a result, support sales of products marketed under that brand. In general, brand building is a rational business behaviour that we observe across many markets, and to the extent that it highlights product features and differences, it can help inform consumer choice. For example, helping parents to understand whether a product is organic or not, or the provenance of ingredients.
- 5.38 When we asked respondents to our invitation to comment to provide their views on how parents choose a brand of infant formula and what factors influence their choice, several highlighted brand awareness and influence. For example, First Steps Nutrition Trust stated that ‘there is a large amount of research globally and

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<sup>179</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp 27, 20.

<sup>180</sup> Noting that the advertisement of infant formula is restricted, and manufacturers told us they are aware of, and abide by, regulations relating to infant formula. We consider this further in Section 6 Impact of the regulatory framework and regime.

from the UK which shows that the marketing of formula milk plays a role in influencing infant feeding decisions, including product choices' and that 'brand influence is exerted from marketing targeted to women from pregnancy onwards, e.g. through formula company 'baby clubs'.<sup>181</sup> Public Health Wales cited research which found that 'Formula companies target pregnant women, with first time pregnant women being the "holy grail" in the knowledge that brand loyalty for subsequent babies is strong.'<sup>182</sup> Feed said that 'While women and families are indeed susceptible to advertising via linked products and parenting clubs, product choices are made within the wider context of limited knowledge about formula products, and shame and stigma around the act of formula feeding.'<sup>183</sup>

- 5.39 We received similar responses from several stakeholders in response to our interim report. For example, the Behavioural Science workstream of the Health Weight Policy Research Unit, University College London, said that 'Findings from our research support your conclusion that brand awareness strongly influences brand choice'. It also indicated that during interviews to inform its own research 'mothers expressed confidence in formula brands they were familiar with, and seeing brands advertised, irrespective of the formula type shown (infant formula, follow-on formula or growing-up milk); this created brand familiarity and loyalty for parents.'<sup>184</sup> Similarly, Sustain, the Alliance for Better Food and Farming, submitted that they were 'pleased to see the CMA recognise the role that brand building plays not just in influencing consumer decisions but also in the ability of brands to charge premium prices.'<sup>185</sup>
- 5.40 Brand-building can often usefully inform consumers of product features and differences and, as we explain in Section 8 Measures to address the concerns we have identified, some manufacturers responding to our interim report considered that parents should be provided with information about the differences between infant formula products. However, in this market we consider that the understandable difficulties parents may have in accurately assessing the differences between products are exacerbated by manufacturers' efforts to signal that certain products are superior, including through the connotation of intangible and/or non-verifiable benefits rather than specific and verifiable points of difference about particular products (see Section 4 Market outcomes: Product differentiation). We are therefore concerned that parents may put disproportionate weight on such signals of differences between products.
- 5.41 Added to this, and as we discuss below, parents are often vulnerable in this market. This can affect how they engage in the market and they may rely on

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<sup>181</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's invitation to comment, p2.

<sup>182</sup> Public Health Wales's response to the CMA's invitation to comment, p4.

<sup>183</sup> Feed's response to the CMA's invitation to comment, p2.

<sup>184</sup> The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London's response to the CMA's interim report, pp2, 4.

<sup>185</sup> Sustain, the Alliance for Better Food and Farming's response to the CMA's interim report, p6.

shortcuts to make decisions. As a result, our concern is that brand awareness and reputation can play an outsized role in brand choice, with decisions not always based on clear, accurate and impartial information. This is particularly concerning given that, once parents have chosen a brand, the evidence suggests that they are unlikely to switch (see ‘Brand loyalty and switching’ earlier in this section).

## Consumer vulnerability

- 5.42 Parents in this market may experience market-specific vulnerability and vulnerability associated with their personal circumstances. This can affect their ability to engage in the market and can lead to the use of ‘decision shortcuts’ to help determine which infant formula brand is ‘best’ for them.
- 5.43 Most parents experience a degree of market-specific vulnerability because most feeding decisions come with high pressure on a parent to do the best they can for their baby. Our consumer research found that ‘when it comes to choosing a brand for their infant, consumers want to purchase “the best” – whatever that means to them.’<sup>186</sup>
- 5.44 There is also evidence that parents who experience feelings of guilt around formula milk use are particularly vulnerable and therefore at risk of spending more than they need to.<sup>187</sup> Our consumer research identified a group of parents who held the view that ‘infant formula is second best [to breastfeeding]’. It also found that the desire to purchase a premium brand is ‘felt particularly strongly amongst mothers who had hoped to exclusively breastfeed. They have heard ‘breast is best’ and therefore feel even more guilt if they make a rational budgeting decision in their choice of formula brand.’<sup>188</sup>
- 5.45 The CMA’s work on vulnerability has also highlighted ‘time poverty’ as a factor ‘likely to affect consumers’ ability to engage in certain markets’.<sup>189</sup> In this market, some parents do have time to plan but many others make decisions under time pressure. Survey A found that when asked to choose an option to describe best how they first made their brand choice, 45% of mums said they had ‘thought a lot about brands’, indicating that they viewed their decision as well-planned. 55% did not make such a well-planned decision, with 35% saying they had ‘thought a little about brands’ and 18% indicating that they did not make the decision themselves, either because it was an ‘emergency choice’, was ‘given by hospital’ or ‘someone else chose it’.

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<sup>186</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p32.

<sup>187</sup> See the sub-section ‘Drivers of brand choice’ earlier in this section for a fuller discussion of the role of price in formula milk decisions.

<sup>188</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp 19, 38.

<sup>189</sup> CMA (2019), [Consumer Vulnerability: Challenges and Potential Solutions](#), p7

- 5.46 Parents making unplanned decisions in hospital at birth are at particular risk of having neither the time nor circumstances conducive to well-informed decision-making. Our consumer research found that those who wanted and expected to breastfeed and who find out in hospital that they will have to partially or exclusively formula feed are usually extremely vulnerable, particularly if they have thought very little about formula choices. They are often under situational stress and experience feelings of guilt or failure around formula milk use.<sup>190</sup>
- 5.47 Parents who start using formula at some point in their child's first year may also be relatively vulnerable, particularly if their decision to use formula milk was unplanned and if they start using it in the weeks immediately following birth. In addition to the general pressure to do what is best for their baby, they may be turning to formula milk at short notice and/or when dealing with stressful situations. They also may not have planned to use formula milk and may experience feelings of guilt.<sup>191</sup>
- 5.48 Our consumer research explored how parents make a brand decision when they start using formula at home in the weeks following birth and found that 'consumers describe decision fatigue, and any decision shortcuts (like personal recommendations or word of mouth guidance) are welcomed and significantly impact the decision to use a specific formula'.<sup>192</sup>
- 5.49 First-time parents are more likely to experience difficulties in engaging with this market in ways conducive to making well-informed choices. Our consumer research found that first-time parents are less likely to have planned formula use and are less likely to share the mindset that 'a fed baby is a happy baby'.<sup>193</sup>
- 5.50 Turning to personal circumstances, we have found that incomes and mental health are particularly relevant when considering consumer vulnerability in the market for infant and follow-on formula. Specifically:
- Several studies have identified how the inability to afford formula milk can lead to unsafe feeding practices such as infants being underfed, fed inappropriately or formula being watered down. This was highlighted by the All Party Parliamentary Group on Infant Feeding and Inequalities in 2018 and subsequently in a report by the charity, Feed, in 2022.<sup>194</sup>

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<sup>190</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p18.

<sup>191</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p13.

<sup>192</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p20.

<sup>193</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp1920.

<sup>194</sup> Feed (2022), [Access to infant formula for babies living in food poverty in the UK](#).

- NHS England has reported that ‘Perinatal mental illness affects up to 27% of new and expectant mums and covers a wide range of conditions.’<sup>195</sup> Use of NHS perinatal mental health services is increasing, with more than 57,000 new and expectant mums in England receiving specialist support for mental health problems in 2023, up a third on 2022.<sup>196</sup>

5.51 A number of respondents to our interim report emphasised that families on lower incomes are more likely to be using formula, as well as more likely to experience financial difficulties, so the issues we are considering in this market study have a disproportionate impact on them. For example, First Steps Nutrition Trust told us that, ‘A socioeconomic gradient in infant feeding exists, whereby those least able to afford formula are more likely to be reliant on it.’<sup>197</sup> The Food Foundation told us:

‘Data from The Food Foundation’s latest food insecurity survey shows that 18.0% of households with children experienced food insecurity in June 2024. This is significantly higher than seen in households without children (11.7%). Deprivation is shown to have a significant impact on breastfeeding initiation and exclusive breastfeeding rates, with mothers from the most deprived neighbourhoods in England significantly less likely to initiate breastfeeding compared with mothers from the least deprived. The consequence of low breastfeeding rates among low-income families is that those least able to afford formula are more likely to be reliant on it. Currently, only three first infant formulas are affordable within the Healthy Start scheme weekly payment of £8.50 for a child under one’.<sup>198</sup>

5.52 Feed told us that:

‘Food insecure families are still often buying the most expensive products, and sometimes forgoing food themselves to afford this. The reasons for this are complex, but lower income families may feel increased stigma and judgment about their parenting which may drive some of these choices towards brands deemed “higher quality”’.<sup>199</sup>

## Conclusions on consumer behaviour

5.53 The evidence we have reviewed shows that personal recommendations, followed by availability and visibility in-store, online presence, and visibility in hospitals are the key factors influencing parents’ choice of infant formula brand. Brand

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<sup>195</sup> NHS England states that perinatal mental health (PMH) problems are those which occur during pregnancy or in the first year following the birth of a child.

<sup>196</sup> NHS England Press Release (2024), [Record numbers of women accessing perinatal mental health support](#).

<sup>197</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p4.

<sup>198</sup> The Food Foundation’s response to the CMA’s interim report, p2

<sup>199</sup> Feed’s response to the CMA’s interim report, p4

awareness and reputation also influence brand choice and can come into play through each of these drivers of decision-making. Many parents use price as a proxy for quality and so actively choose higher priced products. Parents rarely switch brands unless they experience feeding difficulties.

5.54 Parents may receive or proactively access information to support their infant formula brand choice from health services, formula milk manufacturers and retailers, and other sources such as online forums, parenting websites, and word of mouth. We found that:

- While the NHS is a trusted source of information, it could do more to be a source of timely, clear, accurate and impartial information on formula feeding.
- Parents generally understand that all infant formulas must meet a certain standard but still see ‘fundamental’ differences between brands.
- Brand awareness and reputation can play an outsized role in brand choice, with decisions not always based on clear, accurate and impartial objective information. This is particularly concerning given the specific features of this market, including that once parents have chosen a brand, the evidence suggests that they are unlikely to switch unless their baby experiences feeding difficulties. Brand awareness and reputation can play an outsized role because:
  - While brand building can usefully often inform consumers of product features and differences, in this market we are concerned that parents may place disproportionate weight on signals of differences between products.
  - Parents are often vulnerable in this market and may rely on shortcuts to make decisions. This, combined with the understandable difficulties parents may have in accurately assessing differences between products, is likely to make signals of intangible, non-verifiable product superiority difficult to evaluate.
- Vulnerabilities can arise from market-specific factors such as parents experiencing feelings of pressure to do what is best for their baby and feelings of guilt associated with formula milk use. Vulnerabilities can also arise from personal circumstances such as low income or mental health issues. All of these vulnerabilities can affect parents’ ability to engage in this market and can lead to the use of ‘decision shortcuts’ to help determine which infant formula brand is ‘best’ for them.

## 6. Impact of the regulatory framework and regime

- 6.1 We have examined the impact of the regulatory framework (as described in Section 3 Market overview) on the market outcomes we have observed. We have focused in particular on Article 6 of Regulation 2016/127, which covers specific requirements on food information, and Article 10, which sets out restrictions for promotional and commercial practices. We did not seek to undertake a comprehensive assessment of compliance with the regulations per se.
- 6.2 To do this we reviewed responses to our information requests from manufacturers and retailers<sup>200</sup> and spoke with relevant stakeholders, including governments in the UK, Scotland, Wales and Northern Ireland, and enforcers of the regulations. We also reviewed relevant research, our consumer research and carefully considered all responses to our invitation to comment and our interim report.

### Branding, labelling and cross-marketing

- 6.3 As we set out in Section 5 Consumer behaviour and later in this section, personal recommendations, which can build brand awareness and reputation, are the key factor we identified influencing parents' brand choice. Similarly, visibility in-store, online, and in hospitals are also important factors driving infant formula brand choice and are also points at which parents may be directly or indirectly influenced by marketing activities seeking to build or maintain brand awareness and reputation.
- 6.4 Brands that have been active in the market for some time are likely to have built up brand awareness and reputation and so are likely to focus on maintaining this. Our analysis of World Health Organisation (WHO) data showed that Aptamil, Cow & Gate, and SMA had near universal awareness amongst those surveyed in the UK between October 2019 and March 2021. For newer brands such as Kendamil, for which just 24% of respondents said they had heard of the brand during this time period, the initial focus is likely to be building brand awareness and reputation.<sup>201</sup>
- 6.5 The evidence we have reviewed leads us to conclude that manufacturer marketing and promotional activities for adjacent products, such as follow-on formula, also supports sales of infant formula.<sup>202</sup> This is also known as a 'halo effect'.

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<sup>200</sup> Sales of Lidl's Lupilu infant formula and follow-on formula commenced in August 2024. Kendal's Bonya infant formula and follow-on formula were launched in November 2024. These products have not been included in the analysis set out in this section.

<sup>201</sup> CMA's analysis of UK data: WHO (2022): [Multi country study examining the impact of marketing of breast milk substitutes on infant feeding decisions and practices: commissioned report](#). Given Kendamil's growth in market share since 2021, we would expect its current brand awareness to be higher.

<sup>202</sup> All manufacturers told us that they were aware of and abided by the prohibition on advertising infant formula.

- 6.6 Specifically, we found that promotional and marketing spend on follow-on formula and growing-up milks appears to be high, particularly if its main purpose is to support sales of just these product categories. For Danone UK, promotional and marketing spend amounted to [10-20%] of total formula milk revenues in 2023,<sup>203</sup> and [20-30%] as a share of follow-on formula and growing-up milk revenues only. For Nestle, promotional and marketing spend<sup>204</sup> was almost [5-10%] of total formula milk revenues and [10-20%] of follow-on and growing-up milk revenues only.
- 6.7 For Kendal, and HiPP, promotional and marketing spend was lower at [10-20%] and [5-10%] respectively, of follow-on and growing-up milk revenues only.
- 6.8 We consider that this level of spend is likely to support infant formula sales through brand awareness and reputation, as well as sales of those products being directly advertised (ie follow-on formula and growing-up milk), for two key reasons:
- (a) Firstly, our consumer research found that parents who have used infant formula tend to stick with the same brand when moving to follow-on formula.<sup>205</sup> Therefore, advertising and marketing is unlikely to be persuading parents to switch brands at this point.
  - (b) Secondly, there are relatively few new consumers entering the market at the point at which follow-on formula or growing-up milks are appropriate for their baby. Survey evidence indicates that two-thirds of babies were already being fed formula at 4-5 months of age.
- 6.9 Furthermore, research commissioned by one manufacturer found that the majority of sales of infant formula were mainly 'baseline', that is the volume of sales expected in the absence of any marketing and influenced by seasonality, brand equity and market factors, between January 2020 and March 2023. However, this research found that marketing investments in TV and video-on-demand for follow-on formula had driven an incremental increase in some infant formula sales. The same research found that investments in paid search and display across all formula milks had a halo impact on some infant formula sales. Turning to another brand, internal documents analysing the impact of media spend on sales using data from January 2017 to December 2019 indicate that media for some formula milk products has a halo effect on the entire portfolio of formula milk products. Both manufacturers told us that this does not reflect the views or practices of their businesses.

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<sup>203</sup> Total formula milk revenues includes infant formula, follow-on formula and growing-up milk revenues.

<sup>204</sup> Nestle noted that the marketing spend here includes [X].

<sup>205</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p46-47.



- 6.10 Our analysis of WHO survey data also indicates that parents are receiving marketing messages, which either relate to formula milk brands or were perceived to be about infant formula specifically. Eighty-four percent of pregnant and postnatal women surveyed in the UK between 2019 and 2021 reported seeing or hearing formula milk marketing in the preceding year. Of these, 54% thought that they had seen an advertisement for follow-on formula and 25% for infant formula. Of those reporting seeing an advert for infant formula, 65% said they saw it on TV, 20% on social media, and 6% on YouTube.<sup>206</sup>
- 6.11 In response to our interim report multiple stakeholders agreed with our concerns about cross-marketing. For example:
- Feed said ‘We agree that follow-on milk is largely a promotional vehicle for the brand’.<sup>207</sup>
  - Professors Amandine Garde and Andrea Gideon, University of Liverpool, said that they were ‘particularly concerned about cross-promotion – a strategy frequently used by infant formula manufacturers to indirectly promote their products.’<sup>208</sup>
  - The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London told us that during its research ‘mothers reported being drawn to brands they recognised from years of exposure to formula brand advertising’.<sup>209</sup>
- 6.12 We also note that a Lancet article regarding the marketing of commercial formula milk raises concerns about the use of product cross-promotion with regards to breastfeeding. For instance, it states that ‘Companies use strategies and messages that are...overt (eg developing and cross-promoting follow-on milks)’.<sup>210</sup>
- 6.13 However, set against this:
- Danone told us that ‘consumers’ choice is highly driven by trust and brand equity in this market’ and that ‘infant formula manufacturers compete fiercely to earn and maintain consumer trust (which forms a crucial part of their brand equity) which, ultimately, results in safer and higher quality products being

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<sup>206</sup> CMA analysis of UK data: WHO: Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report and UNICEF (2022), [How the marketing of formula milk influences our decisions on infant feeding](#), pp4-6; WHO and UNICEF (2022), [Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report](#) The research did not identify whether the infant formula adverts respondents reported seeing were likely to have breached the regulations or were actually adverts for other formula milks.

<sup>207</sup> Feed’s response to the CMA’s interim report, p5.

<sup>208</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p4.

<sup>209</sup> The Behavioural Science Workstream of the Health Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p1.

<sup>210</sup> Lancet (2023), [401: Marketing of commercial milk formula: a system to capture parents, communities, science, and policy](#), p489.

brought to market.’ It also noted that ‘consumers rely on familiar names, logos and labelling to be able to readily differentiate between brands’.<sup>211</sup>

- Nestle submitted that it ‘ensures that its advertising and promotional activities are in compliance with the regulatory framework.’ This includes ‘not promoting infant formula and ensuring sufficient differentiation between infant formula and other formula types.’ It also ‘disagrees with the CMA implication that these [follow-on formula products] are predominantly brought to market for the purposes of brand building for infant formula.’<sup>212</sup>
- HiPP noted that branded goods typically have a consistent look and feel across the brand, helping shoppers to make decisions and that, with regards to the CMA’s view that brand influence may play an outside role in decision-making, this was ‘contrary to what we hear from parents.’<sup>213</sup>

6.14 In our view, a key reason for the particularly strong focus on brand awareness and reputation in this market is the regulatory restriction on the advertisement and promotion of infant formula, including the promotion of price reductions and the prohibition on the use of health and nutrition claims on labelling. These factors, combined with consumers’ weak responsiveness to price, lead to weak incentives for manufacturers to compete on price and a particularly strong focus on brand building. The policy goal to not discourage breastfeeding underpins these regulations, but to compete effectively a business typically needs consumers to have a certain level of awareness of its products and their features. Therefore, in a situation where the advertisement of the products and certain product features is restricted, it is logical manufacturers will seek other ways to bring about a level of awareness of their products.

6.15 However, given the specific features of this market we are concerned that, since parents may be vulnerable and may use shortcuts to make decisions (as discussed in Section 5 Consumer behaviour), brand influence plays an outside role in parents’ decision-making.

6.16 Further, and as we summarise in Section 7 Competition in the market: Parameters of competition, given the characteristics of this market – particularly, given how product composition and safety is regulated, and how parents currently tend to make decisions about choosing formula – we consider that *signalling* of quality through branding, advertising and messaging that connotes intangible and/or non-verifiable benefits, rather than specific and verifiable points of difference about particular products, is not an appropriate parameter of competition. We discuss on-pack messaging specifically later in this section.

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<sup>211</sup> Danone’s response to the CMA’s interim report, p32.

<sup>212</sup> Nestle’s response to the CMA’s interim report, p3, 5.

<sup>213</sup> HiPP’s response to the CMA’s interim report, p5, 6.

6.17 One area where we have observed cross-marketing is in the similar branding and labelling used across formula milks sold under particular brands and sub-brands. We consider that all the brands and sub-brands supplied in the UK by the four largest manufacturers use similar branding and labelling.<sup>214</sup> Figure 6.1 provides two examples of this. Formula milks in the HiPP Organic range all use a white and green colour palette, with similar fonts and nature-focused pictures. They also all carry the same brand name.<sup>215</sup> Similarly, Danone uses a blue and white colour palette with a more clinical and science-focused theme across the formula milks in both its Aptamil and Aptamil Advanced ranges. These ranges also carry the same name and logo.<sup>216</sup>

Figure 6.1 HiPP Organic and Aptamil formula milk powder ranges, front of pack labels



<sup>214</sup> Danone (Aptamil, Aptamil Advanced, Cow & Gate), Kendal (Kendamil), Nestle (SMA, SMA Advanced and Little Steps), and HiPP.

<sup>215</sup> HiPP Organic, Shop HiPP Formula Milks [Shop HiPP Formula Milks - Formula Milks | HiPP Organic Shop](#), accessed 18/07/24.

<sup>216</sup> Aptaclub, Aptamil Formula Milks, [Aptamil Range | Infant Formula Milk | Aptaclub](#), Aptamil Advanced [Aptamil@ Advanced Product Range | Baby Milk Formula | Aptaclub](#), accessed 18/07/24.

- 6.18 Given that the regulations restrict the advertisement of infant formula and require infant formula and follow-on formula to be clearly distinct from each other, in part to prevent cross promotion and the indirect marketing of infant formula by advertising a product that looks almost identical,<sup>217</sup> we undertook a more detailed assessment of a sample of brand labels.<sup>218</sup>
- 6.19 From carrying out this review, we have concerns that the branding, labelling, and packaging of infant formula and follow-on formula products appear to be very similar, although there was some variation between products to indicate the ‘stage’ the formula milk was suitable for. Our review examined labels from several brands, with two illustrative examples set out in Figure 6.2 below. Although it would be for the courts to determine whether there has been any breach of the law, we have concerns as to whether the products we examined comply with the regulations<sup>219</sup> and associated DHSC guidance requiring infant formula and follow-on formula to be clearly distinct. The lack of clear distinction we have observed between these two products strongly supports the cross promotion of infant formula.<sup>220</sup>

Figure 6.2: Infant formula and follow-on formula powder front of pack labels, Kendamil and SMA



<sup>217</sup> Commission Delegated Regulation (EU) 2016/127, Article 6(6) and 10. DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 20/07/24.

<sup>218</sup> We assessed a sample of labels against DHSC guidance and our interpretation of the regulations.

<sup>219</sup> Commission Delegated Regulation (EU) 2016/127, Article 6(6). DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 20/07/24.

<sup>220</sup> We did not seek views in our ITC on whether consumers are buying the incorrect product for their baby’s age because infant formula and follow-on formula packaging looks overly similar, but some stakeholders did raise this as a concern.



Source: Kendal and Nestle

6.20 Concerns about cross-promotion were also raised in response to our invitation to comment. For example, First Steps Nutrition Trust stated that ‘cross-promotion is widespread, characterised by marketing which makes the formula brand and/or other products (Follow-on formula/Growing-up milks) the focus. Cross-promotion has been documented as a common practice to circumvent national legislation limiting marketing of infant formula.’<sup>221</sup> Feed noted that ‘[f]ormula manufacturers can fill the information vacuum around formula products themselves, influencing consumers directly via the promotion of follow-on milks... and parent clubs, and indirectly by inferring product superiority through price signalling.’<sup>222</sup> Similarly, the WHO concluded that, in the eight countries it looked at (which included the UK), infant formula is typically marketed under the same umbrella and shelved alongside milks for older children, benefiting from brand recognition.<sup>223</sup>

6.21 We heard similar concerns in response to our interim report. For example:

- The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London, shared research it had undertaken with regards to formula milks on sale in 2020. It found that 72% of follow-on formula products were highly similar to adjacent infant formula products (adjacent = products from the same brand and product line).’ It also highlighted with regards to cross-promotion of infant formula via follow-on

<sup>221</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s invitation to comment, p13.

<sup>222</sup> Feed’s response to the CMA’s invitation to comment, p7.

<sup>223</sup> WHO (2022): [Multi country study examining the impact of marketing of breast milk substitutes on infant feeding decisions and practices: commissioned report](#), p22.

formula, ‘the same problem exists with regards to growing-up formulas, which is of equal concern.’<sup>224</sup>

- Public Health Wales considered that the labels of follow-on milk displayed in the [interim] report demonstrates a lack of enforcement of existing regulations.<sup>225</sup>
- The World Cancer Research Fund International noted that ‘labelling of infant formula is a known tool that supports brand loyalty and cross promotion.’<sup>226</sup>
- Sustain, the Alliance for Better Food and Farming, told us that ‘Whilst the current legislation and DHSC guidance is that there should be differentiation between infant formula and follow-on formula [labelling], as the CMA has noted, there is a huge lack of compliance or genuine differentiation in the market place.’<sup>227</sup>

6.22 However, in response to our interim report, Danone told us that ‘Danone UK complies with those requirements [to ensure a clear packaging distinction between IF and FOF products].’<sup>228</sup> As noted above, Nestle also told us it ‘ensures that its advertising and promotional activities are in compliance with the regulatory framework.’ This includes ‘ensuring sufficient differentiation between infant formula and other formula types.’<sup>229</sup> HiPP also described to us the process by which it ensures, amongst other things, that packaging complies with all required legislation.<sup>230</sup>

6.23 Taking all the evidence into account, we are concerned that similar branding and labelling across formula milk ranges means that infant formula is being indirectly promoted via a halo effect from follow-on formula and growing up milks. As a result, parents who are likely to be vulnerable and to rely on shortcuts may purchase more expensive infant formula products than they may have otherwise done, particularly had they had access to timely, clear, accurate and impartial information.

6.24 We note that the NHS states that ‘research shows that switching to follow-on formula at 6 months has no benefits for your baby. Your baby can continue to have first infant formula as their main drink until they are 1 year old.’<sup>231</sup> Thereafter,

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<sup>224</sup> Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p1, 6. Conway R, Esser S, Steptoe A, Smith AD, Llewellyn C. Content analysis of on-package formula labelling in Great Britain: use of marketing messages on infant, follow-on, growing-up and specialist formula. *Public Health Nutr* [Internet]. 2023 Aug 30 [cited 2024 Mar 23];26(8):1696–705. Available from: <https://pubmed.ncbi.nlm.nih.gov/36710005/>

<sup>225</sup> Public Health Wales’ response to the CMA’s interim report, p3.

<sup>226</sup> World Cancer Research Fund International’s response to the CMA’s interim report, p2.

<sup>227</sup> Sustain, the Alliance for Better Food and Farming’s response to the CMA’s interim report, p6.

<sup>228</sup> Danone’s response to the CMA’s interim report, p32.

<sup>229</sup> Nestle’s response to the CMA’s interim report, p3.

<sup>230</sup> HiPP’s response to the CMA’s interim report, p11.

<sup>231</sup> NHS, [Types of formula milk - NHS \(www.nhs.uk\)](https://www.nhs.uk), accessed 02/10/24.

babies can start to drink whole cows', sheep or goats' milk. Follow-on formula is only slightly cheaper (on average) than infant formula, but its presence in the UK market means that advertisement of follow-on formula can indirectly boost infant formula sales.

## **On-pack messaging**

- 6.25 Another way in which manufacturers seek to brand build and differentiate themselves, notwithstanding the restrictions on the advertising of infant formula and prohibition on the use of health and nutrition claims, is through on-pack messages.
- 6.26 Our detailed assessment of a sample of brand labels identified the inclusion of a range of such messages. Some of these are likely to help parents choose a brand based on clear preferences and are relatively easy to interpret and in some cases verify. For example, messaging around the provenance of ingredients, organic ingredients, or the absence of palm oil. We would typically encourage competition on product features such as these.
- 6.27 However, we have seen examples of other messages that signal a product is differentiated from others on the market, connote intangible and/or non-verifiable benefits, and may be difficult for parents to interpret or assess (including in terms of how much value to place on them). For example:
- Aptamil First Infant Milk 800g contains the message 'Inspired by 50 years of research in early life science'.
  - Kendamil Classic First Infant Milk 800g states that 'With over 60 years' expertise in infant nutrition'.
  - SMA First Infant Milk states that it has been 'leading baby nutrition for over 100 years'.
  - Some brands/sub-brands use the term 'Advanced'.
- 6.28 We have also seen the same or similar messaging on follow-on product packs. For example:
- Aptamil Follow-on Milk 800g contains the message 'Inspired by 50 years of breastmilk research'.
  - Kendamil Classic Follow-on Milk 800g states that 'With over 60 years' expertise in infant nutrition'.
  - SMA Follow-on Milk 800g states that it has been 'pioneering infant nutrition since 1919, using over 100 years of expertise'.

- 6.29 On-pack messaging can be persuasive. Our consumer research found that such product claims can be impactful, particularly amongst parents who feel guilty about using formula. It also found that packaging and claims of formula brands are likely to implicitly influence parents. Further, our consumer research found that where parents associate brands with a higher price point as being ‘premium products’, three factors underpinned this perception: (i) reputation; (ii) packaging (the ‘look and feel’ and information on the packaging); and (iii) brand messaging (eg about manufacturing, nutrition, or awards).<sup>232</sup>
- 6.30 Whether the messages we observed comply with the regulations and are therefore permitted on infant formula labels turns on whether they are considered ‘health and nutrition’ claims,<sup>233</sup> which are prohibited, or whether they are likely to constitute other information (which is not prohibited) or advertising (which is not allowed other than in particular publications).
- 6.31 While we have not undertaken a comprehensive assessment, we found what appeared to be broad compliance with the requirement not to include health or nutrition claims on infant formula packaging.
- 6.32 Regulatory compliance aside, we are concerned that some on-pack messaging, particularly messages such as those outlined earlier in this section which are hard to interpret, may explicitly or implicitly influence parents’ perceptions of a product by ‘signalling’ trustworthiness and superiority at a time when they are vulnerable and reliant on shortcuts to choose an infant formula brand. This may lead them to purchase more expensive infant formula products than they might otherwise have done.
- 6.33 We consider that one of the drivers for the inclusion of the on-pack messages we have observed are the regulatory prohibitions on the use of health and nutrition claims on infant formula labels and restrictions on the advertising of infant formula. It is logical that in this situation manufacturers will seek to signal to parents how their product is superior in other ways, such as through on-pack messaging that connotes intangible and/or non-verifiable benefits.
- 6.34 As noted in Section 4 Market outcomes: Product differentiation, some respondents to our interim report submitted that they consider that parents find manufacturers’

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<sup>232</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), pp44-45.

<sup>233</sup> Health claims and nutrition claims are defined in [Regulation \(EC\) 1924/2006](#) which also sets out conditions for the use of such claims and mandates that the appropriate health authority (being DHSC) shall maintain a register of authorised health and nutrition claims. Please see Appendix A Regulatory and policy framework for further information.



claims hard to interpret or verify. Some respondents specifically linked these views to on-pack messaging,<sup>234</sup> for example:

- The Scottish Infant Feeding Advisor Network (SIFAN) submitted that on-pack messaging is successfully used to promote ‘nebulous differences’ between brands.<sup>235</sup>
- The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London, said its research found that ‘on-pack messaging, including imagery, was understood by mothers as indicating that certain products were superior to others. While mothers rarely mentioned tangible on-pack health and nutrition claims, they were attracted to the overall appearance of packs and messaging relating to science, research and nature.’<sup>236</sup> It also found some statements on formula which led consumers to infer that products compared favourably with breastmilk.<sup>237</sup>
- Feed agreed that non-verifiable claims such as “inspired by research” and “advanced” are influential for purchasers but they have no way of evaluating them. It also said that most packs carry information like “contains DHA” prominently, when this is a mandatory ingredient in all products, but which labelled thus works to imply superiority.<sup>238,239</sup>
- Professors Amandine Garde and Andrea Gideon, University of Liverpool, submitted that all claims on labels and packaging – which are, by definition, used to highlight the positive attributes of products – are marketing tools. Their use should therefore be strictly regulated.<sup>240</sup>
- A healthcare professional submitted that, although healthcare professionals attempt to get across the message that all formulas are nutritionally adequate, it is clear that the unsubstantiated claims made on formula packaging greatly influence parental choice.<sup>241</sup>

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<sup>234</sup> SIFAN’s response to the CMA’s interim report, p2. The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p3. Feed’s response to the CMA’s interim report, p5. Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p4. Ellen Diccico’s response to the CMA’s interim report, p1.

<sup>235</sup> SIFAN’s response to the CMA’s interim report, p2.

<sup>236</sup> The Behavioural Science Workstream of the Health Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p1.

<sup>237</sup> For example, indicating that a GUM product contains 2’FL, and that 2’FL is found in breastmilk. The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p1, 3.

<sup>238</sup> Feed’s response to the CMA’s interim report, p5. Article 9(3) of Regulation 2016/127 provides that: The statement ‘contains Docosahexaenoic acid (as required by the legislation for all infant formula)’ or ‘contains DHA (as required by the legislation for all infant formula)’ may only be used for infant formula placed on the market before 22 February 2025.

<sup>239</sup> The CMA notes that, as set out in Appendix A Regulatory and policy framework, pursuant to Article 9(3) of Regulation 2016/127, “the statement ‘contains Docosahexaenoic acid (as required by the legislation for all infant formula)’ or ‘contains DHA (as required by the legislation for all infant formula)’ may only be used for infant formula placed on the market before 22 February 2025.” [Commission Delegated Regulation \(EU\) 2016/127](#).

<sup>240</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p4.

<sup>241</sup> Ellen Diccico’s response to the CMA’s interim report, p1.

6.35 On the other hand, other respondents (primarily manufacturers) indicated that the current prohibition on health and nutrition claims on infant formula products limit manufacturer's ability to communicate product benefits to parents and therefore for parents to make informed decisions.<sup>242</sup> Specifically:

- The BSNA (the trade association representing infant formula manufacturers) submitted that, where formulations contain additional ingredients intended to support infant development, the regulatory framework may restrict the degree to which these can be communicated to parents, which can result in confusion regarding the difference between products.<sup>243</sup>
- Danone submitted that the nature of infant formula means that many consumers place a very high value on innovation, safety and trust when choosing an infant formula product. But the regulatory restrictions also impose limits on how manufacturers and retailers can communicate with or otherwise engage with consumers.<sup>244</sup> It also submitted that the benefits its brands offered are not only legitimate and genuine benefits: they are also verifiable.<sup>245</sup>
- Nestle submitted that it believes that the current regulations already do not allow for intangible/non-verifiable benefit claims to be made.<sup>246</sup>
- HiPP submitted that brand marketing and claims serve an important role to ensure parents have the information they need to make a choice.<sup>247</sup>

6.36 In our view, given the legislation has the effect of maintaining a certain level of homogeneity between infant formula products (see Section 4 Market outcomes: Manufacturers' approach to product differentiation), we continue to consider that on-pack messaging may lead parents to purchase more expensive infant formula products than they might otherwise have done. We also consider that even where on-pack claims can be verified (eg the number of years of research), they can be hard for parents to interpret or judge how much weight to put on them, especially at a time when they are vulnerable.

## The feeding journey

6.37 Another message we identified on formula milk labels is the 'stage' the product is suitable for. Infant formula is typically labelled as 'stage 1', follow-on formula as

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<sup>242</sup> BSNA's response to the CMA's interim report, p3. Danone's response to the CMA's interim report, p9,10. Nestle's response to the CMA's interim report, p15. HiPP's response to the CMA's interim report, p6.

<sup>243</sup> BSNA's response to the CMA's interim report, p3.

<sup>244</sup> Danone's response to the CMA's interim report, p9, 10.

<sup>245</sup> Danone's response to the CMA's interim report, p13.

<sup>246</sup> Nestle's response to the CMA's interim report, p15.

<sup>247</sup> HiPP's response to the CMA's interim report, p6.

'stage 2' and growing-up milks as 'stage 3' and 'stage 4'. Importantly, this labelling helps parents identify a product suited to their baby's age.

- 6.38 However, we have heard concerns in response to our invitation to comment that 'consumers are led to believe that they must progress through 'stages'... when the only necessary product is infant formula for use from 0-12 months'<sup>248</sup> and that 'buy-in to so called follow-on products is sought long beyond the initial 12 months...through strategies such as suggesting that a company's next product is a natural progression'.<sup>249</sup> This is despite NHS advice that infant formula can be consumed throughout a baby's first year and that 'When your baby is 1 year old, they can start to drink whole cows' milk or sheep's or goats' milk (as long as these milks are pasteurised).'<sup>250</sup> The positioning of formula milk ranges next to each other in-store and online may also encourage parents to move through a 'feeding journey'.
- 6.39 We received limited comments on this in response to our interim report. A small number of respondents agreed that the branding of products could imply to parents that there is a feeding journey.<sup>251</sup> Sustain, the Alliance for Better Food and Farming, specifically pointed out that 'At present manufacturers line up their similarly branded products together to deliberately mislead parents into continuing a longer formula journey'.<sup>252</sup> HiPP and Nestle however pointed out that its formula milks for older babies and toddlers of different ages are designed to respond to different nutritional needs and therefore have different nutritional compositions.<sup>253</sup> HiPP also stated that its understanding is that NHS advice<sup>254</sup> 'differs from the European Food Safety Authority 2014 revised scientific opinion on the essential composition of infant and follow-on formula. This guidance currently forms the framework of the revised EU 2016/127 regulations on infant and follow-on formula and is adopted in the UK, forming the basis of UK formula nutritional guidance.'<sup>255</sup> We note that while the compositional requirements for infant formula and follow-on formula provided for in Regulation 2016/127 differ in some respects, DHSC guidance on these regulations reiterates the NHS advice that 'research shows that switching to follow-on formula at 6 months has no benefits for your baby. Your baby can continue to have first infant formula as their main drink until they are 1 year old.'<sup>256</sup>
- 6.40 More specifically, in our interim report we asked stakeholders what is the value derived from follow-on formula. Some manufacturers told us that follow-on formula

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<sup>248</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's ITC, p3.

<sup>249</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool's response to the CMA's ITC, p10.

<sup>250</sup> NHS, [Types of formula - NHS](#), accessed 23/07/24.

<sup>251</sup> Ellen Diccio's interim report, p1.

<sup>252</sup> Sustain, the Alliance for Better Food and Farming's response to the CMA's interim report, p4.

<sup>253</sup> HiPP's response to the CMA's interim report, p6, 7. Nestle's response to the CMA's interim report, p4.

<sup>254</sup> That switching to follow-on formula at 6 months has no benefits for your baby.

<sup>255</sup> HiPP's response to the CMA's interim report, p2.

<sup>256</sup> [Commission Delegated Regulation \(EU\) 2016/127](#), Article 2, Annex I and Annex II. Department of Health and Social Care (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 28/01/25.

provides specific nutritional benefits to older babies. For example, Danone, Nestle and HiPP noted the increased levels of iron in follow-on formula compared to infant formula.<sup>257</sup> Danone was concerned that ‘widespread messaging that the use of follow-on formula is optional risks raising confusion for parents’ and ‘risks leading parents to switch away from follow-on formula altogether, in favour of cow’s milk’.<sup>258</sup>

- 6.41 Feed submitted that ‘we believe that follow-on milk was largely created to circumvent marketing restrictions’ but also stated that this ‘does not mean that it doesn’t serve a purpose’ and that its advocates panel had noted the usefulness ‘of having a powdered product for later in infancy that was easier to travel with than cow’s milk, and also for use in childcare settings outside the home’.<sup>259</sup>
- 6.42 Other stakeholders however agreed with NHS advice. For instance, we were told that follow-on formula was unnecessary for babies,<sup>260</sup> and provides a ‘lucrative revenue stream to manufacturers and retailers marketing infant feeding as a journey of stages to be progressed through and exploiting the desire of parents to do the best for their baby.’<sup>261</sup> Several stakeholders also felt that follow-on formula is used to circumvent infant formula marketing restrictions, with Feed noting this as the reason follow-on formula does not exist in the US.<sup>262</sup> However, Feed noted that ‘the same marketing and price reduction regulations do not apply to follow-on formula milks, which means that these products can sometimes offer families a more cost effective and less stigmatised solution to first infant formula.’<sup>263</sup>
- 6.43 We also note that parents may be encouraged to move through a feeding journey and purchase growing-up milk without realising that cow’s milk is a suitable alternative. These parents are then paying a price premium. We have estimated that families could save approximately £140 to £330 (depending on brand of growing-up milk) over the course of a year, by feeding their toddler cow’s milk instead of growing-up milk.<sup>264</sup>

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<sup>257</sup> Danone’s response to the CMA’s interim report, p30, Nestle’s response to the CMA’s interim report, p4, HiPP’s response to the CMA’s interim report, p2.

<sup>258</sup> Danone’s response to the CMA’s interim report, p30.

<sup>259</sup> Feed’s response to the CMA’s interim report, p1.

<sup>260</sup> First Steps Nutrition Trust complied on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p16, Public Health Wales’ response to the interim report, p1.

<sup>261</sup> Public Health Wales’ response to the interim report, p1.

<sup>262</sup> Feed’s response to the CMA’s interim report, p 1. Public Health Wales’ response to the interim report, p1. Behavioural Science workstream of the Health Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p2.

<sup>263</sup> Feed’s response to the CMA’s interim report, p5.

<sup>264</sup> CMA’s analysis comparing the cost of a year’s supply of growing-up milk (of each brand available at Tesco) to that of Tesco’s own-label whole cow’s milk (4 pint bottle), based on Tesco’s online prices as of 29 August 2024, excluding any promotions or Clubcard pricing. The calculation assumes a toddler being fed the amount of growing-up milk recommended per day on the packaging (which varies by brand, from 300-400ml), versus 350ml cow’s milk per day (as recommended by the NHS ([What to feed young children - NHS \(www.nhs.uk\)](https://www.nhs.uk), accessed 17/10/24)). Comparing organic brands of growing-up milk (HiPP Organic and Kendamil Organic) to Tesco own-label organic cow’s milk (4 pint bottle) on the same basis, families could save approximately £50 to £200 over the course of a year.

6.44 While a relatively high proportion of parents use follow-on formula, the proportion that use growing-up milk is much smaller. The total spend on follow-on formula was 23% of all formula milks in the first 11 months of 2024. The equivalent figure for growing-up milk was 14% of all revenue spent on formula milks.<sup>265</sup> Reflecting this, one study found that 39% of parents were using follow-on formula when their babies were between 7 and 12 months of age and 19% were using growing-up milk when their toddlers were between 13 and 24 months of age.

### **Publication of prices and price reductions**

6.45 A further area where the regulatory framework affects competition in this market relates to the publication of prices and price reductions. Specifically, restrictions in this area for infant formula, whether real or perceived due to a lack of clarity on the interpretation of the regulations, may be softening competition on price and increasing the emphasis placed on non-price competition.

6.46 DHSC explained to us that legislation does not prevent infant formula manufacturers or distributors from reducing the price of infant formula. However, promotional activities around price reductions may be seen as an inducement to purchase infant formula. The regulations state that ‘There shall be no point of sale advertising...to induce sales of infant formula directly to the consumer at the retail level, such as...special sales, loss leaders’ and ‘Manufacturers and distributors of infant formula shall not provide...free or low-priced products...’ and DHSC guidance explains that this could include price reductions, discounts or mark-downs.<sup>266</sup>

6.47 However, in our view, it may be difficult to draw a clear line around when informing parents about the price of infant formula or a price reduction is likely to be promotional. Specifically, we consider that both the regulations and guidance lack clarity in this regard. For example, there are instances when a price reduction is clearly a promotion, such as a time-limited discount promoted via an in-store and online banner or, as pointed out in DHSC guidance, a buy one get one free promotion.<sup>267</sup> In other cases, it may be more difficult to determine what may be considered an inducement to purchase infant formula and therefore promotional; for example, it is not clear whether a retailer that reduced the retail price of infant formula for a sustained period due to a cost price reduction would breach the regulations if they were to publicise this.

6.48 There have been calls for changes to these aspects of the regulations to support parents with the cost of infant formula. For example, a campaign by the Metro and

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<sup>265</sup> CMA’s calculations based on manufacturers’ sales revenue data.

<sup>266</sup> [Commission Delegated Regulation \(EU\) 2016/127](#), Article 10(3). Department of Health and Social Care (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 24/07/24.

<sup>267</sup> Department of Health and Social Care (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 06/01/24.

Feed, and supported by Iceland, called on the government to allow retailers to tell the public when they reduce the price of infant formula. It also called for customers to be allowed to pay for infant formula with loyalty points, grocery vouchers, and store gift cards.<sup>268</sup> Specifically, Iceland felt that it should not have been asked to stop informing parents that it had reduced the price of infant formula, and was clear that the law was making it hard for Iceland to inform parents that it was offering savings on the products they need.<sup>269</sup>

- 6.49 In our interim report, we said that as the publication of prices and price promotions at retail level typically supports price competition, there is a case for revising regulations relating to infant formula to allow for this. We also noted that core aim of legislative restrictions on advertising (not just in relation to price) is to avoid inducing the purchase of infant formula so as not to discourage breastfeeding and we acknowledged that there were likely to be concerns about loosening these rules. Indeed, we noted that the DHSC told us that there is considerable evidence (which underpins the WHO Code) which shows that advertising directly to the consumer and other marketing techniques negatively influences parents and caregivers in their decision on how to feed their infants and for this reason specific restrictions are laid down in legislation on advertising and marketing techniques.
- 6.50 We indicated in our interim report that the evidence we had reviewed found that a high proportion of expectant mothers intend to breastfeed and that doing what is viewed as best for their baby was the overriding motivator for parents in their decisions between breast milk and formula.<sup>270</sup> As a result, we provisionally considered that there could be a case for revising the regulations to ensure that manufacturers and retailers are permitted to publicise prices and price reductions.
- 6.51 In response to our interim report, we heard concerns from multiple stakeholders relating to this proposal. These mainly centered on the risk that this could induce the purchase of infant formula and wouldn't deliver long-term affordability for parents. For example:
- First Steps Nutrition Trust submitted that 'Any marketing of formula, including price promotions, can induce the use of formula in place of breastfeeding.... This is not just about safeguarding breastfeeding, but also about ensuring safe formula feeding.'<sup>271</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool, noted 'Risks that new mothers who haven't settled on a feeding method purchase infant formula'<sup>272</sup> while Sustain, the Alliance for Better Food and Farming, also highlighted a risk around 'encouraging

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<sup>268</sup> Feed, Formula for change, [Formula for Change — feed \(feeduk.org\)](https://www.feeduk.org/), accessed 24/07/24.

<sup>269</sup> Iceland, [It's time to change the law on infant formula](#), accessed 21/08/24.

<sup>270</sup> See Appendix B The consumer journey: Drivers of decision-making.

<sup>271</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's interim report, p12.

<sup>272</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool's response to the CMA's interim report, p5.

families to move from first stage infant formula to follow-on formula earlier than 6 months if such price promotions were applied to those products.<sup>273</sup>

- First Steps Nutrition Trust also submitted that there is a ‘Risk that parents are ‘captured’ by a brand which has reduced prices then are stuck with this brand when prices rise.’<sup>274</sup> Unicef UK Baby Friendly Initiative was similarly concerned and noted that parents ‘may end up continuing with a less affordable product or feel pressure to dilute formula.’<sup>275</sup>
- Equality concerns were also raised. For example, The Children’s Food Campaign and Sustain pointed out that ‘people on very low incomes often lack resources and transportation to take advantage of such activity [shopping around].’<sup>276</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool were concerned that this measure could promote bulk buying that disadvantages lower income parents.<sup>277</sup>
- More broadly, there was a concern that this measure would not ‘provide certainty for families and babies in need of predictable lower prices’<sup>278</sup> and, as Professors Amandine Garde and Andrea Gideon, University of Liverpool, set out, ‘Since the majority of consumers do not switch, price competition could arguably fail to have as much effect as other forms of competition.’<sup>279</sup>

6.52 Other stakeholders, mainly manufacturers, took a different view. For example:

- Danone noted that its ‘global policy prohibits the promotion of infant formula products, including by publicising prices and price reductions...However, Danone UK recognises that other manufacturers might not apply the same approach and has no objection to enabling infant formula manufacturers to communicate their prices (and price reductions).’<sup>280</sup>
- Nestle was in favour of ‘clarifications that enable retailers to publicise prices and long-term price reductions of infant formula, which could have a positive impact on price competition at the retailer level.’<sup>281</sup>
- HiPP however, said that ‘if retailers chose to reduce the price of infant formulas to drive competition we believe they shouldn’t be penalised for that.’

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<sup>273</sup> Sustain, the Alliance for Better Food and Farming’s response to the CMA’s interim report, p4.

<sup>274</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p12.

<sup>275</sup> Unicef UK Baby Friendly Initiative’s response to the CMA’s interim report, p5.

<sup>276</sup> Sustain, the Alliance for Better Food and Farming’s response to the CMA’s interim report, p4.

<sup>277</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p5.

<sup>278</sup> Public Health Wales’ response to the CMA’s interim report, p9.

<sup>279</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p5.

<sup>280</sup> ‘So long as the product-related information that might be communicated from manufacturers at the same time is held to a sufficiently rigorous standard.’ Danone’s response to the CMA’s interim report, p27.

<sup>281</sup> Nestle’s response to the CMA’s interim report, p10.

However, HiPP also said that ‘given the limited impact of price on choice it is not clear to us whether this would help consumers or not.’<sup>282</sup>

- The Infant Feeding Allowance said that ‘If parents do not know about the existence of these [Mamia and Lupilu] low-cost formulas, it seems to us that this is most likely because of restrictions on their marketing.’<sup>283</sup>

6.53 As we explain in Section 8 Measures to address the concerns we have identified, we are not recommending a revision of the regulations to allow price promotions at this time. However, this is an area where greater clarity around what the current regulations do, or do not, permit is needed to help create a level playing field for businesses.

### Engagement with healthcare professionals

6.54 Most manufacturers engage with healthcare professionals, although some to a greater extent than others (and levels of engagement have varied over time) and through different mediums. Nestle, for example, told us that it has a responsibility to share the latest product information with healthcare professionals, so they have all the facts to enable them to give parents accurate, objective and consistent advice on feeding choices.<sup>284</sup> In response to our interim report, the BSNA noted that the ‘transfer of scientific information from industry to healthcare professionals is essential to allow healthcare professionals to be best placed to provide, accurate, unbiased information to support families.’<sup>285</sup>

6.55 During our market study examples of engagement with healthcare professionals we have seen include: professional development training such as webinars for pharmacy staff in retail settings on specific (non-branded) categories of products; continuous professional development for healthcare professionals on the management of issues like infant reflux, and leaflets providing information for healthcare professionals to give to parents, where they deem this appropriate, to help them manage their baby’s reflux (which includes information about, and an image of, a brand of anti-reflux formula); attendance at seminars and conferences for healthcare professionals; adverts for products which noted that these were available to purchase through NHS supply chain; and, for the use of healthcare professionals only, the provision of data cards conveying product information and a presentation deck on formula milk product ranges. Most manufacturers also provide information to healthcare professionals through dedicated websites.<sup>286</sup> We are also aware of reports of the piloting of an in-store infant feeding advice service,

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<sup>282</sup> HiPP’s response to the CMA’s interim report, p11.

<sup>283</sup> Infant Feeding Allowance’s response to the CMA’s interim report, p3.

<sup>284</sup> Nestle’s response to the CMA’s invitation to comment, p9. Nestle also explains that in doing so, it complies with the applicable legal and regulatory framework.

<sup>285</sup> BSNA’s response to the CMA’s interim report, p2.

<sup>286</sup> For example: [Homepage | SMA Nutrition | SMA HCP](#) and [Healthcare Professionals \(hipp.co.uk\)](#), accessed 17/10/24.



now discontinued, hosted by Tesco and delivered by midwives funded by Danone. This reportedly included an option for midwives to wear branded uniforms and marketing for Danone's Aptaclub. Both Tesco and Danone noted that they comply with UK regulations.<sup>287</sup>

- 6.56 There are regulations in place that restrict the advertising of infant formula to publications specialising in baby care and scientific publications and specify that such information shall contain only information of a scientific or factual nature.<sup>288</sup> Regulation 2016/127 also requires that donations of information or educational equipment or materials shall only be made on request and with the prior written approval of the appropriate authority or within guidelines given by that authority for this purpose.<sup>289</sup>
- 6.57 We have not sought to assess whether any of the communications we have seen could be considered to be controlled by these regulations and, if they were, whether they are likely to be compliant. We have however heard mixed views on whether healthcare professionals are receiving marketing from manufacturers which governments may wish to consider.
- 6.58 Specifically, we have heard that the UNICEF UK Baby Friendly Initiative may be limiting interactions between manufacturers and healthcare professionals.<sup>290</sup> We have also heard that healthcare professionals will apply their professional judgement to any communications.<sup>291</sup> However, concerns were raised by some respondents to our invitation to comment. For example, First Steps Nutrition Trust told us that 'healthcare professionals are subject to marketing, which is undertaken in a variety of ways, including adverts in journals (Hickman et al, 2021) and sponsored conferences.'<sup>292</sup> Public Health Wales also told us that it 'considers that formula manufacturers do engage with healthcare workers with the aim of affecting consumer outcomes. The Baby Friendly Initiative mitigates this in some settings.'<sup>293</sup>
- 6.59 In response to our interim report, a few respondents raised concerns about interactions between manufacturers and healthcare professionals. For example, an Anonymous Academic Paediatrician submitted that a 'recommendation for healthcare facilities to avoid and monitor for inappropriate formula company sponsorship of hospital activities, seem appropriate. Formula companies often

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<sup>287</sup> The British Medical Journal, [Danone's use of midwives to give branded infant feeding advice in supermarket sparks anger](#), published 8/01/25, accessed 16/01/25. The British Medical Journal, [Unethical infant feeding service is axed in Tesco climbdown](#), published 15/01/25, accessed 16/01/25.

<sup>288</sup> [Commission Delegated Regulation \(EU\) 2016/127](#).

<sup>289</sup> [Commission Delegated Regulation \(EU\) 2016/127](#), Article 11(3). The appropriate authority in England is DHSC.

<sup>290</sup> See Appendix F Supporting evidence and analysis relating to competition in the market: Barriers to entry and expansion.

<sup>291</sup> Nestle's response to the CMA's invitation to comment, p9

<sup>292</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's invitation to comment, p5.

<sup>293</sup> Public Health Wales' response to the CMA's invitation to comment, p9.

sponsor lunches and meetings on hospital premises in the NHS, which is clearly a breach of the WHO Code. Without clear statements against such activities, and monitoring for such activities, hospital trusts may not even be aware of their occurrence.<sup>294</sup> Another healthcare professional noted that ‘misleading information affects not only parents but the health professionals who support them.’<sup>295</sup>

- 6.60 Conversely, we were told that constraints on communications with healthcare professionals were limiting competition. See Section 7 Competition in the market: Barriers to entry and expansion and Appendix F Supporting evidence and analysis relating to competition in the market for further details.

## **Compliance and enforcement**

- 6.61 As we have set out above, in our view there are some provisions of Regulation 2016/127 which appear to be underenforced or where greater clarity on their interpretation is required. Addressing this would help ensure that businesses operate on a level playing field. It would also help ensure that, if taken forwards, any remedies relating to the regulatory framework we propose, in Section 8 Measures to address the concerns we have identified, are effective.
- 6.62 Here we set out the main reasons which help to explain the underenforcement and lack of clarity we have observed.

### **Competent authority’s role**

- 6.63 We are concerned that limitations in the way the competent authority’s role operates when infant formula products are placed on the market, are exacerbating our concerns regarding under-enforcement. This issue came to our attention in relation to the lack of distinction between infant and follow-on formula labelling we have identified.
- 6.64 Currently infant formula products may be placed on the market as soon as notification has been given by manufacturers to the competent authority and it is the responsibility of individual businesses to ensure their compliance with the law.<sup>296</sup>
- 6.65 However, in our view, the absence of a pre-authorisation process means that products can be placed on the market before the competent authority has reviewed the material submitted which may reveal concerns about regulatory compliance. As such, while the notification process is helpful in reducing possible breaches of the regulations, we consider that, in practice, a manufacturer might place a product on the market in respect of which a competent authority has

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<sup>294</sup> Anonymous Academic Paediatrician’s response to the CMA’s interim report, p1.

<sup>295</sup> Ellen Diccio’s response to the CMA’s interim report, p1..

<sup>296</sup> [DHSC \(2013\), Guidance on Regulation 2016/127.](#)

concerns. We note that the enforcement of Regulation 2016/127 is a separate process, usually carried out by local authorities.

- 6.66 In response to our interim report, stakeholders from all groups supported high levels of compliance with and enforcement of the regulations.<sup>297</sup> With regards to the competent authority notification process in particular, we heard concerns about the length of time this can take.<sup>298</sup> For example, Nestle said that in its experience, 'it can take around six months to obtain an acknowledgement letter from the [DHSC] Nutrition Legislation Team following notification of labelling/packaging changes, and with a substantive review taking much longer.'<sup>299</sup> HiPP also submitted that its 'most recent experience of notification of labelling amends through the DHSC nutrition legislation team was a 9 month turnaround'.<sup>300</sup>

### **Trading standards services**

- 6.67 Local authority trading standards services are typically the designated enforcer of the relevant regulations.<sup>301</sup> Their role is to monitor and address potential non-compliance with the regulations. Concerns about potential non-compliance may stem from DHSC's review of a label when a product is placed on the market, or may arise subsequently.
- 6.68 In evidence-gathering calls with some trading standards services with manufacturers located in their areas, we found that a key barrier to monitoring and/or addressing potential non-compliance with the regulations was that trading standards services must carefully prioritise their resources. Some also told us that they have not received a significant number of complaints from the public. Illustrating this, one trading standards service pointed out that they have limited resources and therefore will take action in accordance with enforcement priorities, and have a focus on areas like doorstep crime and product safety. They have also, in general, received few complaints from the public about infant formula.<sup>302</sup> Rather, it is competitors that are more likely to submit complaints (although complaint numbers were still relatively low). As such, enforcement in this area is not a high priority.
- 6.69 We also found some evidence of challenges interpreting particular provisions of Regulation 2016/127. One example of this relates to the requirement for infant and follow-on formula packaging to be sufficiently distinct from one another. Another relates to challenges determining what constitutes advertisement in this context. A

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<sup>297</sup> See Section 8 Measures to address the concerns we have identified.

<sup>298</sup> Section 3 Market overview: Regulatory and policy framework provides details of the notification process.

<sup>299</sup> Nestle's response to the CMA's interim report, p6.

<sup>300</sup> HiPP's response to the CMA's interim report, p11. Notification related to HiPP Comfort milk and HiPP anti-reflux milk.

<sup>301</sup> For Northern Ireland, we understand this role is performed by Northern Ireland Trading Standards Services.

<sup>302</sup> We note that the lack of complaints from members of the public may partly be as a result of a lack of knowledge of the detail of the relevant regulations.

lack of clarity in how the provisions of Regulation 2016/127 should be interpreted may result in inconsistent and/or lower levels of enforcement.

- 6.70 Some stakeholders responding to our interim report raised similar concerns. First Steps Nutrition Trust told us that it ‘shares concerns about limited compliance and enforcement by local authorities likely due to resourcing constraints and lack of clarity in interpreting the regulations’ and called for ‘independent monitoring and enforcement’.<sup>303</sup> SIFAN explained that its members ‘have in the past had poor experiences of contacting those tasked with enforcing regulations around retail displays and wider advertising, often with authorities not being clear about the regulations or who or how to handle breaches’.<sup>304</sup>
- 6.71 Several other stakeholders raised broad concerns about a lack of compliance and enforcement without specifying whether, in their view, local authority trading standards or another relevant body should have identified and, if relevant, addressed the issue.<sup>305</sup>

### **Advertising Standards Authority**

- 6.72 Another area where possible underenforcement was brought to our attention relates to the regulation of the promotion and marketing of infant formula by the ASA though its administration of the CAP and BCAP Codes.
- 6.73 The ASA has adjudicated on complaints relating to the promotion and marketing of infant formula products. It told us it had investigated 47 discrete advertisements relating to infant formula in the past two years. For example, it ruled that several advertisements had the effect of one or more of the following: marketing infant formula; confusing infant formula and follow-on formula; discouraging breastfeeding; making health claims for infant formula and follow-on formula and making disease treatment claims (all of which breached the CAP Code).<sup>306</sup>
- 6.74 However, the ASA informed us that it has experienced difficulties interpreting what constitutes ‘advertising’ for the purposes of Regulation 2016/127, given that there is no clear definition in the legislation. The ASA also told us that the CAP Code’s

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<sup>303</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p15.

<sup>304</sup> SIFAN’s response to the CMA’s interim report, p4.

<sup>305</sup> For example, Unicef UK Baby Friendly Initiative’s response to the CMA’s interim report, p8 and Public Health Wales’ response to the CMA’s interim report, p3.

<sup>306</sup> Examples include advertisements for infant formula on Kendal Nutricare’s LinkedIn page and an in-app advertisement on the Candy Crush game ([ASA Ruling on Kendal Nutricare - 05/04/2023](#)); an advert on Kendal Nutricare’s website which featured customer submitted reviews which were adjudged to advertise infant formula and confuse between infant formula and follow-on formula as well as making a health claim ([ASA Ruling on Kendal Nutricare - 04/08/2021](#));

Other rulings relate to a podcast advertisement for Cow & Gate Baby Club which was subsequently discussed on another podcast and made a health claim and confused between infant formula and follow-on formula ([ASA Ruling on Nutricia Ltd - 23/02/2022](#)); and four paid-for Google ads for Boots which referenced several different brands of infant formula ([ASA Ruling on Boots - 23/08/2023](#)).

remit is broad and that the ASA ‘consider a broader range of communications as advertising compared to the legal definitions.’<sup>307</sup> Given this, it is our understanding that the ASA would likely deem a wider range of communications as advertising compared to Regulation 2016/127 and DHSC guidance.

- 6.75 This lack of clarity has particularly come to light when the ASA has been considering the content of formula milk manufacturer websites, although it also extends to online retailing and trade before the retail stage eg manufacturer communications with retailers. As a further example, the ASA informed us that they consider that it is not clear whether baby clubs would fall within the exemption in Regulation 2016/127 which allows advertising of infant formula in ‘publications specialising in baby care’.
- 6.76 While the ASA acknowledged a need to be pragmatic to ensure that selling infant formula isn’t made practically impossible, this lack of clarity had made it challenging to monitor and ensure compliance with the CAP Code. As a result, the ASA has referred potential concerns relating to infant formula to Trading Standards as the designated statutory enforcement authority, instead of investigating and acting itself. The ASA told us that this approach allows the statutory regulators to take the lead in defining the scope of the legislation.
- 6.77 We also note that DHSC guidance on Regulation 2016/127<sup>308</sup> contains limited information around how advertising restrictions might apply to modern forms of communication such as social media and influencers. Our analysis of World Health Organisation survey data for the UK found that 22% of respondents placed ‘social media’ in the top three most useful sources of information about feeding their baby or infant that they have used/use.<sup>309</sup>
- 6.78 A further area where some underenforcement may exist relates to digital search advertising and some adverts served by manufacturers in response to keyword searches by parents. As set out in Section 5 Consumer behaviour, recommendations were the key factor influencing parents’ choice of infant formula brand however, online presence also played a role and is one channel through which brand awareness and reputation can be raised.
- 6.79 Digital search advertising is where an advertiser pays for its advert (typically in the form of a text link) to appear next to the results from a consumer’s search on an internet search engine, although adverts may also appear in other forms of search,

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<sup>307</sup> ASA’s response to the CMA’s interim report, p2.

<sup>308</sup> DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 11/09/24.

<sup>309</sup> CMA’s analysis of UK data: World Health Organization and the United Nations Children’s Fund (UNICEF) (2022), [Multi-country study examining the impact of marketing of breast-milk substitutes on infant feeding decisions and practices: commissioned report](#).

for example on maps. The selection and targeting of these adverts are based primarily on keywords entered by the user.<sup>310</sup>

- 6.80 Digital search advertising is a well-established marketing method, and it is unsurprising therefore that most formula milk manufacturers told us that they engage in strategies like search engine optimisation and pay per click online advertising. That said, these manufacturers also indicated that they do not promote or advertise their first infant formula products to the general public as part of their digital marketing activities. Two manufacturers proactively stated that this was in line with regulatory requirements.
- 6.81 However, during our market study it has come to our attention that a small number of sponsored adverts for three brands served in response to key word searches such as 'baby milk' on popular search engines like Google and Bing explicitly reference infant formula. Although we did not undertake a comprehensive assessment, these adverts may be restricted by Regulation 2016/127 as the references to infant formula could constitute advertising. However, we note that the definition of advertising for the purposes of Regulation 2016/127 is not clear in DHSC guidance.
- 6.82 Most retailers told us they do not pay for paid for sponsored search results that link to pages where infant formula can be purchased. Of those, several proactively noted that they didn't engage in this activity because of regulations.
- 6.83 In summary, we have seen some examples of digital advertising in respect of which we have concerns about compliance with the restrictions on the advertising of infant formula. However, we have not seen evidence of widespread non-compliance. While important for businesses from a level playing field perspective, addressing any compliance concerns is unlikely to significantly dampen brand awareness and reputation amongst parents. This is because adverts served in response to searches such as 'best baby milk' will often serve adverts for manufacturer websites and baby clubs, so highlighting brand names and messaging about product offerings to parents.
- 6.84 In response to our interim report, a number of stakeholders raised concerns about a lack of clarity around what constitutes advertising (although it wasn't always clear whether the advertising stakeholders referred to would fall under the remit of the ASA or local authority trading standards services). A few stakeholders did however point to existing DHSC guidance on this matter.<sup>311</sup> More broadly, digital marketing of infant formula was also raised by several stakeholders as an area of concern.

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<sup>310</sup> CMA (2020), [Online platforms and digital advertising, market study final report](#), p59.

<sup>311</sup> DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 08/01/25, Appendix 2.

6.85 Examples of what we were told include:

- Nestle ‘agrees that an expansion in guidance on what the terms “information” and “advertising” in Regulation 2016/127 mean would be beneficial to the market.’ It also told us that it ‘some manufacturers appear to take a more expansive interpretation on this, which may consequentially better support parents by providing them with the information they need’.<sup>312</sup>
- HiPP submitted that ‘there are recent examples of recurring breaches of the advertising regulations. We agree that there needs to be universal clarity in how to interpret and therefore enforce the regulations, but there also must be better and non-discriminatory ways of dealing with recurring breaches.’<sup>313</sup>
- One stakeholder told us that it had ‘found manufacturers of infant formula have been utilising a lack of clarity in the regulations to promote first infant formula manufacturers’ marketing on their online webshops’.
- SIFAN said that ‘Clarifying how regulations extend to modern mechanisms, particularly online behaviour, is required to ensure understanding for all and support manufacturers and retailers to adhere to the intent of the legislation.’<sup>314</sup>
- Professors Amandine Garde and Andrea Gideon, University of Liverpool called on us to ‘recommend that digital online marketing of infant formula should be addressed as a matter of urgency’. They also cited recent work by the WHO on the scope and impact of digital marketing strategies for promoting breastmilk substitutes which found that digital technologies are increasingly used for marketing food products throughout the world.<sup>315</sup>
- The Wales Infant Feeding Network (WIFN) submitted that it ‘considers that it is particularly important to include product placement, digital marketing, use of influencers and social media activity in any definition of advertising’.<sup>316</sup> A healthcare professional stated that ‘Restrictions on the misinformation used in marketing particularly online and with focus on new areas of concern for example “influencers”’ would be valuable.<sup>317</sup>

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<sup>312</sup> Nestle’s response to the CMA’s interim report, p4, 14.

<sup>313</sup> HiPP’s response to the CMA’s interim report, p8.

<sup>314</sup> SIFAN’s response to the CMA’s interim report, p4.

<sup>315</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p4. World Health Organization, 2022, Scope and impact of digital marketing strategies for promoting breastmilk substitutes.

<sup>316</sup> WIFN’s response to the CMA’s interim report, p3.

<sup>317</sup> Ellen Diccio’s response to the CMA’s interim report, p1.

## Conclusions on regulatory framework and regime

- 6.86 In this market, the regulatory framework, which is designed to support important public health goals, has a considerable bearing on competition and the outcomes we have observed.
- 6.87 Manufacturers operating in this market place a particularly strong emphasis on brand building to support sales of infant formula. In our view, a key reason for this is the regulatory restriction on the advertisement and promotion of infant formula, including the publication of price and price reductions and the prohibition on the use of health and nutrition claims. These factors, combined with consumers' weak responsiveness to price, lead to weak incentives for manufacturers to compete on price. It is logical that, with these regulatory restrictions in place, manufacturers will seek other ways to bring about a level of awareness of their products and signal points of differentiation.
- 6.88 We have observed this in the similarity of a brand's labelling across stages (infant formula, follow-on formula, and growing-up milk). Brand building activities are also, in our view, likely to be focused on first-time parents given the short time for which they are in the market and parents' reluctance to switch once they have chosen a brand.
- 6.89 We have observed that manufacturers also seek to brand build through on-pack messaging signalling intangible and/or non-verifiable benefits rather than specific and verifiable points of difference about particular products. Our consumer research found that these messages can be persuasive.<sup>318</sup> While we have not comprehensively assessed all on-pack messaging, we found what appeared to be broad compliance with the prohibition on the use of health or nutrition claims on infant formula packaging. Regulatory compliance aside, while some of these messages may be helpful to parents when making a brand choice (eg whether a product is organic or the provenance of ingredients) we are concerned that others may be difficult to interpret – including in terms of how much value to place on them – and verify, and yet are influential in decision-making.
- 6.90 Finally, we consider that underenforcement and a lack of clarity in relation to some aspects of Regulation 2016/127 are contributing to suboptimal consumer outcomes. Areas of the regulatory framework where we have identified underenforcement and where greater clarity is required include:
- A lack of clarity around when, if at all, retailers may publicise prices and reductions in the price of infant formula.

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<sup>318</sup> Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p44-45, 53.



- A lack of clarity between what constitutes 'information' and 'advertising', and how the existing regulations apply to online 'advertising'.
- There appears to be underenforcement, at present, of the regulatory requirement for a distinction between infant and follow-on formula labelling.
- With regards to communications from manufacturers to healthcare professionals, governments may wish to consider the mixed evidence we have observed with regards to regulatory compliance.

## 7. Competition in the market

7.1 In this chapter we set out our analysis of the nature and degree of competition in the market, taking into account evidence from the preceding sections on the outcomes and context we have observed relating to market concentration, prices, margins, consumer behaviour, and the regulatory framework. We first set out the main parameters on which firms compete in this market.

### Parameters of competition

7.2 In general, there are many possible parameters of competition and the relevance and importance of each varies by market. However, the CMA would typically consider price and quality to be important parameters of competition in most markets. In some markets, innovation may also be an important parameter of competition.

7.3 The term ‘quality’ can be interpreted broadly; it can sometimes encompass (among other dimensions) the reassurance afforded to customers by a well-known brand or good reputation. This kind of competition on brand equity or reputation can, in many circumstances, be a rational way for consumers to gauge the quality of a product or service.

7.4 The infant formula market, as previously set out, is distinctive in many ways: the product is essential and non-substitutable for those who need or choose to use it; many parents are vulnerable, time-pressured, and/or lacking in clear, accurate and impartial information when choosing formula for the first time; and the market is tightly regulated to protect babies and public health goals in support of breastfeeding. In this distinctive market, our view on price, quality, and innovation is as follows:

- (a) Price: This was one of the key issues that led to the CMA launching its market study (see Section 1 CMA’s work in the groceries sector). We observed that formula prices had risen steeply since 2021, leading to reports of formula becoming unaffordable for many families that rely on it as an essential product, and we were concerned that weak or ineffective competition might be causing prices to be higher than they would otherwise be. Price is therefore a key parameter of competition that we have examined (see ‘Competition between manufacturers: Competition on price’ and ‘Price competition between retailers’ below).
- (b) Quality: We consider that the two most important aspects of quality of infant formula products are (i) providing the appropriate nutrients for a healthy baby’s growth and development; and (ii) safety, such that the formula (when made up correctly) does not endanger the baby’s health. As set out in Section 4 Product differentiation, the regulatory framework provides for both

these aspects of quality for all infant formula and follow-on formula sold in the UK. As such, we consider that the most important aspects of quality in this particular market are a matter of regulation, not competition. Parents should be assured of them without needing to rely on brand reputation.<sup>319,320</sup>

Therefore, while building brand equity or reputation is a rational business behaviour in many markets (as it can help inform consumers about quality), we do not consider that the significant role played by brand reputation (as indicated by our work) is positive for consumers in this particular market.

Beyond meeting nutritional and safety requirements, products can be differentiated in other ways, as set out in Section 4 Product differentiation.<sup>321</sup>

To the extent that there is genuine and meaningful differentiation between products, and parents can use clear, accurate and impartial information to understand and choose products based on how much (if at all) parents value such differences, this would represent healthy competition on quality.

However, given the characteristics of this market – particularly, given how product composition and safety is regulated, and how parents currently tend to make decisions about choosing formula – we consider that *signalling* of quality through branding, advertising and messaging that connotes intangible and/or non-verifiable benefits, rather than specific and verifiable points of difference about particular products, is not a way of competing that benefits consumers in this particular market. See further discussion of this in ‘Competition through brand reputation, product differentiation, and innovation’ below.

- (c) Innovation: To the extent that manufacturers vie to bring out important new innovations that are valuable to parents, this would represent healthy competition on innovation. However, while we consider innovation to be relevant in this market, we consider it a less important parameter of competition than price and quality. This is because, while there is some scope to innovate to develop improved formula products, including with respect to improved nutritional quality (and some manufacturers do spend considerable sums on R&D), this scope is limited. As noted in Section 4 Market outcomes: Product differentiation, this is substantiated by responses to our interim report. See further discussion of this in ‘Competition through brand reputation, product differentiation, and innovation’ below. In addition,

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<sup>319</sup> Legislation states that, ‘Infant formula and follow-on formula are sophisticated products that are specially formulated for a vulnerable group of consumers. In order to ensure the safety and suitability of such products, detailed requirements should be laid down on the composition of infant formula and follow-on formula, including requirements on energy value, macronutrient and micronutrient content’, [Commission Delegated Regulation \(EU\) 2016/127 \(assimilated direct legislation\)](#) .

<sup>320</sup> In our consumer research, we did not hear any concerns from parents that any brand of formula available in the UK is unable to meet the required safety or nutritional standards. Thinks Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated).

<sup>321</sup> These include the addition of permitted but non-mandatory ingredients; the nature and provenance of ingredients; aspects of formula content or production such as being halal, kosher or vegetarian; and other features such as recyclable packaging or easy-to-use formats.

any important new ingredients or additives that are considered by the relevant scientific authorities to be important for babies' health and development, as backed by adequate evidence, become a mandatory addition to all infant formula (as happened previously with docosahexaenoic acid (DHA), for example). There is, therefore, only a time-limited period in which the manufacturer can compete on the basis of such an innovation.

- 7.5 Our concern is that competition on certain aspects of quality and innovation, especially relating to brand reputation, has taken on a disproportionately influential role in this market – leading to a direct detriment to competition on price. This chapter will explore these issues in more depth.
- 7.6 Next, we present our findings and conclusions with respect to:
- (a) Barriers to entry and expansion;
  - (b) Competition between manufacturers; and
  - (c) Competition between retailers.

## **Barriers to entry and expansion**

- 7.7 Barriers to entry and expansion are factors that prevent, or make difficult, firms' entry or expansion in a market. These factors give incumbents an advantage and can reduce competition in a market.
- 7.8 In order to explore the main barriers to entry and expansion in formula milks, we gathered information from manufacturers currently supplying formula milks in the UK, manufacturers currently supplying formula milks in other countries and/or other infant feeding products in the UK, retailers, and other organisations with knowledge of the industry such as charities and healthcare bodies. We gathered this information via RFI responses and other written submissions, calls with stakeholders, and our review of internal documents submitted by manufacturers and retailers.
- 7.9 Following publication of our interim report, we have received additional evidence submitted by stakeholders in response to our provisional findings concerning barriers to entry. In the relevant sub-sections below, we discuss these submissions and explain whether and how they have affected our findings and conclusions.
- 7.10 This sub-section discusses our main findings with respect to: (i) shares of supply; (ii) entry and exit; (iii) key barriers to entry and expansion; and (iv) supply to the NHS; before summarising our conclusions on how barriers to entry and expansion affect competition in the supply of infant formula and follow-on formula. More detailed analysis of the evidence that underpins our findings can be found in

## Appendix F: Supporting evidence and analysis relating to competition in the market.

### Shares of supply

- 7.11 As set out in Section 4 Market outcomes, the supply of formula milks in the UK is highly concentrated, with just three manufacturers (Danone, Kendal, and Nestle) accounting for [90-100%] of the share of supply of infant formula, and [90-100%] of follow-on formula, by revenue in the first 11 months of 2024.<sup>322</sup> While the entry and growth of Kendal since 2016 (discussed further below) is a significant development to the structure of the market, and has reduced the overall level of concentration, nevertheless it is clear that a high degree of concentration has persisted over many years.
- 7.12 One manufacturer characterised the infant formula market in the UK as having been static and entrenched for decades (prior to the launch of Kendamil), with Danone remaining the largest manufacturer, and any potential newcomers facing high barriers to entry. A retailer told us that Danone accounts for a total share of the baby and toddler feeding category<sup>323</sup> of around 70% and has done for several years.

### Entry and exit

- 7.13 The CMA is aware of five examples of firm-level entry in the supply of formula milks in the UK within the past ten years: (i) Kendal Nutricare, which entered in 2016 and supplies the 'Kendamil' brand of infant formula, follow-on formula, and growing-up milk, and in November 2024 also launched the 'Bonya' brand of infant formula and follow-on formula;<sup>324</sup> (ii) Aldi, which entered in 2016 and currently supplies the own-label 'Mamia' brand of infant formula (produced for Aldi by a contract manufacturer, [X]); (iii) Sainsbury's, which entered in 2018 with an own-label 'Little Ones' infant formula and follow-on formula (produced by [X] as a contract manufacturer), but exited entirely in 2020; (iv) Arla, which entered in 2018 [X] of an infant milk powder sold direct to consumers (ie not via retailers), but ended the [X] after less than a year due to [X]; and (v) Lidl, which entered in August 2024 with an own-label 'Lupilu' infant formula and follow-on formula (produced for Lidl by a contract manufacturer, [X]).<sup>325</sup>

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<sup>322</sup> For further detail on shares of supply, including by brand and over time, see Section 4 Market outcomes: Shares of supply.

<sup>323</sup> Note that this category includes all food and drink products aimed specifically at babies & toddlers and therefore is broader than formula milks.

<sup>324</sup> Since Bonya was first sold by Kendal to retailers in October 2024, and by retailers in November 2024, it is included in our shares of supply and retail pricing analysis only from these months, respectively.

<sup>325</sup> Since Lupilu was first sold in August 2024, it is included in our shares of supply and retail pricing analysis only since that month.

- 7.14 Kendal's share (by revenue) in infant formula has grown substantially, from [0-5%] in 2019 to [20-30%] in the first 11 months of 2024. It has surpassed Nestle to become the UK's second largest manufacturer of infant formula (in 2023) and follow-on formula (in 2024). Since the size of the addressable market (ie number of potential customers for infant formula) has not increased, and appears to have decreased, over this period,<sup>326</sup> Kendamil's growth has been at the expense of existing brands.
- 7.15 Aldi entered with its own-label brand Mamia in 2016, initially with one infant formula product (900g powder) and one follow-on formula product (900g powder), both manufactured by a contract manufacturer, [X]. However, Aldi discontinued the follow-on formula product in 2022, due [X]. Until August 2024, Aldi's Mamia infant formula was the only own-label formula product available in the UK.<sup>327</sup> It has persistently had a very low share of supply: [0-5%] in the first 11 months of 2024, down slightly from [0-5%] in 2019.
- 7.16 Sainsbury's launched an infant formula product (900g powder) and a follow-on formula product (900g powder), both under its own-label 'Little Ones' brand, which was produced by [X] as a contract manufacturer. Both products were de-listed in 2020.<sup>328</sup> Sainsbury's told us that it decided to discontinue these products because:
- (a) [X].<sup>329</sup>
  - (b) [X].
  - (c) [X].
- 7.17 In August 2024, Lidl introduced an infant formula product and follow-on formula product under its own-label 'Lupilu' range (both 800g powder, produced by a contract manufacturer, [X]). Lidl told us that these were available in [X] of its [X] UK stores in September 2024. [X] Lidl said that the rationale for its plan to enter is its wider strategic investment in the Lupilu brand in an effort to attract more families into Lidl.
- 7.18 Based on information gathered from other UK retailers, we understand that no others are planning to enter the supply of formula milks in the UK – one main reason for which is their perception of weak consumer demand for own-label

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<sup>326</sup> Based on CMA analysis of total volumes sold by manufacturers of (i) 800g powder (infant formula and follow-on formula) and (ii) 200ml ready-to-feed (infant formula and follow-on formula) – note this does not encompass the entire market, but provides a good guide to overall trends. One manufacturer submitted that the number of births has been falling, stating that in 2022 there were 17% fewer births than there were in 2012, and that 'potential market for infant formula has therefore been reducing over time'. Likewise, an internal document from one retailer setting out 'market context' noted that birth rates are declining.

<sup>327</sup> These products are available only from Aldi stores in England, Scotland and Wales; there are no Aldi stores in Northern Ireland.

<sup>328</sup> With some residual stock sold until early 2021.

<sup>329</sup> [X]

products (see more in Appendix F Supporting evidence and analysis relating to competition in the market).

- 7.19 In addition to retailers, the CMA spoke to four firms that are not currently active in formula milks in the UK, but are active in formula milks in other countries and/or in other baby and toddler feeding products in the UK, in order to understand whether and why (or why not) they would (or would not) consider entering the supply of formula milks in the UK. None of the firms we spoke to is currently considering entry; for various reasons including: the perception of limited available manufacturing capacity in Europe, high upfront investment in product safety, limited scope to develop a differentiated offering that could compete with incumbents', and the difficulty of acquiring customers (due to the regulatory restrictions both on advertising infant formula to parents and on interacting with healthcare professionals). We discuss these issues further in Appendix F Supporting evidence and analysis relating to competition in the market.
- 7.20 Finally, we understand that a number of brands with a previously small presence in the UK have exited the market, including Piccolo in 2022,<sup>330</sup> and Boots in 2001.<sup>331</sup>
- 7.21 In our interim report, we noted that Kendal is a prominent example of successful entry, but we considered that its success is unlikely to be replicated by other potential entrants. We also noted the limited role of own-label products to date, representing a persistently small share of supply, and having limited appeal for most parents (see more on this in Appendix F Supporting evidence and analysis relating to competition in the market). Our view was that Aldi's Mamia has had a minimal impact on the market over the past eight years, as demonstrated by its very small share of supply and its decision to discontinue its follow-on formula product. We considered that – as Lidl's Lupilu offering is similar to Aldi's Mamia – the former is also likely to face significant barriers to becoming a sizeable player in the market, absent any significant changes to consumer preferences and behaviour.
- 7.22 In response to our interim report, Danone submitted that it disagreed with our assessment of entry.<sup>332</sup> Specifically, it submitted that:
- (a) This is a dynamic market, which has seen significant recent entry and expansion, with three new suppliers in the last ten years (ie Aldi, Kendal and

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<sup>330</sup> Based on product ranges and sales data submitted to the CMA by retailers. Piccolo's website does not currently list any formula products under its baby range: [Piccolo Organic Baby Food: Growing Generation Goodness \(mylittlepiccolo.com\)](https://www.piccolobaby.com), accessed 17/10/24.

<sup>331</sup> Given the time elapsed, Boots was unable to provide its reasons for exiting the market in 2001.

<sup>332</sup> No other respondents to the interim report made significant comments on this aspect of the analysis.

Lidl),<sup>333</sup> as well as new brands launched by existing manufacturers (Kendal and Nestle).<sup>334</sup>

- (b) New entrant brands, such as Kendamil and Mamia, have been able to rapidly grow and capture a significant share of the infant formula market, which demonstrates that barriers to entry are significantly lower than the CMA had suggested.<sup>335</sup>
- (c) The interim report contains no reference to Kendal's new 'value' product range, Bonya.<sup>336</sup>

7.23 Similarly, Nestle submitted that 'the market is evolving', noting the presence of multiple new entrants in recent years such as Kendal, Aldi, Sainsbury's, Arla, and Lidl (even if Sainsbury's and Arla subsequently decided to exit).<sup>337</sup>

7.24 We have considered Danone's and Nestle's submissions on these points, noting they have not provided any new evidence regarding entry. Taking their submissions into account, our view is as follows.

7.25 We acknowledge that (as set out in the interim report) there have been several examples of entry in the past decade. This includes one example of an entrant with branded products that has gained substantial market share (Kendal), two examples of own-label entry that continue to be present in the market (Aldi and Lidl), and one example of own-label exit (Sainsbury's). We do not consider that this level of entry and exit necessarily represents a highly dynamic market, as there has been sustained market concentration, with strong persistence of the main brands over time and only three new firms entering in a decade. However, the growth of Kendal in particular is a significant change in the structure of the market.

7.26 Kendal, through its Kendamil brand, has been a prominent example of successful entry. According to the most recent data obtained by the CMA (pertaining to November 2024), its share of supply has grown substantially over time, as described in the interim report. We set out the distinctive features of Kendal's case, and the challenges it has faced as an entrant, in Appendix F Supporting evidence and analysis relating to competition in the market. We discuss our view of Kendamil's impact on competition further below in Competition between manufacturers.

7.27 In November 2024, Kendal introduced its new brand, Bonya, which retails at a lower price point than Kendamil (see more on pricing in Section 4 Market

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<sup>333</sup> Danone's response to the CMA's interim report, p13.

<sup>334</sup> Danone's response to the CMA's interim report, p14.

<sup>335</sup> Danone's response to the CMA's interim report, p13.

<sup>336</sup> Danone's response to the CMA's interim report, p8.

<sup>337</sup> Nestle's response to the CMA's interim report, p9.



outcomes: Retail pricing). Since Bonya was launched very shortly before publication of the interim report, it was not included there. We have now gathered information regarding Bonya, which is included in this final report. In our view, the launch of Bonya represents a development with potentially positive impact for parents since it offers greater choice, particularly towards the lower end of the price spectrum. We consider it possible that it may stimulate greater competition on price. However, given the recency of Bonya's entry, it is too early to be able to judge its longer-term impact, including the extent of its appeal to parents as a less expensive product (absent any other significant changes to consumer behaviour).<sup>338,339</sup>

7.28 As regards own-label entry, we continue to consider that Aldi's Mamia has not expanded to have a significant presence in the market, with a revenue share of supply persistently around [0-5%] over the past few years. Importantly, Mamia did not grow its market share during the cost-of-living crisis, at a time of substantially rising prices for formula and groceries more widely. We consider that Lidl's entry with Lupilu is a positive development, as it provides an additional, more affordable option for those parents able to shop at Lidl. While – like Bonya – it is too early to judge its longer-term impact on competition in the wider market, in the period shortly after its launch (August to November 2024), Lidl's share of supply in infant formula was just [0-5%].

7.29 Finally, we note that it remains the case that no other firm we contacted in the course of this market study had an intention to enter the infant formula market in the UK (this includes nine UK retailers and four manufacturers that are not currently active in formula milks in the UK, but are active in formula milks in other countries and/or in other baby and toddler feeding products in the UK). Therefore, while it is possible that there may be further entry, we consider it unlikely, at least in the near future.

## Key barriers

7.30 In the interim report, we identified the following key barriers to entry and expansion; each of these are discussed further (together with the underlying evidence) in Appendix F Supporting evidence and analysis relating to competition in the market:

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<sup>338</sup> We have gathered data up to and including November 2024, which was the month that Bonya launched in retailers.

<sup>339</sup> It is important to note that economic theory suggests, all else equal, the launch of new brands/products by an existing firm is not as beneficial for price competition as the launch of brands/products by a newly entering firm, in situations where there is some substitutability of demand between the existing firm's brands/products. This is because some portion of the existing firm's sales under its new brand (Bonya, in this case) would be diverted from its existing brand (Kendamil), whereas all of the new firm's sales would be diverted from other firms. This means the existing firm has less incentive to compete aggressively as it will cannibalise some of its own sales. We consider that, given Kendamil's price point has generally been at the lower end of the 'standard' (middle) tier (below that of Aptamil and SMA, for example), and Bonya's marketing focuses on characteristics many of which are shared with Kendamil (eg UK family-run company, vegetarian, no palm oil), it is likely that some demand for Kendamil will divert to Bonya.

- (a) Limited suitable manufacturing capacity;
- (b) Investments in product safety and quality;
- (c) Developing a sufficiently differentiated offering;
- (d) Weak demand for own-label products;
- (e) Securing widespread distribution through major retailers;
- (f) High marketing costs;<sup>340</sup>
- (g) Restrictions on advertising and promoting infant formula to consumers; and
- (h) Restrictions on interacting with healthcare professionals to discuss formula.

7.31 In response to our interim report, Danone and Nestle submitted that they disagreed with our assessment of barriers to entry and expansion.<sup>341</sup> Specifically:

- (a) Danone submitted that new entrant brands, such as Kendamil and Mamia, have been able to rapidly grow and capture a significant share of the infant formula market, which demonstrates that barriers to entry are significantly lower than we had suggested.<sup>342</sup> Similarly, Nestle submitted that barriers to entry and expansion are not insurmountable, as shown by the presence of multiple new entrants in recent years such as Kendal, Aldi, Sainsbury's, Arla, and Lidl.<sup>343</sup> Nestle stated that Kendal's growth demonstrates the potential for rapid expansion.<sup>344</sup>
- (b) Danone and Nestle submitted that they do not agree there is limited suitable manufacturing capacity in the UK and Europe.<sup>345,346</sup>
- (c) Danone does not agree it would be difficult to develop a sufficiently differentiated offering; new entrants have plenty of scope to differentiate their product.<sup>347</sup>
- (d) Danone does not agree that the regulatory restriction on advertising and promoting infant formula to consumers is a barrier to entry.<sup>348</sup>

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<sup>340</sup> While regulations restrict the marketing of infant formula, the marketing of follow-on formula, growing-up milks, and other baby/toddler feeding products (which may benefit sales of infant formula by promoting overall brand awareness) is permitted.

<sup>341</sup> No other respondents to the interim report made significant comments on this aspect of the analysis.

<sup>342</sup> Danone's response to the CMA's interim report, p13.

<sup>343</sup> Nestle's response to the CMA's interim report, p9.

<sup>344</sup> Nestle's response to the CMA's interim report, p9.

<sup>345</sup> Danone's response to the CMA's interim report, p15.

<sup>346</sup> Nestle's response to the CMA's interim report, p9.

<sup>347</sup> Danone's response to the CMA's interim report, pp16-17.

<sup>348</sup> Danone's response to the CMA's interim report, p16.

(e) Danone does not agree that high marketing costs are a barrier to entry.<sup>349</sup>

- 7.32 We have considered Danone's and Nestle's submissions on these points. Our view as to the four particular barriers to entry commented on (limited manufacturing capacity, the need to develop a differentiated offering, high marketing costs, and regulatory restriction on advertising and promoting infant formula) is set out in greater detail where we discuss these in Appendix F Supporting evidence and analysis relating to competition in the market. In brief, on manufacturing capacity, we accept the evidence of some spare capacity within the rest of Europe (although it is possible there may be material time and cost involved in adapting/utilising these facilities for production at scale for the UK market); however, given the views from potential entrants that they judge there to be limited capacity, the evidence on this is mixed. On product differentiation, we continue to consider that while some degree of differentiation is feasible, the regulations mean there is limited scope for material differentiation for new entrants' product offerings. On marketing costs (for follow-on formula and other adjacent products) and the restrictions on advertising infant formula to parents, we accept that these are not insurmountable barriers (as demonstrated by Kendal's recent entry and expansion); however, they remain notable challenges for potential entrants, which aligns with what we heard from those we spoke to.
- 7.33 On the overarching point that barriers to entry are lower than we had suggested, taking Danone's and Nestle's submissions into account, we agree that none of the barriers we have identified are, in themselves, insurmountable; indeed, as described above, there have been several examples of entry over the past decade, and future entry is possible.
- 7.34 However, we consider that the combination of multiple hurdles to entry and expansion is likely to significantly reduce the chance of future entry at significant scale. This is substantiated by our finding that none of the nine retailers or four manufacturers referred to above that we contacted intended to enter.
- 7.35 Importantly, only one entrant in the past decade, Kendal, has experienced substantial expansion since entering (and this occurred after experiencing a number of challenges).<sup>350</sup> This is unsurprising given the persistence of brand loyalty over time (eg through recommendations to new parents, or parents using the same brands for younger siblings), the importance of brand reputation, and the limited appeal of own-label offerings in the market. While it is possible that a new entrant could expand and materially impact competition in the market, absent

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<sup>349</sup> Danone's response to the CMA's interim report, p17.

<sup>350</sup> As described further in Appendix F: Supporting evidence and analysis relating to competition in the market, these include securing suitable manufacturing capacity, requiring high initial investment in production, securing widespread distribution through retailers, and facing restrictions on interaction with healthcare professionals.

other significant changes in the market (eg to consumer behaviour) we continue to consider it unlikely.

- 7.36 Ultimately, neither our conclusions as to weak price competition in this market (see ‘Competition between manufacturers’ and ‘Competition between retailers’ below) nor our proposed remedies (see Section 8 Measures to address the concerns we have identified) turn on our finding that entering and expanding in this market appear challenging. Even in the context of Kendal’s entry and substantial expansion to become the second largest manufacturer, there has not been a widespread impact on prices or gross margins to date. This suggests that the existence of barriers to entry and expansion is not the key problem that needs to be solved in this market in order for competition to be more effective in exerting greater downward pressure on prices.

## Supply to the NHS

- 7.37 Although the total value of sales through the NHS is relatively small, supply to the NHS is important because receiving a particular brand of infant formula in a healthcare setting is a significant driver of decision-making for some parents (see Section 5 Consumer behaviour: Drivers of brand choice). We have found that manufacturers have consistently sold below cost to NHS Trusts in England and Wales (in at least the period we examined, January 2019 to December 2023)<sup>351</sup> and consider their NHS sales to be an important customer acquisition channel.<sup>352</sup> We consider that this is the case because: (i) brand visibility in hospitals is a significant factor driving brand choice (see Section 5 Consumer behaviour: Drivers of brand choice), and (ii) parents rarely switch infant formula brands (see Section 5 Consumer behaviour: Brand loyalty and switching). One consumer survey (Survey A) found that mums tend to continue using the brand they were given in hospital.
- 7.38 All the major UK manufacturers are approved to supply NHS Trusts in England and Wales; that is, they are all listed on the NHS Supply Chain framework.<sup>353</sup> However, manufacturers’ shares of supply to the NHS are, in some cases, quite different to their shares of supply to the retail market (see further detail in Appendix F Supporting evidence and analysis relating to competition in the market). The experiences of Kendal and HiPP show that, although manufacturers

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<sup>351</sup> NHS Supply Chain told us it does not currently set a ceiling price and that the price tendered by the supplier is the price the NHS Trust eventually pays. However, in 2019, NHS Supply Chain did set a ceiling price of 20p (excluding VAT) for 70ml-90ml liquid infant formula and bids above this were rejected. In 2023, the most recent tender, a manufacturer stated that NHS Supply Chain indicated to all manufacturers that prices should be kept low. Ultimately, all offers by the suppliers that were chosen to be on the framework were below the previous 20p ceiling price.

<sup>352</sup> The fact that manufacturers make a loss on their sales to the NHS shows that they consider this to be an important customer acquisition channel. Indeed, manufacturers have told us that this is part of a deliberate consumer acquisition strategy to get parents started on their brand because they know that these parents will most likely continue with it throughout their baby’s first year. For further details, see Appendix F Supporting evidence and analysis relating to competition in the market: Supply to the NHS.

<sup>353</sup> The following manufacturers and their brands were purchased by NHS Trusts between 2020-21 to 2023-24. Danone with Aptamil and Cow & Gate; Nestle with SMA; Kendal Nutricare with Kendamil; and HiPP with HiPP Organic.

can get onto the framework relatively easily, in practice this does not guarantee uptake from NHS Trusts, in part due to restrictions on interacting with healthcare professionals.

## Conclusions on barriers to entry and expansion

7.39 Our assessment has taken into consideration entry and exit over the past decade, the existence and potential impact (or lack thereof) of any entry plans by retailers and manufacturers, and a range of views as to the key barriers to entry and expansion in this market, including through submissions to our interim report. Based on this evidence, and absent other significant changes to the market, our conclusions are that:

- (a) There have been several examples of entry in the past decade (including Aldi's and Lidl's own-labels and Kendal's Kendamil and Bonya brands), and further entry is possible.
- (b) However, there are several challenges to entering and particularly to materially expanding in this market. Although these have not been insurmountable for entrants in the past decade, these barriers – when taken together in combination – significantly reduce the likelihood of disruption to incumbents.<sup>354</sup>

## Competition between manufacturers

7.40 In this sub-section, we discuss the extent and nature of competition between manufacturers of infant formula and follow-on formula. We have assessed evidence from manufacturers' and retailers' submissions, internal documents, and data on prices, revenues and costs. More detailed analysis of the evidence that underpins our conclusions can be found in Appendix F Supporting evidence and analysis relating to competition in the market.

7.41 Following publication of our interim report, we have reviewed additional evidence submitted by stakeholders in response to our provisional findings concerning competition between manufacturers. In the relevant sub-sections below and in Appendix F Supporting evidence and analysis relating to competition in the market, we explain where appropriate whether and how they have affected our findings and conclusions.

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<sup>354</sup> As noted in Section 4 Market outcomes and discussed later in this section the entry and substantial growth in market share of Kendal does not appear to have had a widespread impact on prices to date. The introduction of Kendal's new brand, Bonya, might stimulate greater price competition. However, given its recency, it is too early to be able judge its longer-term impact. We have gathered data up to and including November 2024, which was the month that Bonya launched in retailers.

7.42 The sub-section is structured as follows:

- (a) Competition on price;
  - (i) Manufacturers' pricing strategies (in the period 2021 to 2024);
  - (ii) The role of price promotions in upstream competition; and
  - (iii) Relationships between manufacturers and retailers.
- (b) Competition through brand reputation, product differentiation, and innovation; and
- (c) Conclusions.

## Competition on price

### Manufacturers' pricing strategies

7.43 Manufacturers' pricing decisions are likely to be informed by both the low levels of switching and high levels of churn in the market (that is, in any given month, many parents cease requiring infant formula and other parents start requiring it). These two market features have effects in opposite directions. Low levels of switching, combined with the essential nature of the product, give manufacturers strong incentives to raise prices well above the competitive level. However, the presence of high churn and limitations in manufacturers' ability to price discriminate between new and existing customers<sup>355</sup> mean that they also need to consider to some extent their ability to attract new parents when setting their recommended retail prices (RRPs) relative to those of their competitors.

7.44 To better understand the price trends described in Section 4 Market outcomes, we have used evidence including internal documents from 2021 to early 2024, as well as written and verbal submissions, to identify manufacturers' pricing strategies over time.<sup>356</sup> In particular, we sought to understand the competitive constraint manufacturers imposed on each other's prices and their views on the importance of price competition for selling formula milk products.

7.45 Based on our review of this evidence, and submissions from manufacturers in response to our interim report which we have carefully considered, we have found

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<sup>355</sup> We note that 'starter packs', which include smaller sized ready-to-feed bottles with teats, are particularly targeted at parents of newborn babies. However, most other products would be used by both new and existing customers.

<sup>356</sup> The four manufacturers included in this analysis are: Danone, HiPP Organic, Kendal and Nestle. We did not include contract manufacturers since they have a very different business model and role in this market. Aldi's internal documents (with respect to the pricing of Mamia) are covered below in Competition between retailers. While we did not gather evidence from Lidl about its pricing strategy for Lupilu, data on its initial pricing since launch in August shows that it has been priced the same as Aldi's Mamia, which we take to be indicative of its pricing strategy (which is in line with these discounters' usual approach to pricing more broadly).

that, between at least 2021 (the date of the earliest documents we have seen) and 2023, Danone was able to plan price increases with limited regard for competitors' pricing, albeit it seemed to have considered competitors' pricing slightly more over time. In response to our interim report, Danone submitted that it monitors how its prices sit within the pricing of competitors in the market. While the Danone documents we have seen show Danone routinely monitoring competitors' pricing, we have not seen evidence that this monitoring has significantly influenced Danone's pricing decisions. By contrast, HiPP, Kendal and Nestle appear to have been constrained to some degree by Danone's pricing, especially its pricing of Aptamil (which is the top-selling brand on the market), [§<].

- 7.46 Our finding that the intensity of price competition between manufacturers has historically been low is reinforced by evidence of parents' weak price sensitivity (including low price elasticity estimates in manufacturers' internal documents for most of the period 2021 to 2024), which is consistent with our findings about consumer behaviour (see Section 5 Consumer behaviour).
- 7.47 In reaching these conclusions we note that manufacturers' price cuts in 2024 have been limited (to only Danone's Aptamil brand), notwithstanding Kendal's substantial growth. We also note that other evidence suggests a lack of a competitive threat – contrary to the view advanced by one manufacturer – from Mamia. We have found that Mamia's market share has remained flat at a low level (after a short period of initial growth when it was launched in 2016), and that own-label formula holds limited consumer appeal (see Appendix F: Supporting evidence and analysis relating to competition in the market).
- 7.48 We agree that it seems possible that consumer responsiveness to price has increased (from a notably low base) between 2022 and 2023, as submitted by one manufacturer, as parents were faced with substantially higher formula prices. However, we have strong evidence from other sources (including our consumer research – see Section 5 Consumer behaviour) that parents tend not to be price sensitive in this market. We regard it as highly significant that, even since the onset of rapid inflation from late 2021, the market share of the least expensive brands (Mamia [0-5%] and Little Steps [0-5%]) did not materially change and remained low.
- 7.49 The growth of Kendamil, which has taken market share from other brands, constitutes a significant example of 'switching'. However, we do not consider that Kendamil's growth has been driven primarily by its price, despite the fact that the retail price of Kendamil has consistently been lower than those of Aptamil, SMA, and HiPP Organic (but above those of Cow & Gate, Little Steps and Mamia). Rather, we consider that Kendamil's expansion has been driven primarily by developing a differentiated offering with appealing product characteristics and brand messaging, and marketing this successfully. This reinforces our view that – given how parents tend to behave in this market – manufacturers appear to

compete primarily on brand reputation, rather than on price. This is also indicated by the fact that other newer lower-priced brands (both branded such as Little Steps and own-label such as Mamia) have failed to gain widespread traction with parents in spite of their price point.

- 7.50 Looking ahead, it is possible that increased competition as a result of Kendal's expansion – also including its launch of Bonya in November 2024 – will bring more widespread and downward pressure on prices. However, according to the most recent data gathered by the CMA (to November 2024), no such change has been discernible to date.
- 7.51 Finally, Danone has submitted that the introduction of its 1.2kg 'value' packs (which it offers under its Aptamil and Cow & Gate brands) was a competitive reaction, including to Kendamil and Mamia specifically, as it represented an effective price cut (compared to the 800g products). We agree that there has been [X] growth in these products' [X].<sup>357</sup>
- 7.52 We consider it likely that Danone's introduction of the 1.2 kg products represents – at least in part – a price response to competitors that have less expensive brands (such as Kendamil and Mamia), although we have seen very little direct evidence of this, including from the internal documents we have reviewed. Overall, we consider that increased uptake of the 1.2kg packs is a positive development for parents, as they provide better value for money (than the 800g packs). We note that Nestle also sells a 1.2kg value pack under its SMA brand. However, the fact that they are not accessible to all parents due to their higher cost per unit and more limited availability (and that their introduction has apparently not led to lower prices for the 800g packs) means they do not alleviate our concerns about weak price competition in this market.

### **The role of price promotions in upstream competition**

- 7.53 In formula milks, the role of price promotions is limited in two ways. First, price promotion is only permitted on follow-on formula and growing-up milk, and is prohibited on any type of infant formula. Second, as discussed above in Section 5 Consumer behaviour, parents are highly brand-loyal and are unlikely to be induced by a price promotion to switch brand, even when moving from infant formula to follow-on formula.

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<sup>357</sup> The CMA understands that sales of Cow & Gate 1.2kg infant formula commenced in 2020, and sales of Aptamil 1.2kg infant formula commenced in 2021. According to data submitted by retailers, sales of Cow & Gate 1.2kg infant formula commenced in 2020 in most major retailers, dropped to zero or low volumes at some retailers during 2021, and then grew substantially from 2022. The pattern for follow-on formula is broadly similar. We note that Cow & Gate 1.2kg infant formula has also been available at Ocado since 2024. Meanwhile, Aptamil 1.2kg infant formula entered Asda from mid-2021, Sainsbury's and Tesco from late-2022, and Morrisons from mid-2023, with sales increasing substantially at certain retailers. We note that Aptamil 1.2kg infant formula has also been available from Ocado since mid-2023. Aptamil 1.2kg infant formula was not available at Boots during this period. The pattern for follow-on formula is broadly similar.



7.54 Based on our analysis of internal documents and price promotion data<sup>358</sup> (see Appendix F Supporting evidence and analysis relating to competition in the market for further detail), we found that manufacturers (rather than retailers) fund and design most price promotions. We found that manufacturers' internal documents showed that they did not think price promotions were effective because parents are not very price sensitive. As such, pricing promotions are not currently an important part of upstream competition, even where they are permitted. Given that parents rarely switch brand in response to price differences, manufacturers primarily use price promotions to encourage existing customers to upgrade, eg from powders to liquids, or to progress through the stages, ie from infant formula to follow-on formula to growing-up milk.

### **Relationships between manufacturers and retailers**

7.55 In this sub-section, we discuss the relationships between manufacturers and retailers to understand the extent to which retailers impose a constraint on manufacturers' behaviour, particularly their pricing behaviour. First, we examine how manufacturers use RRPs. Second, we assess the relative bargaining strength of manufacturers and retailers, and the extent to which retailers are able to 'discipline' manufacturers. More detailed analysis of the evidence that underpins our conclusions can be found in Appendix F Supporting evidence and analysis relating to competition in the market. In Appendix F, we also describe the typical process by which manufacturers and retailers negotiate arrangements relating to the listing, distribution, presentation, and pricing of formula products.

7.56 Following publication of our interim report, we have received additional evidence submitted by stakeholders in response to our provisional findings concerning retailers' buyer power. We discuss these submissions and explain whether and how they have affected our findings and conclusions below.

### *Recommended retail prices*

7.57 Consistent with the data submitted to us regarding RRP changes (2019-2024), most manufacturers told us that they provide RRPs to retailers<sup>359</sup> periodically (usually annually) and/or in certain scenarios, eg when cost prices change or new product lines are introduced. In their submissions, manufacturers emphasised that their RRPs are for guidance only and that retail pricing remains at the sole discretion of retailers. Manufacturers told us that they do not monitor adherence to RRPs, but do monitor in-store prices (of both their own and competitors' products)

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<sup>358</sup> This data was from the five biggest infant formula retailers (Asda, Boots, Morrisons, Sainsbury's, and Tesco) and covered the period January 2021 to December 2023.

<sup>359</sup> These manufacturers confirmed that any given product's RRP was the same for all retailers.

across retailers, variously using in-house tools or data collected by market research firms.

- 7.58 We have seen in some internal documents several examples of dialogue between manufacturers and retailers concerning RRPs, and retail prices across the board have tended to closely track RRPs (see further discussion later in this section). However, we have not seen evidence of resale price maintenance.<sup>360</sup>

#### *Relative bargaining strength*

- 7.59 Next, we consider the relative bargaining strength of manufacturers vis-à-vis retailers. In theory, strong buyer power from retailers could compensate for (at least to some extent) weak price sensitivity among consumers and exert downward pressure on prices, *if combined* with robust competition at the retail level (retail-level competition is discussed later in this section).<sup>361</sup>
- 7.60 In the interim report, we identified several factors contributing to retailers' buyer power in this market (further detail on the evidence underpinning our findings can be found in Appendix F Supporting evidence and analysis relating to competition in the market).
- (a) The major retailers are large and commercially sophisticated entities that routinely deal with hundreds if not thousands of suppliers, including major global fast-moving consumer goods suppliers.<sup>362,363</sup>
  - (b) Retailers are the single most important distribution channel for formula manufacturers in the UK.
  - (c) Retailers control the allocation of shelf space, and maintaining or securing more shelf space is an important factor that impacts a product's sales.
  - (d) We have not seen evidence that manufacturers with wide product portfolios beyond formula milks (ie Danone and Nestle) are able to leverage these to strengthen their bargaining position in formula milks.
- 7.61 In line with industry practice, retailers will often try to validate or challenge cost price increases (CPIs) presented by manufacturers, by comparing the cost of goods across manufacturers and retail prices across competitors, and by independently assessing inflation in key inputs such as dairy, vegetable oils,

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<sup>360</sup> Resale price maintenance is an activity that breaches competition law. It occurs when a supplier requires, directly or indirectly, that a retailer not resell the supplier's products below a specified price. Resale price maintenance can occur indirectly if RRPs are combined with threats or incentives.

<sup>361</sup> However, in the absence of strong retail-level competition, retailers' buyer power would not necessarily translate into better outcomes for consumers.

<sup>362</sup> Danone submitted that its 'main sales channels for IF are controlled by large and expert purchasers [ie retailers and the NHS] with significant buyer power'. Danone's response to the CMA's invitation to comment, p3.

<sup>363</sup> See also CMA (2023), [Price inflation and competition in food and grocery manufacturing and supply](#), paragraph 1.9.

packaging, and energy.<sup>364,365</sup> We have seen in internal documents instances where retailers were able to apply pressure to some extent, including with respect to pricing.

- 7.62 There is also evidence that, despite apparent lack of constraint on price increases, manufacturers took account of the economic climate affecting household budgets over the past few years, and made attempts to work with retailers to extend access to their more affordable brands/ranges. From 2023 onwards, we have observed in the internal documents we reviewed an uptick in manufacturers' references in their communications with retailers to their 'affordable', 'accessible', and 'value' brands and products – including explicit statements concerning attracting shoppers during the cost-of-living crisis.
- 7.63 However, in our review of internal documents, we did not find many examples where retailers were able to strongly push back against manufacturers' demands or successfully constrain manufacturers in passing on their full cost increases (which is consistent with the data on manufacturers' gross margins, in aggregate and weighted by revenue, remaining fairly stable, as discussed in Section 4 Market outcomes: Margins). Indeed, it is evident from both internal documents and our analysis of manufacturers' and retailers' pricing data that retailers did accept multiple substantial CPIs throughout 2022 and 2023, prior to prices stabilising or decreasing in 2024.
- 7.64 This evidence, in combination with the level and relative stability of manufacturers' gross margins (in percentage terms; in aggregate and weighted by revenue) over this period, suggests that:
- (a) Manufacturers (on aggregate) do not appear to have increased their profit margins during the inflationary period.
  - (b) However, retailers were not successful in exerting pressure on manufacturers to absorb some proportion of the increased costs (ie by accepting lower margins).
- 7.65 We consider that there are several reasons why manufacturers hold a strong position in negotiations with retailers:
- (a) As noted by one retailer, most manufacturers in this market are 'sophisticated, multi-national entities' that hold 'sizeable and established positions in this category' – as discussed above, concentration is high with

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<sup>364</sup> A retailer told us that it 'will challenge suppliers where it becomes apparent to us – from live/current pricing – that our competitors have been able to adopt a lower retail price point than us'. There are some examples of manufacturers presenting to retailers the justification for their CPIs, by breaking down the extent of inflation in key inputs such as milk powder, tinsplate and aluminium (for packaging), plastic resins, and transportation.

<sup>365</sup> However, retailers are likely to have limited visibility into manufacturers' costs – see further discussion of this below.

limited prospects for entry (including retailers' own entry with own-label products).

- (b) As retailers emphasised in their submissions, customers display strong brand loyalty. This results in there being certain 'must-carry' products that retailers have little choice but to stock, reducing their bargaining power.
- (c) Since only one retailer stocks both own-label and branded formula milks, the vast majority lack an important source of insight into costs faced by manufacturers that they have in many other product categories, and the vast majority of retailers cannot threaten to preference their own-label offering over brands in negotiations.

7.66 In response to our interim report, some manufacturers submitted that they disagreed with our assessment of retailers' buyer power.<sup>366</sup> Two manufacturers gave examples of retailers de-listing certain products/ranges, or not agreeing to manufacturer requests (for example, the granting of additional shelf space), as evidence of the strength of retailers' power.<sup>367</sup> One stated that retailers play a key role in actively supporting entry and expansion, as evidenced by Tesco's support for Kendamil from 2022 onwards. The CMA observes that Kendamil's market share significantly increased following this. Additionally:

- (a) Danone and Nestle both submitted that the CMA has under-estimated the bargaining power of retailers.<sup>368,369,370</sup> Nestle said that manufacturers are heavily reliant on large retailers as the key route to market and, as such, retailers have countervailing buyer power. Danone said that we have overlooked the extent to which policies adopted by major retailers influence

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<sup>366</sup> No other respondents to the interim report made significant comments on this aspect of the analysis.

<sup>367</sup> One manufacturer also gave examples of retailers applying pressure to reduce prices or insisting on specific conditions in negotiations.

<sup>368</sup> Danone also submitted that the CMA accepted at face value the submissions made by retailers suggesting that they lack buyer power, and did not test these submissions with other market participants, including itself. Danone's response to the CMA's interim report, p21. As discussed below, we have primarily focused on gathering retailers' views on their experience, which we consider to be one helpful source of evidence. In the paragraphs below, we discuss the reasons why we consider retailers' submissions to be plausible.

<sup>369</sup> Danone also submitted that the 'unique and powerful role played by large retailers in the UK has also been consistently recognised in the work of the CMA (and its predecessor organisations)'; Danone's response to the CMA's interim report, p21. Danone gave the examples of the Competition Commission's Market Investigation into the Supply of Groceries in the UK, which highlighted the extent of the buyer power held by the largest grocery retailers, and the Tesco/Booker, Sainsbury's/Asda and Cerelia/Jus-Rol merger investigations. As set out above, our view of retailers' bargaining strength accounts for factors such as their size, commercial sophistication, and significance as the major distribution channel for manufacturers. However, we consider that, both in theory and practice, buyer power can vary significantly by product market. For example, when there is strong upstream competition between suppliers and low brand loyalty/high propensity to switch by consumers, retailers would typically have greater buyer power than when these conditions are not present. Here, we consider that weak upstream competition coupled with strong brand loyalty, low switching, and the outsized role of brand reputation, constitute very different conditions than those that prevail in many grocery product categories.

<sup>370</sup> Danone also noted that retailers [redacted]. We have based our assessment on the evidence available to us which includes internal documents and submissions. Furthermore, we note that, in practice, there have been notably few actual examples of de-listings that are (i) of better-selling products/core ranges (eg Aptamil infant formula); or (ii) widespread across a manufacturer's products/brands (rather than merely one or two products). One exception to this is Aldi's recent decision to de-list all branded formula products (ie all those other than its own-label Mamia), discussed later in this section.

and constrain the behaviour of manufacturers, particularly in the context of regular customer churn.<sup>371</sup>

- (b) Both Danone and Nestle disagreed with our view that some formula products have ‘must-carry’ status or are necessary to attract customers.<sup>372</sup> They both referenced as evidence for this Aldi’s decision to stop selling (from February 2024) all formula brands except its own-label Mamia infant formula.<sup>373</sup>
- (c) Nestle submitted that retailers have a sophisticated understanding of CPIs and the drivers behind them; as such, any CPIs passed on to retailers must be credible and must stand up to scrutiny and challenge from retailers.<sup>374</sup>

7.67 We have carefully considered these submissions. Taking them into account, our view is as follows.

7.68 We agree, as set out above, that retailers hold a certain degree of bargaining power, especially due to their role as the key distributors of formula milks and controllers of shelf space. In particular, we accept that retailers are likely to have a stronger position vis-à-vis manufacturers when it comes to products/ranges that are more ‘niche’ (ie are purchased far less frequently and/or by far lower numbers of consumers) since these will not necessarily be seen by retailers as ‘must-carry’. We regard most of the examples of product de-listings given by two manufacturers as examples in this category. These examples relate to (i) certain premium brands (which have a small market share); (ii) certain growing-up milks (which have much lower sales than infant formula and follow-on formula, and lower strategic significance in the sense that infant formula is typically the ‘recruitment’ product into a certain brand’s ‘feeding journey’); and (iii) one brand’s special (comfort) milk (which, again, has far lower sales compared to non-special formula).<sup>375</sup>

7.69 We consider that the two more significant examples of de-listing are: (i) Tesco’s de-listing of Little Steps infant formula and follow-on formula (different products variously in February and November 2024); and (ii) Aldi’s de-listing of all other formula brands except Mamia (ie Aptamil, Cow & Gate, and SMA infant formula).

- (a) In our view, Tesco’s de-listing of Little Steps is likely to be connected to the fact that it listed Bonya around the same time – suggesting that in the context of a relatively fixed amount of shelf space, Bonya was a direct ‘value tier’ replacement for Little Steps, given their price point is similar (see Section 4

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<sup>371</sup> Danone’s response to the CMA’s interim report, p22.

<sup>372</sup> Danone’s response to the CMA’s interim report, p22

<sup>373</sup> In addition, Danone referenced as evidence for this [3<].

<sup>374</sup> Nestle’s response to the CMA’s interim report, p10.

<sup>375</sup> The other specific instances that Danone cited as evidence for retailer power relate to seemingly ordinary commercial negotiations (with the retailer not always successful) over particular marketing initiatives or a refusal to grant additional shelf space, which we do not regard as persuasive evidence of retailers’ overall bargaining strength especially with respect to prices.

Market outcomes).<sup>376</sup> If this is the case, it is an example of direct competition for retail shelf space by a new brand, and would also be in line with Danone's submission that Tesco has historically supported Kendal, which helped the latter's expansion.<sup>377</sup> Nevertheless, Little Steps has persistently had a very small share of the market: its revenue share of supply was [0-5%] in the first 11 months of 2024 and was [0-5%] in 2023. At Tesco, Little Steps' share of total infant formula sales was around [0-5%] in 2024 prior to its de-listing.<sup>378</sup> We do not, therefore, consider that it represents competition over shelf space between major products.

- (b) In our view, Aldi's business model is different to that of the major supermarkets. In general, Aldi and Lidl prefer to stock private label products over branded ones.<sup>379</sup> At the time of implementing these de-listings, Aldi offered the only own-label formula product available in the UK. At present, only Aldi and Lidl offer own-label formula and no other retailer intends to enter (see 'Entry and exit' above). We consider it likely that Aldi thought it would be more profitable to discontinue selling branded formula milks (other than its own-label Mamia) rather than continue selling them. Logically, this would be the case if Aldi expected to gain greater upside from Mamia sales gained from those customers that diverted from one of the other formula brands (and/or sales of other kinds of products on the re-allocated shelf space) than the potential downside of sales of Aptamil, Cow & Gate, and SMA lost to other retailers.<sup>380</sup> We believe that this trade-off calculation would be very different at major retailers – notably because (i) the gains would be smaller, ie they would not be able to recoup some portion of lost sales via their own-label offering; and (ii) the losses would be larger, ie they are more likely than Aldi to be the sole grocery supplier to their customers.<sup>381</sup> Our consumer research found that most consumers buy formula from their usual supermarket as part of their regular shop.<sup>382</sup> This, combined with strong brand loyalty, implies that if a major retailer stopped stocking a formula product used by sizeable numbers of its customers (eg Aptamil 800g infant formula), it would risk a material number those customers of switching to

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<sup>376</sup> Tesco submitted that its decision to de-list Little Steps and launch Bonya also took into consideration other factors including mass market appeal and Bonya's social purpose.

<sup>377</sup> By this we refer to Tesco including Kendamil in its 'incubator programme' (see Appendix F Supporting evidence and analysis relating to competition in the market).

<sup>378</sup> Based on data submitted by Tesco.

<sup>379</sup> CMA (2023) Completed acquisition by C erelia Group Holding SAS of certain assets relating to the UK and Ireland dough business (Jus-Rol) of General Mills, Inc, [Final report](#), paragraph 7.5.

<sup>380</sup> This potential downside would also include any sales of other kinds of products lost to customers switching their broader groceries shop to a retailer that continued to offer their preferred branded formula.

<sup>381</sup> This is due to the more limited range of total products Aldi and Lidl offer. Aldi offers around 1,800 SKUs. [Aldi UK Supplier Pack](#) By contrast, Tesco offers around 38,000 SKUs (as of June 2024). [Tesco SKUs grow by more than a third follow marketplace launch - Grocery Gazette - Latest Grocery Industry News](#). See also CMA (2019) [Anticipated merger between J Sainsbury PLC and Asda Group Ltd final report](#), paragraphs 4.43 and 7.25 (Aldi previously submitted to the CMA that its customers may combine sourcing some groceries from Aldi with a visit to a 'Big 4' supermarket to supplement from their more extensive range).

<sup>382</sup> [Thinks Insight and Strategy \(2024\), Experiences using infant formula and follow-on formula: Qualitative research report \(updated\)](#), p30.

other retailers, some of whom may additionally switch all or part of their broader grocery shop.

- 7.70 Barring these two exceptions (Aldi's de-listing of all formula products except its own-label Mamia, and Tesco's de-listing of Little Steps), we found that no retailer we examined<sup>383</sup> over the period January 2019 to November 2024 de-listed any standard 800g or individual 200ml infant formula or follow-on formula product from any the following brands: Aptamil, Cow & Gate, HiPP Organic, or SMA.<sup>384</sup>
- 7.71 We therefore consider that retailers' submissions that there are 'must-carry' products/ranges are plausible, particularly given that we have found weak upstream competition coupled with strong brand loyalty and low propensity to switch among parents, and brand reputation being highly influential on consumer choice. These constitute very different conditions than those that prevail in many grocery product categories.<sup>385</sup>
- 7.72 We have also considered Nestle's point that retailers have a sophisticated understanding of CPIs. As noted above, our review of internal documents shows that retailers will often attempt to validate or challenge CPIs presented by manufacturers (by comparing the cost of goods across manufacturers and retail prices across competitors, and by independently assessing inflation in key inputs such as dairy, vegetable oils, packaging, and energy). However, as noted above, we also found that, since only one retailer stocks both own-label and branded formula milks, the vast majority lack an important source of insight into costs faced by manufacturers that they have in many other product categories.
- 7.73 In summary, while we accept that retailers likely have a degree of buyer power (particularly when it comes to products with lower sales), the submissions from Danone and Nestle have not materially changed our view as to the nature of the relationship between manufacturers and retailers in this market. Ultimately, we consider it highly significant that, based on internal documents and our analysis of manufacturers' and retailers' pricing data, retailers did accept multiple substantial CPIs throughout 2022 and 2023, prior to prices stabilising or decreasing in 2024 – with notably few examples of pressure successfully being applied by retailers on manufacturers.

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<sup>383</sup> Based on comprehensive product listings data provided by the following retailers: Aldi, Asda, Boots, Iceland, Lidl, Morrisons, Sainsbury's and Tesco.

<sup>384</sup> The only product de-listings across the other seven retailers (Asda, Boots, Iceland, Lidl, Morrisons, Sainsbury's and Tesco) during this period involved products that were: in non-standard formats or pack sizes (400g/600g/700g bags, tabs for one brand, smaller multipacks of ready-to-feed bottles for one brand, the newborn starter pack for one brand); in an organic range (one product de-listed by one retailer); certain special milks (eg one brand's anti-reflux, comfort, hungry, and soya formulas de-listed by some retailers, and another brand's comfort formula de-listed by one retailer); and in addition, one retailer de-listed and later re-listed Kendamil (at a time when it was a relatively new brand with a much smaller market share than it presently has).

<sup>385</sup> See also CMA (2023) [Competition, choice and rising prices in groceries - GOV.UK](#)

7.74 We consider that this outcome reflects a combination of retailers' limited *ability* to constrain price increases by manufacturers and their limited *incentive* to do so, due to weak competition at the retail level. This latter point is discussed more fully later in this section.

### **The implications of the stability of manufacturers' gross margins**

7.75 As set out in Section 4 Market outcomes: Margins, our calculations of manufacturers' gross margins suggest that, in aggregate and weighted by revenue, they have broadly been stable in percentage terms (remaining within a range of around [50-75%] throughout the period 2019 to 2023).<sup>386</sup> This occurred during a period of substantial increases to manufacturers' input costs, implying that manufacturers (in aggregate) passed on cost increases to their customers (retailers). This finding of broadly stable gross margins (in percentage terms) is substantiated by evidence from manufacturers' and retailers' internal documents, as discussed in the sub-sections above.

7.76 In response to our interim report, Danone submitted that the full pass-through of costs does not, by itself, suggest any lack of competition.<sup>387</sup> It stated that in highly competitive markets, providers have limited ability to absorb industry-wide cost shocks without affecting their long-term competitiveness or sustainability.<sup>388</sup> Danone also submitted that [redacted].<sup>389</sup>

7.77 We agree, as previously stated in the interim report, that full pass-through of cost increases does not, in and of itself, imply weak competition on price. In a theoretical highly competitive market, margins would be very low and increases to input costs would need to be fully or almost fully passed onto customers, since producers would have limited scope to do otherwise. However, a range of other evidence shows that this market is not highly price-competitive and the level of the manufacturers' gross margins in aggregate (in percentage terms) is not very low. We have reached this view based on the combination of (i) high and persistent market concentration (see Section 4 Market outcomes: Shares of supply); (ii) strong evidence that parents are motivated by doing the best for their baby rather than saving money, often associate a higher price with higher quality, and are strongly brand-loyal, and hence that most parents are not highly price-sensitive (see Section 5 Consumer behaviour); and (iii) documentary and other evidence of manufacturers' pricing strategies (see 'Manufacturers' pricing strategies' above). In this context, we consider that the relative stability of manufacturers' gross margins

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<sup>386</sup> In response to our interim report, Danone submitted that it disagreed with the CMA's calculation of gross margins. Danone's response to the CMA's interim report, p42. We discuss its submission and the CMA's view on this separately in Appendix E Margins methodology.

<sup>387</sup> Danone's response to the CMA's interim report, p23.

<sup>388</sup> Danone's response to the CMA's interim report, p23.

<sup>389</sup> Danone stated that [redacted].



(in aggregate and weighted by revenue) over this period of rapid inflation is informative in two ways:

- (a) Manufacturers have apparently not responded to Kendal's substantial growth in market share over the past few years by taking actions (ie reducing their prices relative to costs) that reduce their gross margins, in aggregate.<sup>390</sup> This reinforces our view that Kendal's expansion has not (yet, at least) materially increased price competition.
- (b) In a context where we consider that manufacturers' gross margins in aggregate were not already low, they did not face sufficient pressure from retailers to cause them to accept materially reduced gross margins (thereby constraining or delaying price increases during the cost-of-living crisis). As noted above, we consider this was due to a combination of limited ability and limited incentive on the part of retailers to do so.

### **Competition through brand reputation, product differentiation, and innovation**

- 7.78 In this sub-section, we examine the nature of competition between manufacturers on parameters other than price, namely brand reputation, product differentiation, and innovation.
- 7.79 As discussed in Section 5 Consumer behaviour, doing what is best for their baby is the overriding motivator for parents when choosing infant formula products, with brand reputation representing the key overarching factor influencing choice of brand. There is a close link between brand reputation, product differentiation, and innovation. A product can be differentiated in ways that enhance brand reputation (including through real and perceived quality attributes), while innovation can lead to new types of differentiation or to the creation of new products that are valued by consumers. In addition, the perception of 'innovativeness' (eg marketing a brand as 'backed by research' or 'science-led') can also in itself be influential.<sup>391</sup>
- 7.80 As noted in Section 4 Market outcomes: Product differentiation, manufacturers have strong commercial incentives to attempt to differentiate and assert the merits of their products. The same section sets out responses to our interim report which strongly indicate that infant formula products are nutritionally equivalent and do not currently vary in important ways, while the views to the contrary were primarily from manufacturers. It also noted that some respondents submitted that parents are misled by manufacturers' claims and/or find them hard to interpret or verify.

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<sup>390</sup> As set out in Section 4 Market outcomes: Shares of supply, Kendal's share of supply increased from [0-5%] in 2019 to [20-30%] in the first eleven months of 2024.

<sup>391</sup> For example, *Thinks Insight and Strategy (2024)*, *Experiences using infant formula and follow-on formula: Qualitative research report (updated)*, pp32, 36.

7.81 Some manufacturers responding to our initial invitation to comment submitted that manufacturers compete strongly on quality and innovation.<sup>392</sup>

- (a) Danone stated that non-price factors (ie quality and innovation) ‘play a critical role in driving competition and raising consumer welfare in the infant formula market’ and that competition ‘is driving continuous product innovation, thereby enabling parents and caregivers to select from a wide choice of products with different features and price points’.<sup>393</sup> Danone also stated that, ‘to meet the significant consumer demand for higher quality products that bring additional nutritional and health benefits, [it] has ... invested heavily in R&D to continuously improve its products ... including through improved product formulations and new product features’, listing several examples of its innovations which were subsequently imitated by competitors and/or integrated into the minimum regulatory requirements.<sup>394</sup>
- (b) Nestle submitted that manufacturer-led innovation is very important to develop better infant formula products and that it is committed to investing in research and development to continually improve and innovate.<sup>395</sup> It said that ‘parents consider factors such as medical benefits, inclusion of unique ingredients, nutritional/ advanced benefits, pack format, availability, price positioning, and brand trust with regards to safety and quality’.<sup>396</sup>

7.82 The biggest manufacturers also told us that they spend substantial sums on R&D related to formula milks.

- (a) In 2023, Danone UK spent a substantial sum globally on specialist nutrition R&D. Given infant formula products are a particularly R&D intensive product, Danone UK believes that a majority of this spend relates to activities relevant to infant formula.<sup>397</sup>

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<sup>392</sup> In addition to the manufacturers’ responses, a respondent to our invitation to comment submitted that it believes that the significant global R&D by academics and industry to better understand the composition of breast milk can ‘unlock positive outcomes’ for children. Anonymous 1 response to the CMA’s invitation to comment, p4.

<sup>393</sup> Danone’s response to the CMA’s invitation to comment, p2, paragraph 7.

<sup>394</sup> Danone’s response to the CMA’s invitation to comment, p4, paragraph 19. It provided the following examples:

- Danone offered long chain polyunsaturated fatty acids in its formula product over 20 years before relevant regulations were updated to require them as a minimum regulatory standard.
- Danone was also the first to launch an infant formula containing prebiotics and pioneered prebiotic formulas based on its mixture of prebiotic GOS:FOS, in an evidence-based 9:1 ratio. It said that this innovation has since been followed by other competitors, although at lower levels.

<sup>395</sup> Nestle’s response to the CMA’s invitation to comment, question 20. By way of an example, Nestle submitted that its research into protein and amino acids has led to a ‘demineralization and fractionation process of sweet whey. This optimised protein (included in SMA Pro products) has been clinically shown to support age-appropriate growth, comparable to WHO standards’.

<sup>396</sup> Nestle’s response to the CMA’s invitation to comment, question 7.

<sup>397</sup> Danone UK submitted that the UK market will be ‘disproportionately important’ to supporting these research and development activities. Danone UK’s specialist nutrition category includes non-infant formula products (such as baby foods, and adult medical nutrition), but Danone UK submitted that it believes that ‘a majority’ of this spend relates to activities relevant to infant formula.

- (b) Nestle told us that it spent substantial sums on R&D related to formula milks.
- (c) In 2022, Kendal spent [below £5] million on research and development, which was equivalent to [5-10%] of the turnover to which the spend relates.

- 7.83 To the extent that there is genuine and meaningful quality differentiation between products, and parents can use clear, accurate and impartial information to understand and choose products based on how much (if at all) parents value such differences, this would represent healthy competition on quality. Likewise, to the extent that manufacturers vie to bring out important new innovations that are valuable to parents, this would represent healthy competition on innovation.
- 7.84 We consider that there are examples where manufacturers have sought to compete on product differentiation and innovation that have brought genuine benefits for parents and their babies. For instance, following Danone's addition of omega-3 docosahexaenoic acid (DHA) to its infant formula products since 1992, the European Commission's Delegated Regulation EU 2016/2017 (implemented in 2020) made this a mandatory ingredient for all infant formula.<sup>398,399</sup> The introduction of organic and vegetarian ranges offer genuine choice for parents who prefer such options for ethical or lifestyle reasons. The innovation of different formats of formula – ie ready-to-feed (liquid) and tabs – improves choice for parents who highly value convenience when preparing formula.
- 7.85 In response to our interim report, Danone submitted that brand equity plays a key role in communicating (legitimate and verifiable) benefits to consumers while incentivising innovation,<sup>400</sup> as its brands reflect the products' 'superior nutritional quality', conveying to parents 'important information' about key product features.<sup>401</sup> It also submitted that as product safety is paramount, it is rational for parents to value a trusted brand with a proven track record.<sup>402</sup>
- 7.86 As noted in Section 4 Market outcomes: Product differentiation, we consider that the strong emphasis placed by manufacturers on additional nutritional benefits, conveyed via signalling, has a disproportionate influence on consumer choice. Regarding product safety, we consider that the regulations ensure that infant formula and follow-on formula contain only safe ingredients, so products do not endanger the health of babies, and as such there is no additional need for branding to signal product safety. In addition, we have not seen evidence that

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<sup>398</sup> DHA is an omega-3 fatty acid, which is considered important for babies' brain and eye development.

<sup>399</sup> We note that the assessment which mandated the inclusion of DHA also considered various other nutrients but did not mandate their inclusion in all infant formulas. EFSA (2014), [Scientific Opinion on the essential composition of infant and follow-on formulae](#), p3.

<sup>400</sup> Danone's response to the CMA's interim report, p12.

<sup>401</sup> Danone's response to the CMA's interim report, p13.

<sup>402</sup> Danone's response to the CMA's interim report, p13.

parents believe cheaper or own-label products are unsafe or do not meet the nutritional needs of their baby.

- 7.87 In response to our interim report, Danone submitted that manufacturers have the ability to ‘genuinely enhance the nutritional quality of IF, to the benefit of consumers’ and that ‘the CMA also puts forward an unsupported and baseless suggestion that no further scientific progress is possible in this space’.<sup>403</sup> Regarding the latter submission, in paragraph 7.79 of our interim report we stated that ‘there is limited scope for manufacturers to compete by offering products that are materially differentiated on nutritional quality’ (emphasis added).<sup>404</sup> For the reasons set out in this section, we continue to hold this view. Regarding Danone’s submissions that there is scope for genuine improvements in the nutritional quality of infant formula, while we do not exclude this possibility, we consider that the actual examples of this are few and the legislation means that where nutrients are proven to be of benefit (by the relevant independent scientific committee) they are mandated for inclusion in all products.
- 7.88 Therefore, we continue to be concerned that it appears that manufacturers’ efforts on communicating quality and innovation are primarily oriented to signalling their trustworthiness and superiority via product packaging and broader marketing, with use of phrases such as ‘inspired by research’ or ‘advanced’ connoting intangible and/or non-verifiable benefits rather than specific and verifiable points of difference about particular products. They do so in a context in which most parents are likely to find it difficult to meaningfully assess information about product quality. For example, manufacturers tend to emphasise their R&D efforts when communicating with parents (see examples above in Section 6 Impact of the regulatory framework and regime: On-pack messaging), and this is likely to be influential with respect to consumer decision-making, even though relatively few new developments have been assessed by the relevant independent scientific committee as beneficial to babies and mandated to be included in all infant formula, with the most recent assessment only mandating the inclusion of one additional ingredient (DHA) (see Section 4 Market outcomes: Product differentiation). Such signalling can help manufacturers (i) to build their brand reputation in general; and (ii) to justify charging a premium on certain products/ranges.
- 7.89 One particular example of this is that each of the largest manufacturers offers a portfolio of different brands, with the market broadly structured across three tiers (‘premium’, ‘standard’, and ‘value’ or ‘entry’).
- (a) Danone produces (in descending price order) Aptamil Advanced, Aptamil, and Cow & Gate. Regarding Aptamil, Danone submitted that it invests ‘heavily’ in research and development to ensure that Aptamil is the ‘closest

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<sup>403</sup> Danone’s response to the CMA’s interim report, pp10-11.

<sup>404</sup> CMA (2024), [Infant formula and follow-on formula market study interim report](#), paragraph 7.79.

alternative to breastmilk' on the market. Danone said that 'while Cow & Gate still exceeds minimum nutritional standards in several areas, Danone accepts that the formulation will be further behind the cutting-edge research embodied in Aptamil.' Regarding Aptamil Advanced, Danone said that it includes additional 'key' nutrients.

- (b) Nestle produces (in descending price order) SMA Advanced, SMA, and Little Steps. Nestle's SMA website describes the SMA Advanced range as its 'most advanced formulation yet' which is 'specially tailored for babies & toddlers with protein broken into smaller pieces.'<sup>405</sup> Meanwhile, its SMA range is described as 'expertly developed with nature in mind to help support babies' unique nutritional needs' and Little Steps simply as 'tailored for every stage of development'.<sup>406</sup> Nestle submitted that Little Steps provides 'great value for money without compromising on nutrition or product quality'.<sup>407</sup>
- (c) Kendal produces a (higher priced) organic range and a (lower priced) non-organic or 'classic' range, between which the main difference is that the former uses organic milk.<sup>408</sup> In November 2024, it also launched a new brand 'Bonya', which is priced lower than Kendamil [X]. Kendal told us that the main points of compositional difference between Kendamil and Bonya are that: Kendamil uses fresh liquid whole milk while Bonya uses powdered skimmed milk powder; Kendamil has whole milk as the first primary ingredient whereas Bonya uses anhydrous milk fat; Kendamil includes certain components which are not present in Bonya (specifically, nucleotides, milk fat globule membrane, and human milk oligosaccharides including GOS and FOS); and Kendamil has higher levels of docosahexaenoic acid (DHA) and arachidonic acid (ARA) than Bonya. Kendal has submitted that it 'believes' in product differentiation, but its messaging 'primarily leans on more general values' (which Kendal identified as its clean ingredients, organic recipe, and family business), which it considers to be concepts that any consumer 'intuitively can relate to' and not messages aimed at suggesting nutritional superiority.

7.90 Some respondents to our interim report considered that the addition of extra ingredients were not beneficial for babies. For example,

- (a) The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London submitted that some of the most expensive

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<sup>405</sup> SMA, Nutrition baby milks, [Formula Milk](#), accessed 31/07/2024.

<sup>406</sup> SMA, Nutrition baby milks, [Formula Milk](#), accessed 31/07/2024.

<sup>407</sup> Nestle's response to the CMA's invitation to comment, p1.

<sup>408</sup> Kendal also produces a goat's milk formula (which is priced higher than its organic cow's milk range). Since this product is sold in very small volumes, we do not discuss it further here.

products had ‘no tangible features to differentiate them’ and they included novel ingredients which ‘have not been shown to have any benefit’.<sup>409</sup>

- (b) First Steps Nutrition Trust submitted that ‘Manufacturers use various strategies to differentiate commercial milk formula products for marketing purposes, with features that do not genuinely provide products of different quality. These differentiating features have no demonstrable health, safety, environmental or other advantages, but are used to achieve higher product prices and these risk[s] obscuring the principal fact that all infant formula are nutritionally comparable.’ It also said that marketing based on differentiation due to the added non-mandatory ingredients misleads parents.<sup>410</sup>
- (c) The Breastfeeding Network submitted that additional ingredients added to formulas by manufacturers to differentiate their products have no proven benefit, otherwise they would be required -by law- to be added to all formulas.<sup>411</sup>

7.91 First Steps Nutrition Trust and The Breastfeeding Network<sup>412</sup> pointed to the European Food Standards Agency’s 2014 assessment of infant formula which stated that the ‘inclusion of unnecessary substances in formulae may put a burden on the infant’s metabolism and/or on other physiological functions, as substances which are not used or stored have to be excreted’.<sup>413</sup>

7.92 We asked Nestle and Danone to provide a clear and succinct explanation of the specific benefits to babies in terms of nutrition and development (if any) provided by their different brands/sub-brands. Appendix F Supporting evidence and analysis relating to competition in the market<sup>414</sup> sets out their responses in full. In summary:

- (a) Regarding the differences between Aptamil and Cow & Gate infant formula, Danone submitted that Aptamil contains: more prebiotics (specifically twice as much GOS:FOS), which have gut health benefits; and certain postbiotics (produced through a specific fermentation process developed by Danone), which have gut health and immune system benefits. Regarding the differences between Aptamil Advanced and Aptamil infant formula, Danone submitted that Aptamil Advanced contains: prebiotics (2’FL), which have immune system benefits; a specific milk fat blend, which may lead to

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<sup>409</sup> The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p3.

<sup>410</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, pp6, 19.

<sup>411</sup> The Breastfeeding Network’s response to the CMA’s interim report, p1.

<sup>412</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, pp6, 19. The Breastfeeding Network’s response to the CMA’s interim report, pp1-2.

<sup>413</sup> EFSA (2014), [Scientific Opinion on the essential composition of infant and follow-on formulae](#), p2.

<sup>414</sup> Manufacturers’ submissions on the differences between their brands/sub-brands.

improved bone health and digestive benefits; and additional phospholipids, which have inflammatory, immune and neural development benefits.

- (b) Nestle submitted that Little Steps meets the compositional standards set by regulation and is therefore ‘nutritionally complete’, whereas SMA and SMA Advanced go beyond these regulatory standards to include components that they say offer certain additional benefits to babies. It pointed to three areas of difference: (i) protein amount, where SMA has a protein content and amino acid profile which they say supports optimal growth; (ii) digestibility, where SMA and SMA Advanced are more whey-dominant formulas, which they say are easier to digest; and (iii) immune support and gut microbiome, where SMA contains 2’FL and SMA Advanced contains five biosynthetic human milk oligosaccharides.

7.93 We do not have the necessary expertise to assess the extent of these benefits to babies nor would we expect the vast majority of parents to have this expertise. We note that the regulations mean that all infant formulas must be safe and contain all the nutrients a healthy baby needs for development and growth and NHS advice states that *‘It does not matter which brand you choose, they’ll all meet your baby’s nutritional needs, regardless of price’*.

7.94 It is worth noting that consumer uptake of some of the premium infant formula ranges is low – in the first 11 months of 2024, Aptamil Advanced had a revenue share of [0-5%] and SMA Advanced had a share of [0-5%]. We consider it likely that some parents assess the value-for-money of standard products by benchmarking against the equivalent premium products and that manufacturers recognise this (a practice known as ‘reference pricing’). In other words, part of manufacturers’ rationale for maintaining the premium ranges – despite relatively low sales and [§<] than on standard ranges – is likely to be indirectly supporting sales and pricing of the standard ranges. This tiered pricing strategy also enables manufacturers to discriminate between more- and less-price-sensitive parents.

7.95 We have examined the unit costs of production of different formula products, based on disaggregated cost data provided by manufacturers. This analysis indicates that the raw ingredients in some ‘premium’ products do appear to cost more than those in ‘standard’ products; however, there is a much smaller difference in the cost of the raw ingredients between ‘standard’ and ‘value’ products.

- (a) Over the period January 2019 to May 2024, the unit cost of raw materials<sup>415</sup> used for the production of Aptamil Advanced infant formula 800g powder was

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<sup>415</sup> ‘Raw materials’ here refers to the ingredients in the formula (and does not include [§<]). Between 2020 and 2024, the single most costly ingredient in the composition of Aptamil Advanced infant formula 800g powder was [§<], whereas for Aptamil in most of these years it was [§<].

markedly higher than for Aptamil infant formula 800g powder,<sup>416</sup> implying there is a difference in the cost and/or quantities of one or more ingredients in Danone's premium range compared to its standard range (although we note that the higher cost of the ingredients does not necessarily imply a proportionate, or indeed any additional, benefit to babies). This is consistent with Danone's submission that it adds certain 'key' nutrients to Aptamil Advanced.

- (b) However, the unit cost of raw materials<sup>417</sup> used to produce Aptamil infant formula 800g powder has typically been very similar to that of Cow & Gate infant formula 800g powder, [§].<sup>418,419</sup> Yet, over this period, Danone has consistently set the RRP of Aptamil infant formula 800g powder [§] higher than Cow & Gate infant formula 800g powder.<sup>420</sup>
- (c) Over the period January 2019 to May 2024, the unit cost of raw materials used for the production of SMA Advanced infant formula 800g powder was markedly higher than for SMA infant formula 800g powder,<sup>421,422</sup> implying there is a difference in the cost of one or more ingredients in Nestle's premium range compared to its standard range (although, as above, the higher cost of the ingredients does not necessarily imply a proportionate, or indeed any additional, benefit to babies).
- (d) However, there was a smaller difference in the respective unit cost of raw materials used for the production of SMA infant formula 800g powder and Little Steps infant formula 800g powder over this period.<sup>423</sup> The unit cost for Little Steps was lower for almost all of the period (but was similar or higher in some parts of the period, particularly between around September 2023 and January 2024).<sup>424</sup> Yet, since 2019, Nestle has consistently set the RRP of SMA [§] higher than Little Steps.<sup>425</sup>

7.96 Given the recency of Kendal's launch of Bonya, we have not undertaken the same detailed analysis for its cost of raw materials versus those of Kendamil. However, we consider it significant – in terms of the importance of brand reputation to be able to compete successfully in this market – that Kendal has explicitly sought to

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<sup>416</sup> Based on data submitted by Danone.

<sup>417</sup> The unit cost of raw materials reflects the cost of ingredients but excludes [§].

<sup>418</sup> Based on data submitted by Danone.

<sup>419</sup> Between 2020 and 2022, the single most costly ingredient in the composition of [§] was [§] – this accounted for [§] during this period. In 2023, [§] was the single most costly ingredient [§]. In 2024, [§] was the single most costly ingredient [§].

<sup>420</sup> Based on RRP data submitted by Danone.

<sup>421</sup> Based on data submitted by Nestle.

<sup>422</sup> Over the period 2019 to 2024, [§] made up a consistently higher percentage ([§] a consistently lower percentage) of the total raw material cost of SMA Advanced compared to SMA and Little Steps. Based on data submitted by Nestle.

<sup>423</sup> Based on data submitted by Nestle.

<sup>424</sup> [§]

<sup>425</sup> Based on RRP data submitted by Nestle.



link the Bonya brand to that of the now well-established Kendamil brand. Kendal submitted to us that:

‘We make it clear on and off-pack that Bonya is part of the Kendamil family, with the front of pack showing ‘Bonya by Kendamil’ in the product name, and a further explanation on the back of pack. This is done to ensure that families in need of a more affordable infant formula feel reassured that this product is manufactured by a brand they already know and trust. ... The association of the Kendamil name aims to reassure and help drive positive change.’

- 7.97 We consider that this may lead some parents that are aware of Kendamil’s specific product attributes to assume that they all apply to Bonya as well. This is despite the fact that certain attributes that Kendal has consistently highlighted in Kendamil’s marketing are not shared by Bonya (for example, Bonya uses anhydrous milk fat rather than liquid whole milk fat; and it is not produced in the UK, unlike Kendamil’s powder products).<sup>426</sup>
- 7.98 In our view, the information asymmetry (ie between what manufacturers know about their products and what most parents could realistically be expected to understand) is important, because it creates the conditions for manufacturers to compete on quality *signalling* via intangible, non-verifiable benefits rather than specific and verifiable points of difference about particular products. Through product packaging and broader marketing efforts, manufacturers are highly influential in shaping the information environment in which parents make their purchasing decisions. At the same time, as noted above in Section 5 Consumer behaviour, there is often limited clear, accurate, and impartial information available to parents (eg from healthcare professionals) to verify or counter-balance such signalling and messaging by manufacturers.
- 7.99 While there have been examples of product differentiation and innovations that have brought valuable benefits to parents and babies, legislation ensures that all infant formulas provide all the nutrients a healthy baby needs for development and growth. Therefore, we consider that ultimately there is limited scope for manufacturers to compete by offering products that are materially differentiated on nutritional quality.<sup>427,428</sup> In the case of some brands within a given manufacturer’s portfolio (including Danone’s Aptamil vs Cow & Gate, and Nestle’s SMA vs Little

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<sup>426</sup> There are some other compositional differences as noted above.

<sup>427</sup> Further evidence for this, as noted above in Barriers to entry and expansion, is from one manufacturer of baby and toddler feeding products that had considered entering the supply of formula milks, which told us that ‘trying to come with true differentiation for ... a consumer is really difficult’.

<sup>428</sup> In response to our interim report, regarding this paragraph, Danone submitted that ‘The CMA also puts forward an unsupported and baseless suggestion that no further scientific progress is possible in this space.’ (Danone response to the CMA’s interim report, p11). We do not recognise Danone’s characterisation of our views in this paragraph. As stated in the paragraph, we consider that there is limited scope (not no scope) for future material differentiation on nutritional quality.

Steps), we have observed substantial RRP/retail price differences that do not appear to be proportionate to their respective raw material unit costs. We consider this evidence to support our concerns around quality signalling and reference pricing.

## **Conclusions on competition between manufacturers**

7.100 Based on the evidence discussed in this section and in Appendix F Supporting evidence and analysis relating to competition in the market, plus the earlier evidence relating to prices and gross profit margins (in Section 4 Market outcomes), our conclusions with respect to competition between manufacturers are as follows:

- (a) The intensity of price competition between manufacturers has historically been low. This is reinforced by evidence of parents' weak price sensitivity (including low price elasticity estimates in manufacturers' internal documents for most of the period 2021 to 2024), which is consistent with our findings about consumer behaviour (see Section 5 Consumer behaviour).
- (b) Manufacturers appear to have faced little constraint in passing on cost inflation to parents via retailers over the past few years. While we have seen some examples of retailers pushing back, manufacturers' pricing power does not appear to have been strongly constrained by retailers' buyer power over the past few years. Manufacturers' strength is primarily due to parents' brand loyalty, limiting retailers' ability to bargain over 'must-carry' products. Manufacturers were able to implement a series of substantial cost price increases over 2022 and 2023, which retailers largely accepted and passed on to parents.
- (c) Between at least 2021 (the date of the earliest documents we have seen) and 2023, Danone was able to plan price increases with limited regard for competitors' pricing, albeit it seemed to have considered competitors' pricing slightly more over time. By contrast, HiPP, Kendal and Nestle appear to have been constrained to some degree by Danone's pricing, especially its pricing of Aptamil (which is the top-selling brand on the market).
- (d) Kendamil's market share has grown substantially. However, we do not consider that its growth has been driven primarily by its price, but rather by developing a differentiated offering with appealing product characteristics and brand messaging, and marketing this successfully. This reinforces our view that – given how parents tend to behave in this market – manufacturers appear to compete primarily on brand reputation, rather than on price. This is also indicated by the fact that other newer lower-priced brands (both branded such as Little Steps and own-label such as Mamia) have failed to gain widespread traction with parents in spite of their price point.

- (e) It is possible that increased competition from Kendamil has triggered price decreases of Aptamil in 2024. If this is the case, this response has taken time to occur and, to date, has been limited (to this brand only). Furthermore, these developments have taken place during a period of increased government (including CMA) and press scrutiny of infant formula prices, such that it is possible this was also a motivating factor for the price cut.
- (f) Looking ahead, it is possible that increased competition as a result of Kendal's expansion – including also its launch of Bonya in November 2024 – will bring more widespread and sustained downward pressure on prices. However, according to the most recent data gathered by the CMA (to November 2024) – given trends in prices and gross profit margins (in aggregate, weighted by revenue) – no such change has been discernible to date.
- (g) Aside from price, manufacturers do seek to compete on product differentiation and innovation to some extent, and this has yielded some genuine benefits for parents and their babies. However, we consider that manufacturers' efforts here are primarily oriented towards signalling trustworthiness and superiority via intangible and/or non-verifiable benefits rather than specific and verifiable points of difference about particular products. Through this, they build and maintain their brand reputation, in a context where parents are likely to find it difficult to assess product quality or to access clear, accurate, and impartial information. This helps manufacturers to justify price premiums, including via the tiered price architecture we observe in the market. We consider that regulations provide for the two most important aspects of quality for all infant formula and follow-on formula sold in the UK: product safety and appropriate nutritional composition. As such, we consider that it is the regulatory framework, rather than brand reputation, that is the appropriate mechanism for assuring parents of safety and quality.

## Competition between retailers

7.101 Next, we discuss the extent and nature of competition between retailers. In line with the analysis presented in Section 4 Market outcomes: Retail pricing, we have focused our assessment on the top five retailers of formula milks (Asda, Boots, Morrisons, Sainsbury's, and Tesco) plus three discounters (Aldi, Iceland, and Lidl), which together accounted for [60-70%] of manufacturers' aggregate infant formula and follow-on formula revenues in 2023.<sup>429</sup> We have assessed evidence from manufacturers' and retailers' submissions, internal documents, and data on prices, revenues and costs. More detailed analysis of the evidence that underpins our

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<sup>429</sup> CMA analysis

conclusions can be found in Appendix F Supporting evidence and analysis relating to competition in the market.

7.102 Following publication of our interim report, we have received additional evidence, including submissions by stakeholders in response to our provisional findings concerning competition between retailers. We discuss these submissions below and explain whether and how they have affected our findings and conclusions.

7.103 The sub-section is structured as follows:

- (a) Price competition;
- (b) Non-price competition; and
- (c) Conclusions.

### **Price competition between retailers**

7.104 Most retailers submitted that they monitor and take into account competitors' pricing (based on publicly available information), amongst several other factors, when setting their own retail prices for formula milks.<sup>430</sup> Several retailers also noted that the cost price (ie the price paid to the manufacturer) affects their retail price. Four retailers explicitly said that they consider manufacturers' RRPs when setting prices, one of which explained that it considers RRPs as a 'proxy to estimate / gauge the retail price that may be adopted by some of our competitors ... We may use this as a factor in our final retail pricing decisions'. When asked the extent to which manufacturers influence retail prices, no retailer told us it felt under pressure to adhere to RRPs.

7.105 However, we have found that retail prices for infant formula have tended to closely follow RRPs.<sup>431</sup> As a result, as noted in Section 4 Market outcomes: Retail pricing, there has been limited variation in prices across retailers. In our review of internal documents, we did not find evidence of resale price maintenance. Rather, we consider that this close tracking of RRPs is likely to be due to a lack of incentive on the part of retailers to price below the RRP.

7.106 One likely reason for this is that regulations do not permit retailers to advertise or promote the price of infant formula, and therefore it would be difficult to alert parents who do not normally shop at a particular retailer that they could find their

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<sup>430</sup> With regard to Iceland specifically, it submitted that up until August 2023, its strategy was to undercut the market [§<] and price-match key leaders [§<] on other brands. However, in August 2023, Iceland substantially cut its prices [§<], a strategy which it appears to have maintained since then. See also: [Iceland slashes price of baby formula to combat cost-of-living crisis | UK News | Metro News](#) and [It's time to change the law on infant formula – About Iceland](#), accessed 17/10/24.

<sup>431</sup> Based on CMA analysis comparing monthly retail pricing data submitted by retailers and RRPs submitted by manufacturers for the period January 2019 to May 2024.

preferred product cheaper there.<sup>432</sup> However, given the outcomes we see in follow-on formula (discussed below), for which promotions and advertising of prices are permitted, we consider it likely that there are also other factors at play, beyond simply the inability to advertise prices. For example, it is possible that parents of babies may be unusually time-pressured, and/or that their weak sensitivity to the price of formula products at brand level has a behavioural ‘spillover’ effect, in both cases reducing their propensity to shop around (for a given brand) at retail level. Our consumer research found that parents included in that qualitative research generally buy formula during their regular shop and there were only a few instances where parents would travel to get their preferred brand from a different supermarket offering it at a cheaper price point.<sup>433</sup>

- 7.107 For follow-on formula, price promotions are permitted and used, though they are mostly instigated and funded by manufacturers rather than retailers.<sup>434</sup> We therefore observe greater volatility in the retail price of follow-on formula due to these temporary promotions. However, broadly speaking, the base (non-promotional) prices of follow-on formula products have tended to be co-priced with the equivalent infant formula product, meaning there has been limited deviation from RRP’s and limited variation across retailers.<sup>435</sup> We consider it likely that one reason for setting the base (non-promotional) price of follow-on formula the same as that of infant formula is to avoid diverting sales from the latter to the former (for babies aged 6-12 months, for whom the two products are substitutable).
- 7.108 Our review of retailers’ internal documents<sup>436</sup> from the period 2020 to 2023 suggests that there is a degree of monitoring and consideration of competitors’ prices.
- 7.109 However, overall, we found little evidence that retailers have made significant efforts to challenge their competitors on price. In particular, we have seen notably few examples of retailers choosing to absorb (all or part of) the successive CPIs implemented by manufacturers between 2021 and 2023, in an attempt to undercut rivals. Our review of retailers’ internal documents indicates that, over the past few years, retailers have largely accepted CPIs and passed these on to parents, in order to maintain constant (or near-constant) retail margins.

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<sup>432</sup> These regulations do not apply to follow-on formula or growing-up milk.

<sup>433</sup> Think’s Insight and Strategy (2024), Experiences using infant formula and follow-on formula: Qualitative research report (updated), p30.

<sup>434</sup> As discussed above in ‘The role of price promotions in upstream competition’.

<sup>435</sup> There are a few exceptions to this. For example, Boots often priced follow-on formula cheaper than the equivalent infant formula during the period January 2019 to May 2024. Asda also priced selected follow-on formula brands cheaper than their equivalent infant formula up until early 2021. For further detail, see Appendix D Pricing analysis methodology and additional findings.

<sup>436</sup> We received relevant internal documents from Aldi, Asda, Boots, Lidl, Sainsbury’s, Tesco, and Morrisons. Note that the documents were submitted in response to defined parameters and therefore may not fully reflect the totality of retailers’ internal documents discussing price-setting and monitoring of competitors with respect to the supply of formula milks.

- 7.110 In addition, our review of dozens of Joint Business Plans and similar agreements between manufacturers and retailers (from the period 2021 to 2024) suggests that retailers' profit margins were forecast to remain fairly stable each year.
- 7.111 These findings are consistent with our analysis of retailers' profit margins (see Section 4 Market outcomes: Margins) where we found that retailers' gross margins on infant formula, in aggregate, have broadly remained flat over the past five years.
- 7.112 While, overall, we have found weak price competition between retailers, there are two significant exceptions:
- (a) In August 2023, Iceland publicly announced that it was substantially reducing its formula prices, stating that this was due to customers' struggle to afford the rising price of formula amid the cost-of-living crisis.<sup>437</sup> This announcement is consistent with the price data submitted by Iceland, which shows that all its formula prices fell between July and August 2023 (with the magnitude of the reduction on different products ranging from 6% to 28%).<sup>438</sup> Between August 2023 and November 2024, Iceland's prices have remained flat for most brands (and fallen further for Aptamil). Iceland submitted that, since August 2023, its strategy has been to sell formula products at, or as close as possible to, cost price. However, we have not seen evidence that Iceland's change of pricing strategy in August 2023 triggered any obvious price response from other retailers around that time.<sup>439</sup>
  - (b) In February 2024, Iceland introduced Little Steps first infant formula 800g powder and priced it at £7.95 – well below the RRP of £[8].<sup>440</sup> Based on the retail price data we have analysed, and retailers' submissions to the CMA, Iceland's move led to a price response on Little Steps infant formula by most other major retailers (with the exception of Boots). We have seen evidence from at least one retailer's internal documents that its price cut was a direct response to Iceland's pricing. This is consistent with the pricing data submitted by this retailer.
- 7.113 In the interim report we noted that, as of August 2024, there had also been price cuts on 800g powder tubs and individual ready-to-feed bottles for several other brands, including Aptamil, Aptamil Advanced, Cow & Gate (follow-on formula

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<sup>437</sup> See: [Iceland slashes price of baby formula to combat cost-of-living crisis | UK News | Metro News](#) and [It's time to change the law on infant formula – About Iceland, accessed 17/10/24](#).

<sup>438</sup> Between July and August 2023, Iceland also introduced two new formula products at a price lower than their respective RRP – see more below.

<sup>439</sup> Iceland's infant formula monthly sales volumes did increase substantially in 2023 and 2024; however, these price changes occurred around the same time that it began stocking a greater range of products across more stores. It is therefore not possible to isolate the effect of the price changes alone on its sales volumes.

<sup>440</sup> CMA analysis of sales data submitted by Iceland.

only), and SMA.<sup>441</sup> According to evidence from Danone's submission and internal documents, the price cuts on Aptamil and Aptamil Advanced were instigated by Danone's reduction to its cost price and RRP, rather than by retailers (see discussion earlier in this section). In the interim report, we stated that the source and precise sequencing of the Cow & Gate price cut on 800g and 200ml follow-on formula were not clear, but appeared to have been instigated by retailers, given that Danone had not reduced RRPs for these products as of May 2024.<sup>442</sup>

7.114 In response to our interim report, Nestle submitted that it considers 'there is active price competition in the market, led by retailers' practice of monitoring price competitiveness for certain products and the prevalence of 'price-matching' style strategies to ensure they do not lose loyal valuable family shoppers by becoming an outlier on these essential products'. Nestle cited the following examples of apparent retail-level price competition:

- (a) Iceland's reduction of the price of Little Steps in February 2024, which led to a price response by most other major retailers.
- (b) Price reductions on Aptamil and Cow & Gate in February 2024, initiated among retailers by Tesco.
- (c) Tesco's reduction of the price of SMA 800g infant formula [redacted], which Nestle said resulted in a 'market-wide movement' to reduce the price of SMA.

7.115 We also received further evidence from retailers with regard to these price changes.

7.116 We have carefully considered Nestle's submission, and the further evidence from retailers, and our view is as follows. As noted earlier, we consider that one of these examples (Aptamil) was a manufacturer-led reduction in RRP, rather than a retailer-led price cut. We agree that the other three cases represent retail-level price competition (ie were not associated with a change in the manufacturer's RRP).

- (a) The case of Iceland's price cut on Little Steps – which led to a broader retailer response – has already been discussed above.
- (b) Taking into account the statement submitted by Nestle, in combination with the monthly pricing data and submissions received from retailers, we understand that in March 2024, Tesco cut the price of Cow & Gate 800g follow-on formula (but not on infant formula), and shortly afterwards, Sainsbury's and Boots lowered their prices [redacted].

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<sup>441</sup> In the interim report, we stated that the SMA price cut occurred only at Tesco – this was an error, which has been corrected in the final report. The price of SMA also fell at Sainsbury's in January 2024.

<sup>442</sup> According to RRP data submitted by Danone.

- (c) Taking into account the statement submitted by Nestle, in combination with the monthly pricing data and submissions received from retailers, we understand that Tesco cut the price of SMA 800g infant formula in January 2024 in response to its monitoring of competitors' formula pricing [§<], and then Sainsbury's also lowered its price [§<].<sup>443</sup> While we do not agree that this was a 'market-wide movement' to reduce the price of SMA (as it appears to have been isolated to Tesco and Sainsbury's only),<sup>444</sup> it does represent an additional example of retail-level price competition that was not included in our interim report.

7.117 We acknowledge these recent instances of retail-level price competition; however, we continue to consider them as fairly isolated examples. Based on the retailer monthly pricing data we gathered (for 800g and 200ml infant formula and follow-on formula),<sup>445</sup> and the submissions we have received, we have not observed any additional clear cases where a retailer cut its price for a particular product and this was followed by a price cut by one or more other retailers, other than the examples discussed above. In the context of all other evidence set out above, we continue to consider retail price competition to be weak. Finally, as noted in the interim report, we are aware that these recent price developments have taken place during a period of increased government (including CMA) and press scrutiny of formula prices, and at the time of a marked slowdown in the rate of inflation across the economy. This calls into question the extent to which they signal a change to the underlying competitive conditions in this market.

### **Non-price competition between retailers**

7.118 As described in Appendix F Supporting evidence and analysis relating to competition in the market, retailers and manufacturers conduct annual planning discussions to determine the list of products to be supplied and the commercial arrangements for these. Our review of dozens of such agreements and related documents suggests that there is a heavy focus on the presentation and marketing of formula products.<sup>446</sup> This may include distribution across and within stores (eg how many and which stores, positioning and presentation within bays), shelf space, promotional activity, and point-of-sales media.

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<sup>443</sup> Retailers' monthly pricing data also suggests that Tesco and Boots cut the price of SMA 200ml infant formula in March 2024 (it is not clear which came first or whether these cuts were simultaneous), which was quickly followed by Sainsbury's doing the same. Sainsbury's and Boots' prices have remained flat thereafter, while Tesco's price increased between April 2024 and June 2024, and then remained flat.

<sup>444</sup> According to the monthly retail price data received by retailers, the price of SMA remained flat (or increased) at the other retailers selling it. Morrisons' and Boots' price remained flat. Iceland's price was below RRP but all its formula pricing has followed this strategy since 2023. Asda's price was [§<], which it had already been for a sustained period, and actually increased slightly after February 2024. Neither Aldi nor Lidl sold SMA in 2024.

<sup>445</sup> Limited to Aldi, Asda, Boots, Iceland, Lidl, Morrisons, Sainsbury's, and Tesco

<sup>446</sup> We requested all annual Joint Business Plans, similar agreements, and related documents/correspondence between retailers and each of the four largest manufacturers for the period 2021 to 2024.



- 7.119 Manufacturers actively seek to influence such outcomes, and often provide dedicated incremental funding for at least some of these activities to the retailer. However, retailers told us that the positioning and presentation of products is at their discretion.
- 7.120 Based on retailers' submissions and internal documents, larger supermarkets tend to approach the in-store display of formula products in a similar way.<sup>447</sup> This includes organising products first by brand (known as 'brand blocking'), then by stage (eg 'Stage 1 – first infant formula; 'Stage 2' – follow-on formula; and so on), and then by format (eg powders versus liquids), while also following the common merchandising principle of positioning cheaper ranges on lower shelves and more expensive ranges on higher shelves. There are some exceptions; for instance, retailers often group special milks together in a dedicated shelf space (ie not grouped with the rest of the brand), and there may be separate feature spaces for follow-on formula and growing-up milks when these are on promotion.
- 7.121 In documents, we have seen instances of manufacturers emphasising to retailers the importance of ordering products by stage explicitly in order to drive conversion along the 'journey' from infant formula to follow-on formula to growing-up milk. We have also seen documents in which manufacturers 'encourage repertoire' – ie encourage retailers to group liquids next to powders within each brand/stage position, in order to facilitate more parents switching from (lower priced) powders to (higher priced) liquids.
- 7.122 Marketing events, such as 'baby events' (which some major retailers organise across the baby category once or twice a year), also appear to be a key focus for retailers when thinking about winning customers.<sup>448</sup>

### **Conclusions on competition between retailers**

- 7.123 The evidence we have reviewed above (including the retail price outcomes described in Section 4 Market outcomes) indicates that retailers do not have strong incentives to compete on price.
- 7.124 We have observed a few instances of retail-level price competition occurring more recently. These include: (i) Iceland's move to sell at cost price and substantially reduce all of its formula prices from August 2023 (though this did not appear to trigger a competitive response from other retailers around that time); (ii) Iceland's introduction, in February 2024, of Little Steps 800g infant formula at a price well below the RRP (which led to a price response by most other major retailers); (iii) Tesco's price cut, in February 2024, on SMA 800g infant formula (with Sainsbury's

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<sup>447</sup> Smaller stores (eg convenience stores) and discount retailers typically stock a much smaller range of formula products.

<sup>448</sup> [redacted]. This retailer document showcases the idea of a manufacturer 'in store experiential' event at the retailer's selected stores, at which [redacted] experts would be present in person to provide 'support and advice' to customers.

subsequently reducing its price); and (iv) Tesco's price cut, in March 2024, on Cow & Gate 800g follow-on formula (with Sainsbury's and Boots subsequently reducing their prices).

- 7.125 However, overall, there are notably few such examples and in only one case – the Little Steps price cut in February 2024 – was there a widespread market response. We consider therefore that these examples are not indicative of strong price competition between retailers.
- 7.126 One likely reason for weak price competition is retailers' inability to promote any price reductions on infant formula, due to regulations. However, promotions and advertising of prices are permitted on follow-on formula, but the evidence does not indicate that retail-level price competition in follow-on formula is significantly stronger than in infant formula, suggesting that there are also other factors at play, beyond simply the inability to run promotions and advertise prices. We consider that these factors are likely to be a combination of:
- (a) Consumer behaviour: weak sensitivity to price on formula products in general,<sup>449</sup> which affects a parent's propensity to shop around different retailers; and
  - (b) Manufacturer and retailer behaviour: lack of incentive to set the base price of follow-on formula below that of the equivalent infant formula to avoid cannibalising sales of the latter (for babies aged 6-12 months for whom the two products are substitutable), and possibly a reluctance to reduce the base price of follow-on formula to avoid the implication of reduced quality (given the knowledge that many parents treat price as a proxy for quality).
- 7.127 Rather than competing strongly on price, retailers – influenced by manufacturers – have tended to focus on marketing activity as the key route to increase sales of formula milks. This includes the positioning and presentation of products, point-of-sales media, and promotional events – all of which strongly shape the 'information environment' experienced by parents.
- 7.128 While price competition between retailers generally has been weak, and the [X] retailers' gross margins we analysed, in aggregate and weighted by revenue, have remained stable (within a range of 20-24%) between 2019 and 2024, they have tended to be lower than their gross margins arising from their supply of other grocery products. We consider this (at least partly) reflects the strong bargaining position of the manufacturers, particularly the largest ones.
- 7.129 In our view, a distinguishing feature of this market is the *interaction* between weak competition upstream and downstream. Retailers are more likely to accept and

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<sup>449</sup> This could be caused by parents of infants being unusually time-pressured, and/or a behavioural 'spillover' effect of parents already not being in the habit of focusing on the price of formula products (at brand level).

pass on CPIs (softening upstream competition) if they know that other retailers are likely to do the same (an outcome of soft downstream competition), which is compounded by retailers' limited visibility into input costs.

## 8. Measures to address the concerns we have identified

8.1 In this section we set out the measures we consider necessary to address the concerns we have identified in the infant formula market. Specifically, we set out:

- (a) Our view of the characteristics we would expect to see in a well-functioning market;
- (b) An overview of the package of measures to address the concerns we have identified;
- (c) Our recommendations to the UK, Northern Irish, Scottish and Welsh governments for action to be taken to address the concerns we have identified during the market study;
- (d) Measures that we are not recommending at this stage, but which governments may wish to consider as backstop options in the future; and
- (e) Finally, we explain why we are not recommending certain measures that we set out as possible options in the interim report.

### A well-functioning market

8.2 In our view, for the many parents who use infant formula, a well-functioning market would have the following characteristics:

- **Clarity** for parents that **all infant formula products meet the nutritional and safety needs of healthy babies** and that **cheaper products are not nutritionally inferior**.
- **Clarity** for parents about the **features that differentiate brands and that these are not related to nutritional need**.
- **Easy access to clear, accurate and impartial information** that enables parents to come to an early and informed decision, with relatively little effort, about which product(s) best meets their needs and preferences.
- **Effective competition between multiple infant formula manufacturers** to offer infant formula products with features parents can easily interpret and verify, at competitive prices, and an ability for newer entrants to challenge incumbents if they offer a competitive product.
- **Effective price competition between retailers**, with parents easily able to compare retail prices for their preferred product to get the best deal, without undermining governments' objective to support breastfeeding.

- **A well-designed and robustly enforced regulatory regime** that supports wider governments' public health objectives without undermining – to the extent possible – the functioning of the market as set out in the preceding bullets.

8.3 Our market study indicates that the infant formula market does not currently display these characteristics.

## Overview of measures to address the concerns we have identified

8.4 We are making recommendations to the UK, Northern Irish, Scottish and Welsh governments for action to improve outcomes for parents in terms of the choices they make and the prices they pay for infant formula.

8.5 We have identified three potential routes to improve market outcomes:

(a) Option 1:

- (i) Action: Reduce regulatory restrictions in the market, in particular by allowing price promotions, and by implication some forms of advertising, in relation to infant formula.
- (ii) Objective: To stimulate greater price competition at both the retail and manufacturing level, bearing down on prices of infant formula products for consumers.

(b) Option 2:

- (i) Action: Improve the design, effectiveness and enforcement of the existing regulations to create a more balanced decision-making environment, counteracting the strong and disproportionately influential effects of branding and the vulnerabilities of consumers in this market.
- (ii) Objective: Help parents make purchasing choices that are more in line with their underlying preferences, empowering them to select lower-priced offerings in the market, where they wish to do so.

(c) Option 3:

- (i) Action: Introduce further regulations to cap infant formula prices.
- (ii) Objective: To place an upper limit on the amount consumers would have to pay for this vital product, and guard against future periods of rapid price inflation.

8.6 We have rejected Option 3, which would involve more interventionist regulation in the form of price controls, to set a maximum price for infant formula. This would

directly limit prices but would involve significant risks, including that lower prices in the market could rise to the level of the ceiling, resulting in some parents missing out on cheaper options on the market. There would also be significant challenges in the design and implementation of such a measure. We are therefore not recommending the introduction of price controls at this time. However, governments may wish to retain this as a backstop option, if our proposed package of measures does not achieve the desired market outcomes within a reasonable timeframe.

- 8.7 We are not recommending Option 1 on a standalone basis at this time for two reasons.
- 8.8 First, it is clear that the UK, Scottish, Welsh and Northern Irish governments are committed to the public health goal of supporting breastfeeding. From our discussions with them, we also understand that they have concerns that allowing price promotions would risk undermining their important policy goals. While it is not for the CMA to assess the extent of this potential impact, we note and respect the public policy positions of the governments at this time.
- 8.9 Second, given the current market dynamics that we have observed, we consider that there are limitations on the extent to which such measures would lead to better outcomes for consumers without other measures to change consumer behaviour. While allowing price promotions could incentivise retailers to drop prices for certain periods, with consumers saving money, this would address only a proportion of the potential savings consumers could make in this market. Retail margins are not notably high at present, and this measure would do nothing to support consumers in choosing lower-priced brands in the market, which would be a much more significant source of cost savings.
- 8.10 Additionally, while there is a potential argument that allowing retail price promotions would put greater incentives on retailers to push back on cost increases from manufacturers, we have found that retailer buyer power is relatively weak in this market, so this effect is likely to be limited.
- 8.11 We are therefore not recommending that governments pursue Option 1 at this time. However, we note that if action is taken to enable more effective consumer engagement in this market (as we set out in Option 2) and/or governments' understanding of the appropriate trade-offs between public health and consumer goals were to shift, this may be an option that policymakers wish to explore. We stand ready to assist governments further in that case.
- 8.12 At this point, we are therefore recommending Option 2, which comprises a package of measures to sharpen the effectiveness of existing regulations to maximise the ability of parents to make choices that suit their preferences and budgets. We recommend that governments pursue this package vigorously and in

full to maximise the extent to which this market can be expected to operate well for consumers, within the constraints of current public-health oriented regulation.

- 8.13 Taken as a whole, our package of mutually reinforcing measures aims to fundamentally alter the dynamics of competition in the infant formula market to bring about better outcomes for parents in general in terms of the choices they feel able to make and prices they pay for infant formula. These measures provide a necessary counterweight to the combined effects of unintended consequences of existing regulation, the strategies adopted by manufacturers, and the ways in which consumers are inclined to interact with the market. They will do this primarily by creating a situation where parents become more price sensitive and have greater confidence to select less expensive options on the market. This will in turn incentivise manufacturers to compete harder on price, bringing greater downwards pressure to bear on prices.
- 8.14 To deliver this fundamental shift, we are making a number of specific, actionable recommendations to governments, which we set out below.

## **Considerations in developing the package of measures**

- 8.15 Our key consideration in developing our final package of measures has been to drive better outcomes for parents in terms of the choices they make and prices they pay for infant formula without compromising the compositional standards and safety of infant formula. We have taken into account governments' wider policy objectives, including supporting breastfeeding and the incorporation of the United Nations Convention on the Rights of the Child into the law in Scotland.
- 8.16 We have sought to arrive at a package of measures which is effective and proportionate in addressing the issues we have identified.
- 8.17 In taking the considerations outlined in paragraphs 8.15 and 8.16 into account we have carefully considered the feedback we have received on our interim report from governments, market participants and other interested parties.
- 8.18 A number of the measures we are recommending will require regulatory change.<sup>450</sup> As EU legislation applies with respect to Northern Ireland's regulatory framework relating to nutrition pursuant to the Windsor Framework, there may be limitations on the extent to which some regulatory measures could be implemented in Northern Ireland outside the framework of the relevant EU legislation. We expect the impact, and ways to limit any impact, of potential regulatory divergence across the UK internal market would be relevant factors to be considered by the UK governments should they choose to implement our

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<sup>450</sup> In this Section we refer to Regulation 2016/127 as the infant formula and follow-on formula regulations.

recommendations. We discuss further the implementation of measures that may require regulatory change in the sub-section Implementation, below.

- 8.19 As several of the measures will require regulatory change, which will take time to implement, we are recommending that some measures are taken forward on a voluntary basis in the shorter term, until such time as mandatory measures are in force.

## Detailed assessment of our recommendations

- 8.20 We consider that our measures are mutually reinforcing, resulting in a collective impact on market outcomes that is significantly higher than if each measure were to be implemented independently.

- 8.21 In this sub-section we provide a detailed assessment of the measures that we are recommending grouped into four broad categories:

- Eliminating brand influence in healthcare settings;
- Equipping parents to make strong choices in retail settings;
- Strengthening the labelling and advertising rules; and
- Ensuring effective enforcement of current and updated regulations.

### Eliminating brand influence in healthcare settings

- 8.22 As discussed in Section 5 Consumer behaviour, our research indicates that, for some parents, brand visibility in healthcare settings is a significant driver of decision-making. We are concerned that this outweighs the provision and influence of timely, clear, accurate and impartial information that all infant formula is nutritionally sufficient, particularly since, once parents have found a brand of infant formula that works for their baby, they rarely switch.

- 8.23 We therefore consider that two measures should be taken in healthcare settings (including ante- and post-natal settings) to improve the information environment and give parents and expecting parents confidence regarding the suitability of less expensive products:

- (a) **Recommendation 1.1: We recommend that UK, Northern Irish, Scottish and Welsh governments, working with the NHS in England, Scotland and Wales, Public Health Agency in Northern Ireland and other organisations as appropriate, design and implement effective policies and processes to proactively provide parents and expecting parents with timely, clear, accurate and impartial information on the nutritional sufficiency of infant formula products.**



- (b) **Recommendation 1.2: We recommend that the UK, Northern Irish, Scottish and Welsh governments, working with the NHS/NHS Supply Chain in England and Wales, NHS Scotland/NHS National Services Scotland and HSC/Public Health Agency/Procurement and Logistics Service in Northern Ireland, as appropriate, take steps to ensure that, where parents are provided with infant formula in healthcare settings, it has standardised labelling so that branded products have less influence on parents' decision-making.**

### **Recommendation 1.1**

- 8.24 Given the often unplanned and vulnerable circumstances in which formula feeding commences/decisions are made, and the fact that, for some parents, brand visibility in hospitals is a significant driver of decision-making, **we recommend that UK, Northern Irish, Scottish and Welsh governments, working with the NHS in England, Scotland and Wales, Public Health Agency in Northern Ireland and other organisations as appropriate, design and implement effective policies and processes to proactively provide parents and expecting parents with timely, clear, accurate and impartial information on the nutritional sufficiency of infant formula products.** This should include:
- (a) Reviewing existing NHS and Public Health Agency messaging on nutritional sufficiency, with input from parents and prospective parents and testing by behavioural scientists, to ensure that it is clear, persuasive and easy to remember (and therefore effective). The aim is to increase parents' confidence that the less expensive products provide all the essential ingredients that healthy babies need from a nutritional and developmental perspective, and the legislation means that where nutrients are proven to be of benefit (by the relevant independent scientific committee), they are mandated for inclusion in all products.
  - (b) Agreeing and subsequently adopting clear, persuasive and memorable wording on nutritional sufficiency, with consistent messages across the four nations for use in healthcare settings. This wording will apply equally to recommendations 2.1 (specified information on the nutritional sufficiency of all infant formula products on retail shelves) and 3.1 (information on the nutritional sufficiency of all infant formula products on product labelling) set out below.
  - (c) Providing guidance to relevant healthcare settings on the manner and timing of the provision of this information to parents.

- 8.25 In response to our interim report, there was broad support from various stakeholders, including a manufacturer<sup>451</sup> and charities,<sup>452,453,454</sup> that parents should be provided with information on the nutritional sufficiency of all infant formula.
- 8.26 However, there were differences of opinion on when information on the nutritional sufficiency of all infant formula should be given to parents, particularly having regard to wider policy objectives relating to breastfeeding. For example, Feed told us that the information should be proactively provided before a feeding choice between breastfeeding and infant formula has been made, given that the majority of parents will go on to use infant formula irrespective of whether they plan to exclusively breastfeed.<sup>455</sup>
- 8.27 Other stakeholders expressed concerns that providing parents with information pre-emptively creates an assumption that they will inevitably use infant formula, which may inadvertently send a discouraging message about breastfeeding.<sup>456</sup> We were told that this was inconsistent with the principles of the WHO code and Baby Friendly accreditation.<sup>457</sup>
- 8.28 Some manufacturers told us that they considered that parents should also be provided with information about the differences between infant formula products. For example:
- Danone told us that, ‘limiting communications to the binary position that a given product provides “nutritional sufficiency” (or not), would not help parents understand the differences between IF products and the potential impact they have on their babies (which could, in turn, have adverse health consequences for infants)’.<sup>458</sup>
  - Nestle submitted that it ‘believes manufacturers have an important additive role to play in providing evidence-based factual information to parents and the NHS / HCPs on any additional nutritional benefits which are contained in IF, FOF and GUM, and the differences in benefits contained in different brands of formula’.<sup>459</sup>
  - HiPP stated that it ‘would welcome an impartial factual assessment of the differences between formulas to be shared with parents at any stage during

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<sup>451</sup> Nestle’s response to the CMA’s interim report, p4, 10.

<sup>452</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p10.

<sup>453</sup> The Breastfeeding Network’s response to the CMA’s interim report, p3.

<sup>454</sup> Feed’s response to the CMA’s interim report, p6-7.

<sup>455</sup> Feed’s response to the CMA’s interim report, p6.

<sup>456</sup> SIFAN’s response to the CMA’s interim report, p2.

<sup>457</sup> SIFAN’s response to the CMA’s interim report, p3.

<sup>458</sup> Danone’s response to the CMA’s interim report, p29.

<sup>459</sup> Nestle’s response to the CMA’s interim report, p4.

their pregnancy and feeding journey by the NHS ... A possible option could be “All infant formulas are safe and meet compositional standards which mean all are suitable for your baby’s needs”, followed by the factual assessment including such detail as key ingredient differences, organic or non-organic and costs per feed’.<sup>460</sup>

- 8.29 Based on our consumer research and the feedback we received in response to our interim report, in order to help parents make strong choices when they purchase infant formula, we consider that it is important that clear, accurate and impartial<sup>461</sup> information on the nutritional sufficiency of infant formula is given *proactively* to parents both antenatally and postnatally, regardless of their feeding choices. In our view, parents may be particularly vulnerable and therefore susceptible to being influenced by branding and signals relating to trustworthiness and superiority at the postnatal stage.
- 8.30 We consider that the persuasiveness, timing and methods of providing the information are important factors in ensuring that it is effective. This can be done in antenatal midwife appointments and GP surgeries, for example. Other organisations, online forums and charities may also play a role in disseminating this information to parents.
- 8.31 In our view, this is an important measure for improving outcomes for parents, notwithstanding that we recognise that there is a potential trade-off for governments to consider. We consider that this could be mitigated by simultaneously also providing clear, accurate and impartial information about the superiority of breastfeeding.
- 8.32 We observe that, currently, the nutritional sufficiency of infant formula is communicated through different messages in each nation of the UK.<sup>462</sup> In our view, the information provided to parents would be clearer, more persuasive and memorable (and therefore effective) if the effectiveness of different messages were tested with parents/prospective parents, and then behavioural experts, and a single optimum message selected for consistent use by all healthcare settings and providers across the UK.
- 8.33 We recommend that governments collaborate with healthcare settings including the NHS in England, Scotland and Wales, and Public Health Agency in Northern Ireland, to reach a consensus on the most effective manners and timings of messaging about nutritional sufficiency during antenatal and postnatal stages.

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<sup>460</sup> HiPP’s response to the CMA’s interim report, p10.

<sup>461</sup> In this context, we consider impartial information to mean data or facts provided by UK governments, expert bodies or other sources that have no commercial or financial interest that could influence the information they share.

<sup>462</sup> In England, see: (NHS) [Start for Life – how to use formula](#); in Northern Ireland see: (Public Health Agency) [Bottlefeeding information booklet](#), p2; in Scotland [Formula feeding: How to feed your baby safely – Public Health Scotland](#), p31; in Wales [NHS Wales, Pregnancy Guide](#).

- 8.34 Healthcare providers should be given support to provide the information at times when it is likely to be most appropriate and impactful. This measure will require ongoing efforts to maintain its impact over time.
- 8.35 Further, we consider that parents would have greater confidence in the suitability of all infant formula brands – and the fact that it is not necessary to choose a more expensive brand – if governments increased public awareness of the legislation ensuring that all infant formulas meet certain nutritional standards and provided details of how and when these standards are updated to reflect scientific advances.
- 8.36 In addition to providing parents with information on the nutritional sufficiency of infant formula, governments may wish to use the opportunity to provide parents with information from the NHS which explains that there is no benefit to switching to follow-on formula at 6 months.<sup>463</sup>

### **Recommendation 1.2**

- 8.37 Given that brand visibility in hospital settings is, for some parents, a significant driver of decision-making, **we recommend that the UK, Northern Irish, Scottish and Welsh governments, working with the NHS/NHS Supply Chain in England and Wales, NHS Scotland/NHS National Services Scotland and HSC/Public Health Agency/Procurement and Logistics Service in Northern Ireland, as appropriate, take steps to ensure that, where parents are provided with infant formula in healthcare settings, it has standardised labelling<sup>464</sup> so that branded products have less influence on parents' decision-making.**
- 8.38 We received strong opposing views from stakeholders regarding this measure. Generally, there was a difference of opinion between organisations such as public bodies<sup>465</sup> and charities,<sup>466</sup> who strongly support it, and manufacturers, who are firmly against it.
- 8.39 The Breastfeeding Network told us that it supported standardised labelling for all formula products, in healthcare settings, and all other settings.<sup>467</sup> It explained that, 'parents who are motivated by making the best choices for their children are misled by claims and branding into buying what they believe to be a superior, premium product.'<sup>468</sup>

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<sup>463</sup> NHS UK, <https://www.nhs.uk/conditions/baby/breastfeeding-and-bottle-feeding/bottle-feeding/types-of-formula/>.

<sup>464</sup> When we refer to 'standardised labelling', we mean generic labelling which does not have any brand names, logos or promotional text from an infant formula brand.

<sup>465</sup> Public Health Wales' response to the CMA's interim report, p5.

<sup>466</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's interim report, p9.

<sup>467</sup> The Breastfeeding Network's response to the CMA's interim report, p2.

<sup>468</sup> The Breastfeeding Network's response to the CMA's interim report, p2.

- 8.40 We heard concerns from two manufacturers that standardised labelling in healthcare settings could reduce parenting confidence<sup>469</sup> or lead to stigma.<sup>470</sup> One charity highlighted that there was a distinction between ‘standardised packaging’, which could be attractive and eye-catching (and is what we are recommending), and ‘plain packaging’ which may have different connotations.<sup>471</sup>
- 8.41 We also heard concerns from manufacturers that this measure could discourage manufacturers from investing in their brands, including research and development.<sup>472</sup>
- 8.42 As noted in Section 7 Competition in the market: Barriers to entry and expansion and Appendix F Supporting evidence and analysis relating to competition in the market, we have found that manufacturers have sold below cost to the NHS (in at least the period we examined, January 2019 to December 2023)<sup>473</sup> and consider their NHS sales to be an important customer acquisition channel.<sup>474</sup> The total value of sales through the NHS is relatively small;<sup>475</sup> manufacturers’ total infant formula revenue in the UK was well over £100 million in each of 2022 and 2023.<sup>476</sup> We therefore consider that manufacturers are making a strategic decision to sell below cost with the aim of putting their products into the hands of parents and to build brand awareness and reputation through parents’ exposure to their products. If manufacturers were prevented from building brand awareness in this way, we consider that they may stop supplying healthcare settings at below cost. We consider that the cost of this expected change in manufacturers’ behaviour on the NHS is proportionate to the potential benefits for parents because the NHS procures a relatively small amount of infant formula (and the cost is relatively small in NHS budgets), but there is a high number of parents whose subsequent purchase decisions will be positively influenced.

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<sup>469</sup> HiPP’s response to the CMA’s interim report, p10.

<sup>470</sup> Nestle’s response to the CMA’s interim report, p12.

<sup>471</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p9.

<sup>472</sup> HiPP’s response to the CMA’s interim report, p10; Nestle’s response to the CMA’s interim report, p15.

<sup>473</sup> NHS Supply Chain told us it does not currently set a ceiling price and that the price tendered by the supplier is the price the NHS Trust eventually pays. However, in 2019, NHS Supply Chain did set a ceiling price of 20p (excluding VAT) for 70ml-90ml liquid infant formula and bids above this were rejected. In 2023, the most recent tender, a manufacturer stated that NHS Supply Chain indicated to all manufacturers that prices should be kept low. Ultimately, all offers by the suppliers that were chosen to be on the framework were below the previous 20p ceiling price.

<sup>474</sup> The fact that manufacturers make a loss on their sales to the NHS shows that they consider this to be an important customer acquisition channel. Indeed, manufacturers have told us that this is part of a deliberate consumer acquisition strategy to get parents started on their brand because they know that these parents will most likely continue with it throughout their baby’s first year. For further details, see Appendix F Supporting evidence and analysis relating to competition in the market: Barriers to entry and expansion.

<sup>475</sup> CMA analysis based on data requested from NHS Supply Chain for the period April 2020 through to March 2024. In financial year 2022-23, NHS Trusts in England and Wales spent just over £1.3 million on infant formula (around half of this was for milks given under medical supervision). Note that financial year 2022-23 is the most recent full year of data. Further, products included have only been purchased under the Infant Feeding and Associated Accessories (IFAA) framework and only by NHS Trusts in England and Wales. These products are sold at below cost and so have a lower value, which may underweight the size of this revenue spend compared to manufacturer revenues.

<sup>476</sup> CMA’s calculations based on manufacturers’ sales revenue data.

- 8.43 We consider that there are three alternative routes to implementing this measure. The relevant bodies in each nation could:
- (a) relabel branded infant formula, either by decanting the contents into non-branded containers or affixing standardised labelling on top of branded labelling, building on initiatives already in place in some healthcare settings to decant infant formula into brand free bottles. While this route may give healthcare settings greater flexibility than procuring white-label infant formula, particularly if different healthcare settings implement this measure at different times or in different ways, it might not prevent parents from identifying the underlying brand and being influenced by it. This could be avoided by putting in place measures to ensure that staff providing infant formula to parents are themselves unaware of the underlying brand (ie blind supply);
  - (b) directly procure its own white-label infant formula from a contract manufacturer; or
  - (c) procure white-label infant formula from manufacturers of branded infant formula.
- 8.44 Routes ‘(b)’ and ‘(c)’ would create a standalone brand for healthcare settings which is free from existing branding biases and does not have a retail price which parents might use to make inferences about its quality.
- 8.45 In considering which route (or routes) to adopt, governments, healthcare settings and procurement units will need to take into account applicable regulations and policies affecting labelling and how they cater for parents with preferences for particular attributes, such as halal, kosher or vegetarian infant formula.
- 8.46 In our view, subject to any pre-existing contractual obligations, this measure does not require a lengthy transition period and can be implemented as existing stocks of branded formula are depleted.
- 8.47 We recognise that the NHS in different parts of the UK has different procurement policies and systems. We recommend a degree of coordination to benefit from economies of scale (particularly with regard to the procurement of white-label infant formula under routes ‘(b)’ and ‘(c)’ above) and to help identify areas for cost savings and operational improvements.
- 8.48 We consider that providing infant formula to parents with standardised labelling presents an opportunity to inform them, at the same time as infant formula is provided for the first time, of the NHS’s position that all brands of infant formula are nutritionally sufficient, and that it does not matter which brand they choose (see **Recommendation 1.1** timely, clear, accurate and impartial information on nutritional sufficiency of all infant formula products). This should also help reduce the influence of branding once they leave the healthcare setting.

## Equipping parents to make strong choices in retail settings

- 8.49 Parents may receive or access information from retailers which can inform their choice of infant formula brand. Once they have chosen a brand, they are subsequently unlikely to switch.
- 8.50 The prominent provision of information on nutritional sufficiency, both in store and online, and making it easier to make price comparisons between infant formula products in stores will help parents make more informed decisions on what brand of infant formula to use.
- 8.51 As discussed in Section 5 Consumer behaviour, the evidence we have obtained shows that parents may receive or access information from retailers, such as major grocery retailers and large pharmacy chains, which can inform their choice of infant formula brand to purchase and that they are subsequently unlikely to switch to a different brand (driven by brand loyalty and price insensitivity).
- 8.52 We therefore consider that two measures should be taken in retail settings to help parents make strong choices:
- (a) **Recommendation 2.1: We recommend that the UK, Northern Irish, Scottish and Welsh governments introduce regulatory measures to require that physical and online retail settings prominently display specified information on nutritional sufficiency in close proximity to infant formula products available for sale. This should be preceded by a voluntary pilot programme.**
  - (b) **Recommendation 2.2: We recommend that the UK, Northern Irish, Scottish and Welsh governments introduce a regulatory measure to require retailers above a certain size threshold to display all brands of infant formula products together on retail shelves and in a separate cluster from all brands of follow-on formula, and other formula milks. This should be preceded by a voluntary a pilot programme.**

### Recommendation 2.1

- 8.53 Given that many parents make their initial decision on what brand of infant formula to purchase in physical retail settings and are subsequently unlikely to switch to a different brand, **we recommend that the UK, Northern Irish, Scottish and Welsh governments:**

- (a) Introduce regulatory measures to require that all physical retail settings prominently display specified information<sup>477</sup> that all infant formula products are nutritionally sufficient in close proximity to infant formula products available for sale on retail shelves. That information should be consistent across the four UK nations.
- (b) Recognising that it will take some time to introduce regulatory measures, as an interim measure to deliver more immediate impact, we recommend that governments work in collaboration with each other and other organisations as appropriate (including relevant bodies such as the British Retail Consortium (BRC)), to implement a voluntary pilot programme which involves retailers prominently displaying such specified information in close proximity to infant formula products available for sale on retail shelves (for example, on retail shelf edges immediately below infant formula products which are available for sale). This programme can help test and, if necessary, refine the measure before mandatory implementation.
- (c) Given that many parents purchase infant formula from retailers online, including directly from manufacturers' websites, we recommend that governments introduce regulatory measures to require that all online retailers of infant formula should aid parents' decision making by prominently displaying clear and concise specified information on nutritional sufficiency on appropriate online pages. We consider this would be appropriate to be included on at least the same online page (or pages, as the case may be) as the following elements:
  - where the product is listed (whether or not the price is displayed); and
  - where parents can choose to add the product to their virtual shopping baskets.

8.54 In order to be persuasive (and therefore effective), the information should clearly be visible in close proximity to these two elements and embedded inline so that it is shown directly on the page without requiring a mouse hover,<sup>478</sup> without separate windows or pop-ups. The design should be simple to highlight the key information.

8.55 This measure aims to give parents confidence that all brands of infant formula are suitable for their baby's needs so that they do not pay more than they need to. It is aligned with **Recommendations 1.1** and **3.1**.

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<sup>477</sup> We consider that, in addition to having a consistent form of words, the visual appearance of the information should be specified (for example, by stipulating the font size, font, logos and colours used). Governments may support retailers implement this measure by providing them with guidance and/or templates.

<sup>478</sup> By 'mouse hover', we mean an action where the user stops or 'hovers' over part of a page and additional information appears.



- 8.56 In response to our interim report, many stakeholders told us that they were supportive of this measure.<sup>479</sup> Several of them said it was important that parents are made aware that the messaging comes from impartial NHS sources (for example, by displaying the ‘NHS’ logo beside it).<sup>480</sup> The BRC told us that it was imperative that the same wording is coordinated across the UK nations.<sup>481</sup>
- 8.57 As noted in paragraph 8.28, some manufacturers told us that they considered that parents should also be provided with information about the differences between infant formula products. Nevertheless, we did not receive strong feedback that specified information on nutritional sufficiency should not be given on retail shelves. HiPP told us that it ‘would welcome standardised impartial information on shelf (physical and online) to help parents compare products more accurately in a retail setting’ but added that it ‘would require a process to enable both retailer and manufacturer to execute feasibly, whilst giving consumers the clear, impartial information they need’.<sup>482</sup> SIFAN, representing infant feeding advisors across Scotland’s health boards, urged caution ‘in providing information given at point of sale’ and suggested that retailers are promoting infant formula to their customers (including providing links to infant formula websites) under the guise of providing information.<sup>483</sup>
- 8.58 We consider that providing parents with information about the nutritional sufficiency of infant formula in retail settings would give them greater confidence that all brands of infant formula are suitable for meeting their healthy baby’s needs. We consider measures which reduce the influence of branding as a factor in parents’ decision-making will allow parents to make well-informed choices, and help strengthen price competition in the market and improve market outcomes for parents.

## Recommendation 2.2

- 8.59 To make it easier for parents to compare the price of infant formula by displaying different brands all together side by side, **we recommend that a) the UK, Northern Irish, Scottish and Welsh governments, working in collaboration with each other, introduce a regulatory measure to require retailers above a certain size threshold (for example, in all retail settings exceeding a specified floor area) to display all brands<sup>484</sup> of infant formula together on retail shelves and in a separate cluster from all brands of follow-on formula**

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<sup>479</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p10; a large retailer’s response to the CMA’s interim report p1; Feed’s response to the CMA’s interim report, p7; Public Health Wales’ response to the CMA’s interim report, p6; Nestle’s response to the CMA’s interim report, p13; Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p3.

<sup>480</sup> Unicef UK Baby Friendly Initiative’s response to the CMA’s interim report, p6.

<sup>481</sup> BRC’s response to the CMA’s interim report, p2.

<sup>482</sup> HiPP’s response to the CMA’s interim report, p10.

<sup>483</sup> SIFAN’s response to the CMA’s interim report, p3.

<sup>484</sup> By ‘all brands’, we mean all brands which available for sale to parents in a particular retail setting.

**and other formula milks.** Retailers may position the cluster of all brands of infant formula adjacent to the cluster of all brands of follow-on formula and other milks, provided that the order of products in each of the clusters should not mean that infant formula and follow-on formula and other formula milk products from the same brand are displayed side-by-side.

- 8.60 Recognising that it will take some time to introduce a regulatory measure, and in order to benefit from the opportunity to improve the design of the measure through market testing and feedback, **we recommend that b) the UK, Northern Irish, Scottish and Welsh governments, working in collaboration with each other, other relevant organisations (including relevant bodies such as the BRC) and the largest retailers of infant formula (including major grocery retailers and pharmacies) implement a voluntary pilot programme to deliver the objectives in Recommendation 2.2 a)** above. The knowledge and experience gained from this voluntary programme could then be used to inform the size threshold for **Recommendation 2.2 a)** above and mandatory implementation of this measure across all retail settings in the UK which meet the criterion.
- 8.61 This measure will raise the profile of the range of infant formula prices on the market, and make it easier for parents to compare the prices of different brands of infant formula when they are displayed side by side on shelves. Combined with measures designed to highlight the NHS position that all infant formula products are nutritionally sufficient, we consider this will strengthen parents' decision making, including by increasing the emphasis of lower priced products on the market.
- 8.62 In response to our interim report, there was significant support that this measure should be implemented.<sup>485</sup> However, we received some concerns:
- (a) HiPP told us that it would make it harder for parents to find their chosen product because 'shoppers typically find their product instore by looking for brand cues to help them navigate the shelf, so changing the expected fascia layout would make it harder for them to find what they are looking for.'<sup>486</sup>
  - (b) Danone submitted that specific rules on how products should be stocked would risk supply distortions (for example, if retailers operating stores with space constraints were required to have separate shelves for different types of products).<sup>487</sup>
  - (c) The BRC said that displaying infant formula more prominently could result in more parents purchasing it (contrary to government policy on

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<sup>485</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's interim report, p10. Feed's response to the CMA's interim report, p7. Unicef UK Baby Friendly Initiative's response to the CMA's interim report, p7.

<sup>486</sup> HiPP's response to the CMA's interim report, p10.

<sup>487</sup> Danone's response to the CMA's interim report, pp33, 34.

breastfeeding).<sup>488</sup> We do not agree that displaying infant formula in the manner outlined above will increase its prominence any more than how it is generally currently displayed. Further, we consider the benefits of this measure outweigh any risks in this regard.

8.63 As noted with regard to **Recommendation 2.1**, we acknowledge that rolling out this measure could be challenging due to the variety of sizes and types of stores (with different product mixes). The knowledge and experience gained from the voluntary pilot programme we are recommending should be used to inform the size threshold for **Recommendation 2.2 a)** ie mandatory implementation of this measure across all retail settings in the UK.

### **Strengthening the labelling and advertising rules**

8.64 As we have set out in Section 4 Market outcomes, Section 5 Consumer behaviour and Section 6 Impact of the regulatory framework and regime, we consider that brand awareness and reputation play an outsized role in parents' decision-making. This can mean that parents' decisions are typically not always based on objective, tangible and verifiable information, and as such, they may pay more for infant formula than they otherwise would.

8.65 In light of this, we recommend the introduction of labelling and advertising rules which go beyond the current regulations as well as the clarification of what is or is not permissible within the existing regulations. Specifically:

- (a) **Recommendation 3.1: We recommend that the UK, Northern Irish, Scottish and Welsh governments, working in collaboration with each other, should revise the infant formula and follow-on formula regulations or introduce other regulatory measures so that there is a requirement for manufacturers to display information on nutritional sufficiency directly and prominently on the labelling of their infant formula products.**
- (b) **Recommendation 3.2: We recommend that the UK, Northern Irish, Scottish and Welsh governments revise the infant formula and follow-on formula regulations or introduce other regulatory measures to restrict the use of intangible and/or non-verifiable messages on infant formula and follow-on formula labelling by providing that only specified and prescribed information or categories of information is permitted on labelling.**
- (c) **Recommendation 3.3: We recommend that the UK, Northern Irish, Scottish and Welsh governments, revise the infant formula and follow-**

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<sup>488</sup> BRC's response to the CMA's interim report, p3.

on formula regulations or introduce other regulatory measures to restrict the advertisement of follow-on formula, in line with the existing restrictions on the advertisement of infant formula.

- (d) **Recommendation 3.4: We recommend that the UK, Northern Irish, Scottish and Welsh governments, working with the ASA, provide further clarification and examples on what constitutes advertising, particularly digital advertising, including social media, for the purposes of the infant formula and follow-on formula regulations, updating the regulations, CAP and BCAP Codes and/or guidance as necessary.**
- (e) **Recommendation 3.5: We recommend that the UK, Northern Irish, Scottish and Welsh governments amend, as necessary, the guidance to the infant formula and follow-on formula regulations (and, if necessary and feasible, amend the infant formula and follow-on formula regulations) to ensure that parents can use gift cards, vouchers, loyalty points and coupons in lieu of cash to purchase infant formula.**

### **Recommendation 3.1**

- 8.66 As discussed in Section 7 Competition in the market, given the characteristics of this market, we consider that *signalling* of quality through branding, advertising and messaging that connotes intangible and/or non-verifiable benefits, rather than specific and verifiable points of difference about particular products, is not a way of competing that benefits consumers in this particular market. We are concerned that parents may put disproportionate weight on such signalling of differences between products.
- 8.67 To counteract the influence of such signals and branding and raise the profile of clear, accurate and impartial information so that parents can make stronger decisions, **we recommend that the UK, Northern Irish, Scottish and Welsh governments, working in collaboration with each other, should revise the infant formula and follow-on formula regulations or introduce other regulatory measures so that there is a requirement for manufacturers to display information on nutritional sufficiency directly and prominently on the labelling of their infant formula products.**
- 8.68 In response to our interim report, several stakeholders told us that they were supportive of this measure.<sup>489,490,491</sup> The BRC told us that such a statement would 'give more credibility to lower price point products on the market, which the

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<sup>489</sup> A large retailer's response to the CMA's interim report, p1.

<sup>490</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool's response to the CMA's interim report, p3.

<sup>491</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's interim report, p10.

consumer could wrongly assume are not as complete as other competitors'. It added that 'brevity of messaging is key on labels due to the limited space'.<sup>492</sup>

- 8.69 However, concerns were raised that this measure could result in unintended consequences, particularly with regard to manufacturers' incentives to innovate.<sup>493</sup> For example, in response to our interim report, Danone told us that 'the CMA's attempt to "level the playing field" by requiring that manufacturers limit themselves to a statement that their [infant formula] products provide "nutritional sufficiency" risks disincentivising innovation and leading to a race to the bottom in terms of quality. [...] it would be more effective (and consistent with promoting competition) to level the playing field by implementing stringent rules requiring the information relating to [infant formula] products to be scientifically-backed and properly verified'.<sup>494</sup>
- 8.70 In many markets, brand building can often usefully inform consumers of product features and differences. However, as set out in Section 7 Competition in the market, we are concerned that competition on certain aspects of quality and innovation, especially relating to brand reputation, has taken on a disproportionately influential role in this market, to the detriment of competition on price. We consider the importance of quality and innovation as parameters of competition, and the potential effect of implementing our recommendations on them, below.
- 8.71 Therefore, in our view, market outcomes in this particular market (which is distinctive in many ways as set out in more detail in Section 7 Competition in the market) could be improved by giving clear, accurate and impartial information to parents regarding the NHS position that all infant formula products are nutritionally sufficient directly on product labelling, which would help towards equipping parents to make strong choices.
- 8.72 We consider that governments should ensure that messages on nutritional sufficiency are consistent across the UK in order to be most effective. As noted above with regard to **Recommendation 1.1**, in our view, the information provided to parents would be clearer, more persuasive and memorable (and therefore effective) if an optimum message was selected for consistent use by all healthcare settings and providers across the UK.

### **Recommendation 3.2**

- 8.73 To ensure that parents are presented with information on product labels that is easy to interpret and assess, **we recommend that the UK, Northern Irish,**

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<sup>492</sup> BRC's response to the CMA's interim report, p3.

<sup>493</sup> Danone's response to the CMA's interim report, p34.

<sup>494</sup> Danone's response to the CMA's interim report, p29.

**Scottish and Welsh governments revise the infant formula and follow-on formula regulations or introduce other regulatory measures to restrict the use of intangible and/or non-verifiable messages on infant formula and follow-on formula labelling by providing that only specified and prescribed information or categories of information is permitted on labelling.**

- 8.74 To deliver this recommendation we anticipate that governments would need to clearly define what information and/or categories of information is/are permissible on infant formula and follow-on formula labels. This would include mandatory messaging already specified in legislation such as the mandatory particulars in Article 6 of the infant formula and follow-on formula regulations, and any information required by other legislation.
- 8.75 It should also include tangible messaging about product features which are easy for parents to interpret and verify and thus supports well-informed decisions. It would be for governments to determine the types of information that fulfil these criteria. However, it could include messaging on ease of use of products (eg presentation in pre-measured tabs), whether and how packaging is recyclable or ingredient provenance (eg organic or made in the UK).
- 8.76 This recommendation would have the effect of prohibiting any information which governments consider to be intangible and/or non-verifiable on infant formula or follow-on formula labelling (see Section 6 Impact of the regulatory framework and regime: On-pack messaging).
- 8.77 With regards to nutritional composition of infant formula, and as we explain in Section 4 Market outcomes: Product differentiation, responses to our interim report indicate that this does not currently vary in important ways. Manufacturers have strong commercial incentives to assert the merits of their products, including where permitted, their nutritional benefits. As such, and in the context of our findings on how parents behave, we consider that the strong emphasis placed by manufacturers on asserting the additional nutritional benefits of their products, conveyed via signalling, has a disproportionate influence on consumer choice, as we discuss in Section 6 Impact of the regulatory framework and regime and Section 7 Competition in the market.
- 8.78 While it would be for governments to specify what information should be permitted, we consider that the guiding principle is that any on-pack messages should be permitted where they support parents to make well-informed decisions based on specific and verifiable points of difference about particular products.<sup>495</sup>

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<sup>495</sup> We would also expect any messages to comply with relevant consumer law.

- 8.79 The current regulations regarding nutrition and health claims would continue to apply. This means that nutrition and health claims would not be allowed on infant formula but would be permissible on follow-on formula.<sup>496</sup>
- 8.80 This recommendation will help provide clarity for parents regarding the tangible features that differentiate infant formula brands and products, helping them to make more meaningful objective comparisons. In addition, prohibiting intangible and/or non-verifiable messages on follow-on formula labelling would support a reduction in the ‘halo effect’ we have identified whereby the advertisement and marketing of follow-on formula can have an effect on awareness and sales of infant formula products.
- 8.81 Many of the stakeholders responding to our interim report supported stricter thresholds for certain types of claims, or to prohibit the use of phrases/claims which are difficult for parents to meaningfully assess. For example, the Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London, said ‘that the use of implied claims leads parents to purchase more expensive products, which are viewed as ‘premium products’ and effective regulation could therefore drive down the price of these products’.<sup>497</sup> Similarly, Feed told us that ‘We agree with restrictions on non-verifiable or ambiguous claims’<sup>498</sup> and Professors Amandine Garde and Andrea Gideon, University of Liverpool stated that ‘We support the prohibition of all claims (including and beyond nutrition and health claims) on infant formula, as well as the robust and consistent enforcement of existing rules on nutrition and health claims.’<sup>499</sup>
- 8.82 As we set out above, some manufacturers responding to our interim report stated that parents need information that helps them make well-informed choices. They suggested that manufacturers had an important role to play in this regard, and would welcome an opportunity to provide parents with more information. Specifically:
- Nestle told us that it ‘believes that manufacturers have an important role to play in communicating the additional nutritional benefits contained in infant formula, follow-on formula and growing-up milks and the differences in benefits contained in different brands of formula. Currently there is only a small set of simplistic, approved ‘health claims’ which manufacturers are able to make. As a result, parents do not have adequate easy to understand information on packaging etc. to enable them to appreciate the additional

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<sup>496</sup> [Commission Delegated Regulation \(EU\) 2016/127](#) (Assimilated direct legislation). Article 8.

<sup>497</sup> Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p5. Note, it is not clear if this stakeholder is referring to infant formula products, follow-on formula products, or both.

<sup>498</sup> Feed’s response to the CMA’s interim report, p8. Note, it is not clear if this stakeholder is referring to infant formula products, follow-on formula products, or both.

<sup>499</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool’s response to the CMA’s interim report, p4.

benefits contained in certain formula products (which are therefore priced differently). Nestle would therefore welcome further guidance and a more expansive approach to enable manufacturers to equip parents with comprehensive information to inform their decision-making.<sup>500</sup> Nestle also told us that it does not support our recommendation to restrict messaging on packaging. It ‘considers that the current regulations already do not allow for intangible / non-verifiable benefits claims to be made and that its activities are in line with the regulations – for example, references to SMA packaging [in the CMA’s interim report] are a means of communicating Nestle’s investment in nutrition in a manner which parents can digest easily’.<sup>501</sup>

- Danone said that ‘The benefits offered by Danone UK’s brands are not only legitimate and genuine benefits: they are also verifiable, even if public policy restrictions aimed at protecting breastfeeding currently limit manufacturers’ ability to communicate certain infant formula benefits to consumers.’<sup>502</sup> Danone told us that it has a policy of ‘only making health or nutritional claims on the labels of its infant formula products when they are permitted under local laws and regulations or relevant CODEX Alimentarius standards and backed by scientific evidence.’ Danone went on to say that ‘Therefore Danone UK agrees with the CMA’s recommendation that stricter thresholds for certain types of claims should be set and that only scientifically-backed/verified nutritional explanations should be permitted in relation to infant formula products’.<sup>503</sup>
- HiPP told us that ‘We would like to give parents the right information to help make their own choices’. HiPP also specified that it would ‘welcome clarity around the use of claims which can help parents understand the product differences and take an autonomous and well-informed decision.’ It also said that ‘If these thresholds become stricter and are based around ensuring that the claims used are useful for parents rather than misleading, this would help parents make an informed choice.’<sup>504</sup>

8.83 We agree that parents require information to make well-informed decisions when choosing a brand of infant formula. We do not consider that a more expansive approach as submitted by some manufacturers is appropriate. In this regard we also note NHS advice that all infant formulas provide all the nutrients a healthy baby needs for development and growth; and, that the regulations may be updated to account for scientific advances in the composition of infant formula.

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<sup>500</sup> Nestle’s response to the CMA’s interim report, p14.

<sup>501</sup> Nestle’s response to the CMA’s interim report, p15.

<sup>502</sup> Danone’s response to the CMA’s interim report, p13.

<sup>503</sup> Danone’s response to the CMA’s interim report, pp27-28.

<sup>504</sup> HiPP’s response to the CMA’s interim report, pp4, 12.



8.84 We also heard that this measure would need to be effectively enforced.<sup>505</sup> We consider that a strengthened competent authority role (see **Recommendation 4.1** below) would help ensure that infant formula products are compliant when they are placed on the market.

### **Recommendation 3.3**

8.85 To dampen the ‘halo effect’ and role of brand awareness and reputation in parents’ choice of infant formula brand, **we recommend that the UK, Northern Irish, Scottish and Welsh governments, revise infant formula and follow-on formula regulations or introduce other regulatory measures to restrict the advertisement of follow-on formula, in line with the existing restrictions on the advertisement of infant formula.**

8.86 Currently the advertisement of infant formula is restricted to publications specialising in baby care and scientific publications.<sup>506</sup> Implementing this recommendation would involve legislating, or introducing other regulatory measures, for advertising restrictions to be extended to encompass follow-on formula products. This would mean for example, in line with the current infant formula and follow-on formula regulations and related DHSC guidance, that point-of sale advertising and other promotional devices to induce sales of infant formula or follow-on formula directly to the consumer at retail level would be prohibited. Similarly, manufacturers and distributors of infant formula and follow-on formula would not be able to provide free or subsidised follow-on formula products to members of the general public which could include price reductions, discounts or mark-downs and ‘buy one get one free’.<sup>507</sup>

8.87 In effect, this recommendation would mean that parents no longer observe or be exposed to any marketing or advertising for both infant formula and follow-on formula products. This would help to address our concerns around cross-promotion and therefore the outsize role of brand awareness and reputation in parents’ decisions about which infant formula brand to choose. Along with other measures we are recommending to provide parents with clear, accurate and impartial information on infant formula products, this will help to rebalance the information environment parents experience. It should help give parents the confidence to consider a cheaper infant formula brand and may also, in-turn, increase downward pressure on prices.

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<sup>505</sup> Danone’s response to the CMA’s interim report, p27.

<sup>506</sup> [Commission Delegated Regulation \(EU\) 2016/127](#) (Assimilated direct legislation). Article 10.

<sup>507</sup> [Commission Delegated Regulation \(EU\) 2016/127](#) (Assimilated direct legislation). Article 10. DHSC (updated April 2024), Guidance on Commission Delegated Regulation (EU) 2016/127, accessed 17/12/24.

- 8.88 We note the NHS advice that there is no requirement for babies to be given follow-on formula.<sup>508</sup> Further, and as we set out in Section 6 Impact of the regulatory framework and regime, most stakeholders responding to our interim report agreed with this NHS advice. Some also explained that they see follow-on formula as a way for the marketing restrictions on infant formula to be circumvented.<sup>509</sup>
- 8.89 However, Feed noted that ‘the same marketing and price reduction regulations do not apply to follow-on formula milks, which means that these products can sometimes offer families a more cost effective and less stigmatised solution to first infant formula.’<sup>510</sup> Some manufacturers had a different perspective and told us that follow-on formula is specifically designed to meet the needs of older babies.<sup>511</sup> For example, HiPP submitted its understanding is that NHS advice<sup>512</sup> ‘differs from the European Food Safety Authority 2014 revised scientific opinion on the essential composition of infant and follow-on formula. This guidance currently forms the framework of the revised EU 2016/127 regulations on infant and follow-on formula and is adopted in the UK, forming the basis of UK formula nutritional guidance.’<sup>513</sup>
- 8.90 Many of the stakeholders responding to our interim report were supportive of a prohibition on the advertisement of follow-on formula as a way to tackle cross-promotion of infant formula.<sup>514</sup> For example, First Steps Nutrition Trust told us that ‘Strengthening the labelling and advertising rules would be proportionate and impactful’.<sup>515</sup> Several stakeholders who were in favour of this recommendation also noted that it was in line with the WHO Code (see Appendix A Regulatory and policy framework for further information on the WHO Code).<sup>516</sup>
- 8.91 Set against this, some respondents, including some manufacturers, expressed concerns that prohibiting the advertisement of follow-on formula could limit information to parents. For example, Danone said that ‘Advertising follow-on formula can be a useful part of communicating with parents and caregivers and

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<sup>508</sup> The NHS website states that, ‘research shows that there are no benefits for babies from switching to follow-on formula at six months. In addition, when babies are one year old, they can start to drink whole cow’s milk or sheep’s or goat’s milk, as long as they are pasteurised.’ NHS England, Types of formula, Types of formula - NHS, accessed 17/10/24.

<sup>509</sup> Feed’s response to the CMA’s interim report, p1. Public Health Wales’ response to the interim report, p1. The Behavioural Science Workstream of the Healthy Weight Policy Research Unit, University College London’s response to the CMA’s interim report, p2.

<sup>510</sup> Feed’s response to the CMA’s interim report, p5.

<sup>511</sup> Danone’s response to the CMA’s interim report, p30, Nestle’s response to the CMA’s interim report, p4, HiPP’s response to the CMA’s interim report, p2.

<sup>512</sup> That switching to follow-on formula at 6 months has no benefits for your baby.

<sup>513</sup> HiPP’s response to the CMA’s interim report, p2.

<sup>514</sup> We note that the House of Lords Food, Diet and Obesity Committee recommended that, to support infant and maternal nutrition, Government must ‘Act immediately to strengthen regulation on the composition and marketing of follow-on, toddler, and growing up milks, banning the promotion of such products’. House of Lords Food, Diet and Obesity Committee (2024), [Recipe for health: a plan to fix our broken food system](#), pp385.

<sup>515</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p13.

<sup>516</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p13. WIFN’s submission to the CMA’s interim report, p3. The Food Foundation’s response to the CMA’s interim report, p8.

providing them with information about how best to support their baby's needs.<sup>517</sup> Similarly, HiPP told us that 'Increasing advertising restrictions will not help parents gain the information they are looking for, and instead could further exacerbate their need for support and information inadvertently making the difficulties parents face in this category even worse.'<sup>518</sup>

- 8.92 Some concerns were also raised that prohibiting the advertisement of follow-on formula risks stigmatising parents who want or need to use formula milks.<sup>519</sup> This risk was raised by a minority of stakeholders.
- 8.93 We note that in Australia, certain manufacturers – including Danone and Nestle – voluntarily agree not to advertise or promote infant formulas for infants up to the age of 12 months to the general public. The agreement does not apply to retailers.<sup>520</sup> In Singapore, to support breastfeeding, in 2019 restrictions on the marketing of formula milk were tightened. Specifically, the Code of Ethics of the Sale of Infant Foods Ethics Committee Singapore prohibited the marketing of commercial milk formula for infants aged 0–12 months. This is a voluntary code albeit parties breaching it receive warning letters, while repeat violations are publicised on a government website.<sup>521</sup> We further note that in 'higher risk countries' (which does not include the UK) both Danone and Nestle have committed not to advertise or promote infant formula (birth to 6 months of age), follow-on formula (6-12 months of age) and complementary food and drinks (for infants below 6 months).<sup>522</sup>
- 8.94 In our interim report we noted that restricting manufacturers' ability to engage in brand building activities (eg by restricting the advertisement of follow-on formula or prohibiting intangible and/or non-verifiable messages on infant formula and follow-on formula labels) is likely to inhibit their ability to differentiate their products. However, we considered that the impacts of this on manufacturers' ability to compete were uncertain. On one hand, it might increase barriers to entry and expansion by making it harder for manufacturers to differentiate their products on parameters other than price. This could reduce the ability of existing manufacturers and potential new entrants to compete, including retailers who might otherwise be able to enter and/or expand with own-label products at lower

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<sup>517</sup> Danone's response to the CMA's interim report, p31.

<sup>518</sup> HiPP's response to the CMA's interim report, p12.

<sup>519</sup> For example, HiPP's response to the CMA's interim report, p12. Infant Feeding Alliance's response to the CMA's interim report, p2. Feed's response to the CMA's interim report, p8.

<sup>520</sup> [Marketing in Australia of infant formulas: manufacturers and importers agreement \('MAIF agreement'\), D15+143530.pdf](#). We note the agreement has recently been reviewed and a draft determination issued: ACCC (2024) [Draft Determination Application for revocation of AA1000534 and the substitution of authorisation AA1000665v](#), p2.

<sup>521</sup> (2020) The Sale of Infant Foods Ethics Committee Singapore (SIFECs) Code of Ethics, 5<sup>th</sup> Edition.

<sup>522</sup> Danone (2024) [Danone Baby Formula Marketing Standards, 2024 BFMS Policy](#), pp8-9. The list of higher risk countries is defined by the FTSE4Good (Financial Times Stock Exchange for Good Indexes) to include those countries that meet either of the following criteria: a) more than 10 per 1000 (under 5 years of age) mortality rate b) more than 2% acute malnutrition (moderate and severe wasting) in children under the age of 5 years. Nestle (2021) [Nestle policy for implementing the WHO Code](#), pp6, 15. Nestle states higher-risk countries are those where the health and nutrition of children are under greater risk.

price points. It could also reduce manufacturers' incentives to innovate. But on the other hand, it could help to create a more level playing field by reducing (or perhaps eliminating altogether) the importance of making investments in marketing as a way of attracting customers.

8.95 In relation to this, some respondents expressed concerns. For example:

- We heard from Danone that 'compliant marketing and advertising are generally seen as useful parts of the competitive process' and that brand equity plays an important role in facilitating competition. Danone also stated that the 'interim report's suggestion that prohibiting advertising could lead to price decreases is entirely unsubstantiated.' Danone further submitted that 'certain of the measures proposed by the CMA (e.g., in relation to limiting product descriptions to "*nutritional sufficiency*", forced standardisation of IF packaging, and imposing a blackout on highlighting the benefits of FOF) could, in direct opposition to the CMA's purpose, damage competition in the long run by significantly reducing manufacturers' incentives to innovate and maintain high quality standards.'<sup>523</sup>
- HiPP told us that increasing advertising restrictions would serve to 'reduce competition and therefore innovation and product choice by making it even harder to enter this category as a manufacturer, thus again limiting parent choice.'<sup>524</sup>
- We also heard a concern from one respondent that prohibiting the advertisement of follow-on formula could dampen the incentive for manufacturers to innovate and disincentivise entry into the UK market.<sup>525</sup>
- The Neonatal Dietitians Group, British Dietetic Association, submitted that formula companies' investment in research 'drives continual improvement of the composition of formula'. It expressed concern that our remedies should not disincentivise this.<sup>526</sup>

8.96 As we explain in Section 7 Competition in the market: Parameters of competition, we are concerned that competition on certain aspects of quality and innovation has taken on a disproportionately influential role in this market – leading directly to a significant dampening of competition on price. In particular, we consider that the two most important aspects of the quality of infant formula products – (i) providing the appropriate nutrients for a healthy baby's growth and development; and (ii) safety, such that the formula (when made up correctly) does not endanger the baby's health – are provided for by the regulatory framework and are therefore not

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<sup>523</sup> Danone's response to the CMA's interim report, p31, 34.

<sup>524</sup> HiPP's response to the CMA's interim report, p12.

<sup>525</sup> Anonymous 1 response to the CMA's interim report, p5.

<sup>526</sup> Neonatal Dietitians Group, British Dietetic Association's response to the CMA's interim report, p2.

a matter of competition. Relatedly, and given the characteristics of this market, we consider that *signalling* of quality through branding, advertising and messaging that connotes intangible and/or non-verifiable benefits as opposed to specific and verifiable points of difference about particular products, is not a way of competing that benefits consumers in this particular market.

- 8.97 Turning to innovation, while we consider this to be relevant in this market, we consider innovation to be a less important parameter of competition than price and quality (see Section 7 Competition in the market). More specifically, we consider that it is possible that innovation could lead to future benefits for babies. The current legislation allows for this, in that, provided the compositional standards are met, manufacturers may add other nutrients and ingredients that have been proven to be suitable (in terms of expected benefits and safety considerations). Given it currently takes time between manufacturers incorporating new innovations into their formula and those ingredients being assessed by an independent scientific committee for inclusion in all formula products, manufacturers have a period of exclusivity which can incentivise innovation.
- 8.98 We judge that there will continue to be an incentive to innovate following the implementation of our recommendations to equip parents to make strong choices (in particular, restricting the advertisement of follow-on formula and prohibiting intangible and/or non-verifiable messages on infant formula and follow-on formula labels). This is because:
- Innovations that deliver scientifically proven benefits to babies' health will continue to be recognised by the relevant scientific body. This will be beneficial to the business which pioneered the innovation (even if it is subsequently incorporated into the compositional regulatory requirements for all infant formulas).
  - Manufacturers' R&D and innovation is often done globally.
- 8.99 In this market we consider that brand building activities and signalling of product differences risks confusing parents. Our recommendations therefore focus on supporting parents to place more weight on clear, accurate and impartial information. This should deliver better outcomes for parents in general in terms of the choices they make and prices they pay for infant formula. We judge that this significant benefit outweighs any dampening of the incentive to innovate, particularly when considering the frequency of innovations which result in changes to the compositional standards for infant formula and follow-on formula.
- 8.100 We also recognise that this measure would prevent the advertisement of prices and price promotions relating to follow-on formula. This could negatively impact those parents who currently benefit from price promotions on follow-on formula. However, we think any negative impact will be low. Regarding price promotions,

we note that price promotions on follow-on formula are not an important part of competition and are primarily used to encourage parents to upgrade (eg from powders to liquids as opposed to manufacturers discounting the most used 800g tubs) (see Section 7 Competition in the market: Competition between manufacturers and Appendix F Supporting evidence and analysis relating to competition in the market). We note that, for the period we have considered, the base price (ie the non-promotional price) of follow-on formula tends to be the same as the base price of the equivalent brand of infant formula. Therefore, we consider that this measure will help reduce the outsize influence of branding and give parents the confidence to consider a cheaper infant formula brand and which will save parents more money overall than they currently save from temporary price promotions on follow-on formula.

- 8.101 For this measure to be implemented effectively it will require effective enforcement which can be challenging in the digital space. We consider this further below.
- 8.102 Finally, several stakeholders such as Public Health Wales and the Obesity Health Alliance advised that the current advertising restrictions should go even further to encompass growing-up milks.<sup>527</sup> A minority of stakeholders suggested going further still and encompassing foods for special medical purposes and the brand as a whole.<sup>528</sup> Stakeholders generally recommended further restrictions to prevent the indirect promotion of infant formula, including to support breastfeeding.<sup>529</sup>
- 8.103 We are conscious that some cross-promotion may continue via products such as growing-up milks.<sup>530</sup> We therefore recommend that following its introduction, governments closely monitor the effectiveness of this measure, and consider incorporating growing-up milk within the advertising restrictions should there be evidence that infant formula is being cross-promoted through these products. We consider this to be a proportionate approach, which will also allow governments to assess the impact of the measures we are recommending in the round.

### **Recommendation 3.4**

- 8.104 **We recommend that the UK, Northern Irish, Scottish and Welsh governments, working with the ASA, provide further clarification and examples on what constitutes advertising, particularly digital advertising, including social media, for the purposes of the infant formula and follow-on**

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<sup>527</sup> Public Health Wales' response to the CMA's interim report, p7, Obesity Health Alliance's response to the CMA's interim report, p2.

<sup>528</sup> Unicef UK Baby Friendly Initiative's response to the CMA's interim report, p9 and Sustain, the Alliance for Better Food and Farming's response to the CMA's interim report, p7.

<sup>529</sup> Professors Amandine Garde and Andrea Gideon, University of Liverpool's response to the CMA's interim report, p6 and Public Health Wales' response to the CMA's interim report, p7.

<sup>530</sup> We note that the ACCC, in its Draft Determination, said that the ability for signatories to the Marketing in Australia of Infant formula: Manufacturers and Importers Agreement to advertise toddler milk products, which often has almost identical packaging to infant formula can have the effect of cross promoting infant formula. ACCC (2024) [Draft Determination Application for revocation of AA1000534 and the substitution of authorisation AA1000665v](#), p2.

**formula regulations, updating the regulations, CAP and BCAP Codes and/or guidance as necessary.** This will be particularly important given we recommend that the restrictions on advertisement of infant formula be extended to follow-on formula. This should be supported by effective monitoring and enforcement.

- 8.105 Governments and the ASA together will need to identify where the existing guidance<sup>531</sup> could benefit from further clarity<sup>532</sup> and ensure examples are provided so that manufacturers and retailers understand what is expected of them, and enforcers are clear on how to apply the law.
- 8.106 In particular, we consider there could be better clarity on the difference between *the provision of information to parents* about infant formula and follow-on formula products and *advertisement*. Similarly, we heard from one manufacturer that there is uncertainty with regards to whether communications by manufacturers in response to questions from parents has a bearing on whether this is likely to be considered as an advertisement.
- 8.107 Drawing a clear line around when, if at all, retailers may publicise prices and reductions in the price of infant formula would help ensure businesses are operating on a level playing field. As we explain below, we are not recommending a revision of the regulations to ensure that manufacturers and retailers are permitted to publicise prices and price reductions.
- 8.108 The regulations and/or guidance will need to be periodically reviewed and updated where necessary to ensure evolutions in digital marketing practices are adequately reflected. Governments and the ASA will be best placed to determine whether changes to the regulations and/or CAP and BCAP Codes are necessary for effective implementation.
- 8.109 This recommendation will help enable parents to access information on infant formula when they want or need it, but rebalance the information environment by helping to ensure that parents are not unduly exposed to advertising which can support brand building. It will also help ensure that manufacturers and retailers are operating on a level playing field.
- 8.110 All groups of stakeholders responding to our interim report were broadly supportive of this recommendation. Illustrating this, the ASA said that it ‘supports the provisional findings and potential measures to address the CMA’s emerging concerns in the interim report, particularly clarifying and monitoring the existing regulations’.<sup>533</sup> Public Health Wales also told us that it is ‘supportive of measures

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<sup>531</sup> DHSC (updated April 2024), Guidance on Commission Delegated Regulation (EU) 2016/127, accessed 17/12/24.

<sup>532</sup> We note that a few stakeholders felt that DHSC had provided guidance on this and questioned what further clarification was required. See for example, Sustain, the Alliance for Better Food and Farming’s response to the CMA’s interim report, pp5-6.

<sup>533</sup> The ASA’s response to the CMA’s interim report, p2.

to clarify definitions around advertising'.<sup>534</sup> Manufacturers agreed that there was a need for greater clarity and to deliver a level playing field. For example, HiPP told us that it would 'like universal clarity on interpretation and therefore how to enforce the regulations' and noted that, in its opinion, there were 'examples of reoccurring breaches of the advertising regulations'. A large retailer also told us that it would 'appreciate a clarification as to how existing regulations apply to online offerings, including the provision of examples'.<sup>535</sup>

- 8.111 As we set out in Section 6 Impact of the regulatory framework and regime, several stakeholders raised concerns about the promotion of infant formula through digital marketing channels, including social media.<sup>536</sup> For example, WIFN submitted that it 'considers that it is particularly important to include product placement, digital marketing, use of influencers and social media activity in any definition of advertising'.<sup>537</sup> A healthcare professional stated that 'Restrictions on the misinformation used in marketing particularly online and with focus on new areas of concern for example "influencers"' would be valuable.<sup>538</sup> We note that the WHO has published guidance on regulatory measures aimed at restricting digital marketing of breastmilk substitutes. The WHO explains that, in its view, digital environments are fast becoming the predominant source of exposure to promotion of breastmilk substitutes globally.<sup>539</sup>
- 8.112 Although we did not undertake a comprehensive assessment of digital advertising, we have seen some examples in respect of which we have concerns about compliance with restrictions on the advertising of infant formula. However, we have not seen evidence of widespread non-compliance (see Section 6 Impact of the regulatory framework and regime: Compliance and enforcement).
- 8.113 Monitoring and enforcing regulations in the digital environment is inherently challenging. However, for this measure and our recommendation to restrict the advertisement of follow-on formula to effectively support a reduction in the role of brand awareness and reputation in parents' decision-making, sufficient and consistent monitoring and enforcement will be necessary. We set out below our recommendations for ensuring effective enforcement of current and updated regulations.
- 8.114 It is our understanding that currently one of the key barriers to effective monitoring and enforcement of the provisions of the infant formula and follow-on formula regulations restricting the advertisement of infant formula and related aspects of the CAP Code in the digital space is the lack of clarity around what constitutes

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<sup>534</sup> Public Health Wales' response to the CMA's interim report, p7.

<sup>535</sup> A large retailer's response to the CMA's interim report, p2.

<sup>536</sup> For example Public Health Wales' response to the CMA's interim report, p3.

<sup>537</sup> WIFN's response to the CMA's interim report, p3.

<sup>538</sup> Ellen Diccio's response to the CMA's interim report, p1.

<sup>539</sup> World Health Organisation (2023) [Guidance on regulatory measures aimed at restricting digital marketing of breast-milk substitutes](#)



advertising. As we note in Section 6 Impact of the regulatory framework and regime, Trading Standards Services must also carefully prioritise their resources. Once the former is addressed, the ASA and Trading Standards Services will need to consider whether there are any further barriers to delivering consistent and effective enforcement bearing in mind potential additional responsibilities regarding follow-on formula advertisement restrictions if our recommendation in this regard is taken forward.

### **Recommendation 3.5**

- 8.115 To support parents, **we recommend that the UK, Northern Irish, Scottish and Welsh governments amend, as necessary, the guidance to the infant formula and follow-on formula regulations (and, if necessary and feasible, amend the infant formula and follow-on formula regulations) to ensure that parents can use gift cards, vouchers, loyalty points and coupons in lieu of cash to purchase infant formula.**
- 8.116 As discussed in Section 3 Market overview, the regulations restrict manufacturers from advertising and promoting infant formula. In relation to this, DHSC guidance states that ‘manufacturers and distributors of infant formula shall not provide free or subsidised products, samples or any other promotional gifts to members of the general public including pregnant women, mothers or members of their families – this could include...loyalty or reward card schemes’.<sup>540</sup> The Minister for Care recently said that ‘Loyalty card points on their own are not contentious within the infant formula regulations, and the regulations do not specifically mention them. I agree that consumers should be able to use their loyalty card points to achieve a saving on their shopping’ but that ‘Loyalty card points should not be used as an incentive or as a reward to purchase infant formula.’<sup>541</sup> The BRC told us that ‘Our members’ legal councils are clear that the use of loyalty scheme are a form of promotion.’<sup>542</sup>
- 8.117 In response to our interim report there was some support for loyalty points to be used against the purchase of infant formula. For example, Feed submitted that it would like ‘the CMA be more specific on recommending the ability of consumers to collect and spend loyalty points as they can with any other product barring tobacco and lottery tickets, as this is not an inducement to sale.’<sup>543</sup> Relatedly, and as we noted in our interim report, a campaign by the Metro and Feed, and supported by

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<sup>540</sup> DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 07/01/25.

<sup>541</sup> [Infant Formula Regulations, Volume 756: debated on Wednesday 13 November 2024](#), accessed, 15/01/24.

<sup>542</sup> BRC’s response to the CMA’s interim report, p4.

<sup>543</sup> Feed’s response to the CMA’s interim report, p7.

Iceland, has called for customers to be allowed to pay for infant formula with loyalty points, grocery vouchers, and store gift cards.<sup>544</sup>

8.118 We also heard from some manufacturers that that there is a degree of uncertainty over whether the regulations permit these methods of payment in lieu of cash to purchase infant formula, or whether this would constitute an inducement to purchase infant formula and therefore is prohibited. For instance, Danone stated that ‘The regulations should be clarified to enable consumers to purchase infant formula products with supermarket loyalty points and other vouchers accepted by retailers.’<sup>545</sup> HiPP also submitted that ‘There needs to be clarity on the donations for food banks and food bank vouchers and whether loyalty points can be used or not on infant formula rather than just clarity on price reductions and promotions of infant formula.’<sup>546</sup>

8.119 In designing and implementing this recommendation, governments will need to ensure that the acceptance of gift cards, vouchers, loyalty points and coupons in lieu of cash is not used to advertise, or reward the purchase of, infant formula or follow-on formula, thereby contributing to the outside role brand awareness and reputation currently plays in parents’ decision-making. In particular, the acceptance of gift cards, vouchers, loyalty points and coupons should not be:

- Used to advertise or promote infant formula or follow-on formula (in line with **Recommendation 3.3**).
- Subject to parents subscribing to manufacturers’ baby clubs,<sup>547</sup> newsletters or other information resources.
- A means to reward parents for the purchase of particular products or brands eg awarding bonus loyalty points for the purchase of a specific brand of infant formula.
- Conditional upon parents purchasing a volume of infant formula or follow-on formula from a specific brand.

8.120 This may also align with public health objectives to avoiding inducements to purchase infant formula, thereby supporting breastfeeding.

8.121 Linked to this, to enable both parents, retailers and enforcers to have a clear understanding of what is permissible, DHSC guidance on the infant formula and follow-on formula regulations should be updated, including with the provision of

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<sup>544</sup> [Feed, Formula for change, Formula for Change — feed \(feeduk.org\)](#), accessed 24/07/24. The campaign has also called on the government to allow retailers to tell the public when they reduce the price of infant formula.

<sup>545</sup> Danone’s response to the CMA’s interim report, p28.

<sup>546</sup> HiPP’s response to the CMA’s interim report, p14.

<sup>547</sup> In our view, parents should not be able to redeem vouchers, loyalty points or coupons awarded in return for them subscribing to, or being a subscriber of, baby clubs, newsletters or other information resources which may be used as a way building brand awareness.

clear examples. Matters that could be covered include, but are not limited to, the following:

- The types or characteristics of gift cards, vouchers or coupons that may be used in lieu of cash to purchase infant formula.
- Whether there are any specific circumstances when gift cards, vouchers and coupons may not be used to purchase infant formula. As we have set out above, this should include guidance on when advertisement or promotional activities relating to these methods of payment is likely to raise infant formula brand awareness and reputation and is therefore not permitted. For example, a gift card which prominently displayed an infant formula brands' logo, name and messaging is likely to support brand building.

8.122 Should governments implement **Recommendation 3.3** to restrict the advertisement of follow-on formula, we consider that parents should also be able to use gift cards, vouchers, loyalty points and coupons in lieu of cash to purchase follow-on formula. However, and as we have set out above, governments will need to ensure that this is not used as a means to advertise or reward purchases of follow-on formula and therefore contribute to the outsize role that brand awareness and reputation currently plays in parents' decision-making.

8.123 Governments may also wish to consider the impact of restricting the advertisement of follow-on formula on aspects of loyalty and reward schemes beyond the use of points from such schemes as payment in lieu of cash, as this is not something we have assessed. This includes, for example, a consideration of whether retailers would be allowed to offer members of their loyalty scheme loyalty price promotions (ie a price which is lower than the usual price) on follow-on formula or reward parents purchasing follow-on formula with a certain number of loyalty points.

### **Ensuring effective enforcement of current and updated regulations**

8.124 As noted in Section 6 Impact of the regulatory framework and regime: Branding, labelling and cross-marketing, we are concerned that all the products we have examined do not appear to comply with the regulations and DHSC guidance requiring infant formula and follow-on formula to be clearly distinct.<sup>548</sup>

8.125 This underenforcement likely results from a combination of the need for Trading Standards Services to carefully prioritise their resources and some challenges in interpreting specific provisions of the regulations, although some manufacturers told us they believe they are compliant with the regulations.

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<sup>548</sup> [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), Appendix 4, accessed 09/01/25.

- 8.126 In our view, similar branding and labelling across formula milk ranges increases brand awareness and reputation through the marketing of follow-on and growing-up milks. Consequently, many parents, particularly those who are vulnerable and rely on decision shortcuts, may purchase more expensive formula than necessary. This issue is exacerbated by the lack of timely, clear, accurate and impartial information.
- 8.127 It is important that, in advance of changes to the regulatory regime (recognising that will take time), that the current rules are effectively enforced, and that robust enforcement continues with any regulatory changes. More broadly, a robust enforcement regime with high levels of regulatory compliance is crucial not only for babies and parents, but also for ensuring that manufacturers and retailers compete on a level playing field. Therefore, we consider that the competent authority role should be strengthened to ensure that the regulations have their intended effect.
- 8.128 We are therefore making the following recommendations:
- (a) **Recommendation 4.1: We recommend that the UK government, working with governments in Northern Ireland, Scotland and Wales, assesses whether the labels of infant formula products currently on the UK market are compliant with Article 6 (6) of the infant formula and follow-on formula regulations and related DHSC guidance. These govern the presentation and labelling requirements for infant formula and follow-on formula and requires them to be clearly distinct from one another. The UK government should then, at a minimum, communicate its assessment of compliance to enforcers and manufacturers and update its guidance if clarification is required regarding interpretation of the regulations.**
  - (b) **Recommendation 4.2: We recommend that the UK, Northern Irish, Scottish and Welsh governments strengthen the competent authority role by introducing a pre-approval process for infant formula product labels.**

#### **Recommendation 4.1**

- 8.129 We recommend that the UK government, working with governments in Northern Ireland, Scotland and Wales, assesses whether the labels of infant formula products currently on the UK market are compliant with Article 6 (6) of the infant formula and follow-on formula regulations and related DHSC guidance which governs the presentation and labelling requirements for infant formula and follow-on formula and requires them to be clearly distinct from one another. Following this, the UK government should, at a minimum, communicate its assessment of

compliance to enforcers and manufacturers and update its guidance if clarification is required regarding interpretation of the regulations.

- 8.130 It would ultimately be for the courts to determine whether regulatory breaches have occurred. However, in the short-term this action would clarify, for manufacturers and enforcers, competent authorities' views on whether the products currently on the market comply with the requirement for infant formula and follow-on formula labels to be clearly distinct. Updating DHSC guidance, if needed, would also ensure that potential entrants to the market are clear on what DHSC considers the regulations require in this regard.

#### **Recommendation 4.2**

- 8.131 **We also recommend that the UK, Northern Irish, Scottish and Welsh governments strengthen the competent authority role by introducing a pre-approval process for infant formula product labels.**
- 8.132 This would entail competent authorities reviewing infant formula labels, as they do now. However, the process would no longer be a notification, and instead approval would need to be given by the relevant competent authorities before products could be placed on the market. This would ensure that only products that are compliant with the regulations are placed on the market and could help to reduce subsequent calls on Trading Standards Services' resources.
- 8.133 Further, the introduction of a pre-approval process would provide an opportunity to review products already on the market: (a) for compliance with existing regulatory requirements (for example, the requirement for infant formula and follow-on formula products to be clearly distinct); or (b) any new regulatory requirements which are introduced should our recommendations be progressed (for example, our recommendation to prohibit intangible and/or non-verifiable messages on infant formula and follow-on formula labels). Clear transitional arrangements would be needed to deliver this.
- 8.134 Taking the steps we have outlined here to ensure that infant formula and follow-on formula labels are clearly distinct is necessary in combination with our other recommendations which aim to reduce the halo effect such as restricting the advertisement of follow-on formula. This is because there will be still occasions when parents may view these products alongside each other, for example, in smaller retail stores.
- 8.135 Stakeholders from all groups explicitly or implicitly supported high levels of compliance and enforcement with the regulations.<sup>549</sup> Most stakeholder groups

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<sup>549</sup> For example, the BSNA's response to the CMA's interim report, p2, and Public Health Wales' response to the CMA's interim report, p10.

(aside from manufacturers, whose views we outline below) were in favour of competent authorities pre-authorising infant formula labels before products are placed on the market.<sup>550</sup> For example, Unicef UK Baby Friendly Initiative said ‘We agree that pre-authorisation of all new products by a competent authority with a particular focus on ensuring compliance with the existing rules before products are placed on the market could help to bring in appropriate controls affecting branding, labelling and cross-marketing’.<sup>551</sup> A small number of stakeholders submitted that there should be penalties for non-compliance with the regulations.<sup>552</sup>

- 8.136 Manufacturers had more mixed views on how high levels of compliance could best be delivered. Danone said it was ‘in favour of the authority obtaining the power to assess infant formula products, including with respect to labelling and stage differentiation, before they are approved to be placed on the market provided requirements are clear and this can be achieved within a reasonable timeline’.<sup>553</sup> Neither Nestle or HiPP supported this recommendation. Both had concerns, like Danone, about the length of time pre-approval may take.<sup>554</sup> Nestle told us that this ‘is likely to lead to lead to negative consequences for consumers, delaying the route to market for products, causing supply chain disruption for manufacturers.’ It also said that ‘Significant delays and possible uncertainties in getting products to market could disincentivise manufacturers from innovating further. This could likewise disincentivise market entry for new players.’<sup>555</sup> The BRC questioned ‘the value of such approval, which will only be able to cover product composition<sup>556</sup> and presentation, both of which have not been identified as issues in the UK. There is a risk the cost of such approval will be passed onto customers.’<sup>557</sup>
- 8.137 For a pre-approval process to be effective for babies, parents, manufacturers and retailers it will need to be achievable in a reasonable timescale. As such, competent authorities should consider whether they need to be differently resourced to deliver an efficient and effective process. To support this, clear regulations and guidance will be required with appropriate sanctions for non-compliance.

## Implementation

- 8.138 With regards to our recommendations that we consider require regulatory change, we note that there may be different ways to deliver our recommendations. For example, in some cases it may be appropriate to amend Regulation 2016/127

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<sup>550</sup> For example, First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group’s response to the CMA’s interim report, pp8-9, and the SIFAN’s response to the CMA’s interim report, p4.

<sup>551</sup> Unicef UK Baby Friendly Initiative’s response to the CMA’s interim report, p8.

<sup>552</sup> The Food Foundation’s response to the CMA’s interim report, p8. Danone’s response to the CMA’s interim report, p27.

<sup>553</sup> Danone’s response to the CMA’s interim report, p27.

<sup>554</sup> HiPP’s response to the CMA’s interim report, p11.

<sup>555</sup> Nestle’s response to the CMA’s interim report, p14.

<sup>556</sup> Note that we envisage that pre-approval would cover infant formula labels only.

<sup>557</sup> BRC’s response to the CMA’s interim report, p4.

whereas in other cases, introducing other regulatory measures may be appropriate. Ultimately, it will be for governments to consider the most appropriate means to achieve regulatory change.

- 8.139 If governments choose to pursue regulatory change, they will need to ensure that there is an appropriate transition period so that businesses have time to understand what is being required of them and to act on this. This will be particularly important for smaller businesses who generally have more limited time and resources. Likewise, bodies such as the Trading Standards Services and the ASA with a role in enforcing the regulations will need to be engaged as legislative changes are progressed and brought into effect.

### **Measures that we are not recommending at this stage, but which governments may wish to consider as backstop options in the future**

- 8.140 As noted at the beginning of this section, taken as a whole, our package of mutually reinforcing measures aims to fundamentally alter the dynamics of competition in the infant formula market to bring about better outcomes for parents in general in terms of the choices they feel able to make and prices they pay for infant formula. These measures provide a necessary counterweight to the combined effects of unintended consequences of existing regulation, the strategies adopted by manufacturers, and the ways in which consumers are inclined to interact with the market. They will do this primarily by creating a situation where parents become more price sensitive and have greater confidence to select less expensive options on the market. This will in turn incentivise manufacturers to compete harder on price, bringing greater downwards pressure to bear on prices.
- 8.141 Having considered an intervention that could more directly address price competition (permitting prices/price reductions to be advertised), we are not recommending this option at this time. However, we note that if action is taken to enable more effective consumer engagement in this market and/or governments' understanding of the appropriate trade-offs between public health and consumer goals were to shift, this may be an option that policymakers wish to explore. We stand ready to assist governments further in that case.
- 8.142 Separately, we considered, but are not recommending, implementing price controls to set maximum prices for infant formula. However, governments may wish to retain this as a backstop option, if our proposed package of measures does not achieve the desired market outcomes within a reasonable timeframe.

## Publicising prices and/or price reductions

- 8.143 We consider that effective price competition in a market generally depends on consumers being aware of and able to easily compare the price and quality of products in a way which influences their decision making. Therefore, the ability of suppliers and retailers to advertise the price and attributes of their products is typically a key driver of effective price competition.
- 8.144 We observe that it is common for retailers to display the price of infant formula on product shelves and in online stores in the same manner as other products (usually when they can be immediately added to a physical or virtual shopping basket).
- 8.145 As discussed in Section 6 Impact of the regulatory framework and regime, the advertising of infant formula products and certain product features is restricted, underpinned by the wider policy aim of not discouraging breastfeeding. In our view, both the regulations and guidance are unclear on the extent (including the manner and frequency) to which retailers may inform parents about the price of infant formula.
- 8.146 In our interim report, we set out the possibility that, to incentivise competition on price, the regulations could be revised to ensure that manufacturers and retailers are permitted to publicise prices and price reductions. We received a range of opinions in response on whether implementing this measure would improve outcomes.
- 8.147 Most manufacturers supported this potential measure. See Section 6 Impact of the regulatory framework and regime: Publication of prices and price reductions.
- 8.148 However, multiple other stakeholders were strongly against this potential measure. Their main concern was that increasing the ability of manufacturers and retailers to publicise prices could constitute advertising, and therefore be contrary to the current regulations and WHO Code, and counteract the wider policy objective of not discouraging breastfeeding.<sup>558</sup>
- 8.149 Having carefully weighed-up the evidence, we do not propose that this measure is taken forward, for the following reasons:
- (a) First, it is clear that the UK, Scottish, Welsh and Northern Irish governments are committed to the public health goal of supporting breastfeeding. From our discussions with them, we also understand that they have concerns that allowing price promotions would risk undermining their important policy goals.

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<sup>558</sup> See Section 6 Impact of the regulatory framework and regime: Publication of prices and price reductions.



While it is not for the CMA to assess the extent of this potential impact, we note and respect the public policy positions of the governments at this time.

- (b) Second, given the current market dynamics that we have observed, we consider that there are limitations on the extent to which such measures would lead to better outcomes for consumers without other measures to change consumer behaviour. Our consumer research and feedback from stakeholders indicates that this potential measure may not be effective in strengthening price competition because only a small proportion of parents would travel to a different supermarket to purchase their preferred brand at a lower price point (see Section 5: Consumer behaviour). While allowing price promotions could incentivise retailers to drop prices for certain periods, with consumers saving money, this would address only a proportion of the potential savings consumers could make in this market. As noted in Section 4 Market outcomes, retail margins are not notably high at present, and this measure would do nothing to support consumers in choosing lower-priced brands in the market, which would be a much more significant source of cost savings.
- (c) Third, while there is a potential argument that allowing retail price promotions would put greater incentives on retailers to push back on cost increases from manufacturers, we have seen that retailer buyer power is relatively weak in this market, so this effect is likely to be limited.
- (d) Lastly, even if a way to permit prices to be publicised without undermining the wider policy objectives regarding breastfeeding were to be found, there would be significant challenges in monitoring how particular communications comply with the rules.

## **Price controls**

- 8.150 We have considered whether the retail price of infant formula could be capped by regulations which set a maximum price ceiling. This would directly address the retail price of infant formula.
- 8.151 A profit margin cap would require that manufacturers and/or retailers limit their prices to a specified percentage above their costs.
- 8.152 The impact of a maximum price ceiling or profit margin cap would depend on the set amount or percentage. For instance, a high maximum price ceiling could bring down the price of the most expensive products only. Alternatively, setting it around the price of the most affordable infant formula products could affect most products in the market.

8.153 Stakeholders who responded to our interim report had mixed views on the benefits of introducing price controls:

- Many stakeholders raised concerns, in particular, about prices gravitating towards the amount of a price ceiling<sup>559</sup> and that price ceilings could create a less dynamic market with reduced choice, quality and/or innovation to the detriment of consumers.<sup>560</sup> Concerns were also raised about the risk of supply shortages and reduced market resilience.
- However, several other stakeholders told us that they supported the introduction of a profit margin cap for equity reasons.<sup>561</sup>

8.154 Having weighed up the evidence for and against, we do not recommend the introduction of price controls at this time. While the introduction of price controls would directly limit prices, it would involve significant risks, including that lower prices in the market could rise to the level of the ceiling, resulting in some parents missing out on cheaper options on the market. There would also be significant challenges in the design and implementation of such a measure. However, governments may wish to retain this as a backstop option, if our proposed package of measures does not achieve the desired market outcomes within a reasonable timeframe.

## **Measures we are not recommending**

8.155 In this sub-section we explain why we are not recommending some of the options outlined in our interim report.

### **Healthcare settings**

#### **Provision of pricing / product information in healthcare settings**

8.156 In our interim report, we set out the possibility that parents could be provided with clear, accurate and impartial information on the range and unit prices of infant formula. We received strong arguments both for and against this measure.

8.157 On one hand, all of the manufacturers who responded to our interim report told us that they believed that parents should be provided with information in healthcare settings about the differences between infant formula brands. Danone told us that it considers that parents and caregivers need extensive, unbiased information to

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<sup>559</sup> Feed's response to the CMA's interim report, p9.

<sup>560</sup> Infant Feeding Alliance's response to the CMA's interim report, p7.

<sup>561</sup> The Breastfeeding Network's response to the CMA's interim report, p2, Public Health Wales' response to the CMA's interim report, p8.

make informed decisions about what is best for them and their babies.<sup>562</sup> This sentiment was shared by other manufacturers.<sup>563</sup>

- 8.158 On the other hand, many organisations expressed the view that it should not be the responsibility of healthcare settings (including the NHS) to provide information on specific brands, formula pricing or manufacturer claims. Several organisations, including The Breastfeeding Network,<sup>564</sup> Infant Feeding Alliance,<sup>565</sup> Unicef UK Baby Friendly Initiative<sup>566</sup> and Public Health Wales,<sup>567</sup> submitted that it should not be the responsibility of healthcare professionals to give price or product information. The Breastfeeding Network added that, in any case, information about products ought to be considered as being irrelevant and unnecessary since the regulations ensure that all infant formulas are nutritionally equivalent.<sup>568</sup>
- 8.159 Several stakeholders (including Danone,<sup>569</sup> Nestle,<sup>570</sup> SIFAN<sup>571</sup> and First Steps Nutrition Trust<sup>572</sup>) highlighted that it could be burdensome for healthcare professionals to have an expanded role in giving information on formula feeding.
- 8.160 After carefully weighing-up the evidence, and considering the specific characteristics of the infant formula market, we have decided not to make this recommendation. Having regard to the position of the NHS that all infant formula is nutritionally sufficient, and the need for parents to be provided with clear, accurate and impartial information in healthcare settings, we consider that providing more information to parents about differences between brands would undermine some of our recommendations, in particular **Recommendations 1.1 and 1.2**.

### **Balanced / rotational procurement in healthcare settings**

- 8.161 This measure would aim to ensure that healthcare settings are able to offer parents a wide range of infant formula brands where possible, either for parents to select themselves or to be given on a rotational basis (for example, with a different brand being provided to parents each month).
- 8.162 As noted above and in Section 7 Competition in the market, we have found that manufacturers have consistently sold below cost to the NHS (in at least the period

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<sup>562</sup> Danone's response to the CMA's interim report, p4.

<sup>563</sup> Nestle's response to the CMA's interim report, p6; HiPP's response to the CMA's interim report, p4.

<sup>564</sup> The Breastfeeding Network's response to the CMA's interim report, p3.

<sup>565</sup> Infant Feeding Alliance's response to the CMA's interim report, p4.

<sup>566</sup> Unicef UK Baby Friendly Initiative's response to the CMA's interim report, p5.

<sup>567</sup> Public Health Wales' response to the CMA's interim report, p4.

<sup>568</sup> The Breastfeeding Network's response to the CMA's interim report, p3.

<sup>569</sup> Danone response to the CMA's interim report, p33.

<sup>570</sup> Nestle response to the CMA's interim report, p12.

<sup>571</sup> SIFAN's response to the CMA's interim report, p3.

<sup>572</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's interim report, p11.

we examined, January 2019 to December 2023)<sup>573</sup> and consider their NHS sales to be an important customer acquisition channel.<sup>574</sup> We consider that this is the case because: (i) brand visibility in hospitals is a significant factor driving brand choice (see Section 5 Consumer behaviour: Drivers of brand choice), and (ii) parents rarely switch infant formula brands (see Section 5 Consumer behaviour: Brand loyalty and switching).

8.163 This measure will not be needed if healthcare settings introduce standardised labelling (**Recommendation 1.2**). Further, we note that:

- This measure would be most effective in demonstrating to parents that all infant formula, regardless of price, is nutritionally sufficient if the brands offered were from the more affordable end of the spectrum. However, we observe that many brands (including some of the cheapest) do not currently supply liquid infant formula, which is the primary format used in healthcare settings.
- Even if infant formula products from the more affordable end of the spectrum were available, there would be significant specification risks from specifying which brands can be supplied. For example, if only the cheapest brand could be chosen, there is a risk that a monopoly could be created. On the other hand, if the criteria were more open, the measure may be ineffective.

## Equipping parents to make strong choices in retail settings

### Clear and factual assessment of health and nutrition claims in retail settings

8.164 In our interim report, we suggested that information on nutritional sufficiency given in retail settings could be supplemented with a clear and factual assessment of some of the health and nutrition claims made by manufacturers on their packaging and/or a comparison of unit prices. The aim of this measure would be to help parents make decisions based on objective information.

8.165 We received opposing views on whether this potential measure should be introduced. On one hand, Feed told us that a clear and factual assessment on

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<sup>573</sup> NHS Supply Chain told us it does not currently set a ceiling price and that the price tendered by the supplier is the price the NHS Trust eventually pays. However, in 2019, NHS Supply Chain did set a ceiling price of 20p (excluding VAT) for 70ml-90ml liquid infant formula and bids above this were rejected. In 2023, the most recent tender, a manufacturer stated that NHS Supply Chain indicated to all manufacturers that prices should be kept low. Ultimately, all offers by the suppliers that were chosen to be on the framework were below the previous 20p ceiling price.

<sup>574</sup> The fact that manufacturers make a loss on their sales to the NHS shows that they consider this to be an important customer acquisition channel. Indeed, manufacturers have told us that this is part of a deliberate consumer acquisition strategy to get parents started on their brand because they know that these parents will most likely continue with it throughout their baby's first year. For further details, see Appendix F Supporting evidence and analysis relating to competition in the market: Supply to the NHS.

some of the health and nutrition claims, perhaps accessed via a QR code, is critical.<sup>575</sup> On the other, concerns were raised about:

- The effectiveness of this measure. Public Health Wales thought it was unlikely that parents would scan a QR code and read this information in retail settings.<sup>576</sup> It also highlighted the risk of ‘digital exclusion’, namely that those most in need of the information may not have access to it.
- How feasible it would be to assess manufacturers’ health and nutrition claims. For example, it was suggested that a significant independent monitoring and enforcement system would be needed.<sup>577</sup> Public Health Wales posited that if manufacturers and retailers are generating higher profits as a result of making claims about differences between brands, the responsibility (ie burden) for assessing these claims should not be borne by the public purse.<sup>578</sup>

8.166 The existing legislation ensures that all infant formulas contain the nutrients a healthy baby needs. Further, where nutrients are proven to be of benefit (by the relevant independent scientific committee) they are mandated for inclusion in all products.

8.167 While the legislation does not lead to complete homogeneity in nutritional provision, it ensures that all infant formulas meet certain compositional standards. Therefore, in our view, it is unnecessary to conduct detailed assessments of claims made by manufacturers about nutritional differences between brands. Additionally, such assessments could unintentionally undermine the message that we consider to be key to unlocking lower prices in this market, which is that the most affordable products provide all the necessary nutrients for a baby’s health and development.

## **Strengthening the labelling and advertising rules**

### **Entirely different infant formula and follow-on formula labelling**

8.168 In our interim report we explained that one way to reduce manufacturers’ ability to raise their brand awareness and reputation using labelling and advertising was to require infant formula labelling to be ‘entirely different’ to follow-on formula labelling, not merely ‘distinct’ as is currently the case. We proposed that this could further support parents to place greater weight on clear, accurate and impartial information on the nutritional sufficiency of all infant formula products.

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<sup>575</sup> Feed’s response to the CMA’s interim report, p7.

<sup>576</sup> Public Health Wales’ response to the CMA’s interim report, p6.

<sup>577</sup> Unicef UK Baby Friendly Initiative’s response to the CMA’s interim report, p7.

<sup>578</sup> Public Health Wales’ response to the CMA’s interim report, p6.

- 8.169 Our interim report set out that entirely different infant formula and follow-on formula labelling could involve requiring manufacturers to ensure that their:
- infant formula products have different brand names to their follow-on formula products; and
  - infant formula and follow-on formula products are ‘clearly distinct’ in line with the current requirements. This would mean ensuring that the text style and placement, images and or graphics and colours of the labelling are entirely different.
- 8.170 There was support for this measure amongst multiple stakeholders responding to our interim report. For instance, First Steps Nutrition Trust said that it ‘agreed with our recommendation, including for different brand names and logos.’<sup>579</sup> The Food Foundation told us that it strongly agreed with this measure ‘to avoid cross-product marketing and confusion’.<sup>580</sup> Some stakeholders, such as Unicef UK Baby Friendly Initiative and SIFAN supported this measure, but had a preference to go further and require standardised labelling for infant formula.<sup>581</sup>
- 8.171 Nestle and HiPP were however, concerned that this measure could create confusion amongst parents.<sup>582</sup> Danone also submitted that ‘consumers would not be able to rely on familiar names, logos and labelling to be able to readily differentiate between brands’.<sup>583</sup> Nestle and the BRC did indicate an openness to considering how infant formula and follow-on formula could be further differentiated.<sup>584</sup> Danone also told us this measure would be harmful given that consumer choice is driven by brand equity and trust and manufacturers compete on this parameter.<sup>585</sup> Danone said that this measure could result in a chilling effect on investment.<sup>586</sup>
- 8.172 We have not recommended requiring manufacturers to have a different brand name and logo on their infant formula products compared to their follow-on formula products. This is because, while we remain of a view that this measure would help tackle cross-promotion, we consider that restricting the advertisement of follow-on formula is likely to be more objective and effective way to support better outcomes for parents as well as being quicker to monitor and enforce than complex labelling rules, which would be more subjective in nature. However, if the

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<sup>579</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK’s response to the CMA’s interim report, p14.

<sup>580</sup> The Food Foundation’s response to the CMA’s interim report, p8.

<sup>581</sup> Unicef UK Baby Friendly Initiative’s response to the CMA’s interim report, p9, SIFAN’s response to the CMA’s interim report, pp4-5.

<sup>582</sup> Nestle’s response to the CMA’s interim report, p 11. HiPP’s response to the CMA’s interim report, pp11-12.

<sup>583</sup> Danone’s response to the CMA’s interim report, p32.

<sup>584</sup> Nestle’s response to the CMA’s interim report, p11. BRC’s response to the CMA’s interim report, p9.

<sup>585</sup> Danone’s response to the CMA’s interim report, p32.

<sup>586</sup> Danone’s response to the CMA’s interim report, p32.

recommendations above do not deliver the anticipated outcomes within a reasonable timeframe, governments could give further consideration to this.

- 8.173 However, we remain concerned that the formula milk products we examined may not comply with the regulations<sup>587</sup> and associated DHSC guidance requiring infant formula and follow-on formula to be clearly distinct. We have recommended steps which should be taken to address this above (see **Recommendations 2.2 and 4.1**).

### **Standardised infant formula labelling in retail settings**

- 8.174 Our interim report explained that an additional measure, which goes further than requiring infant formula labelling to be entirely different from follow-on formula labelling, is to require infant formula products to be packaged with standardised labelling.
- 8.175 We explained that standardised labelling would require the use of the same colour schemes and designs, but would allow the official company name and logo and essential written information (for example, about the composition and quantity). The aim of this measure was to reduce manufacturers' ability to raise their brand awareness and reputation using labelling and advertising.
- 8.176 We continue to consider that this measure could help to reduce the role of labelling in parents' decision-making and, in turn, increase parents' price sensitivity with regards to infant formula. Several respondents to our interim report agreed.<sup>588</sup> For example, Public Health Wales said it supported standardised labelling for infant formula as a way to reduce cross-promotion and the existing power of brand awareness and loyalty.<sup>589</sup>
- 8.177 However, we heard concerns about potential unintended consequences arising from this measure, which mainly came from manufacturers. In particular, we heard that it risked impeding the provision of information to parents, particularly with regards to points of differentiation between products;<sup>590</sup> making it more challenging for parents to find their brand of choice and creating confusion;<sup>591</sup> hindering competition in the market by disincentivising investment and innovation<sup>592</sup> and

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<sup>587</sup> [Commission Delegated Regulation \(EU\) 2016/127](#), Article 6(6). DHSC (updated April 2024), [Guidance on Commission Delegated Regulation \(EU\) 2016/127](#), accessed 20/07/24.

<sup>588</sup> For example, Professors Amandine Garde and Andrea Gideon, University of Liverpool's response to the CMA's interim report, pp5-6, Unicef UK Baby Friendly Initiative's response to the CMA's interim report, p9.

<sup>589</sup> Public Health Wales' response to the CMA's interim report, p7.

<sup>590</sup> Nestle's response to the CMA's interim report, p15, Danone's response to the CMA's interim report, p32.

<sup>591</sup> HiPP's response to the CMA's interim report, p12, Danone's response to the CMA's interim report, p32.

<sup>592</sup> Nestle's response to the CMA's interim report, p15.

hampering competition on brand equity.<sup>593</sup> HiPP submitted that the measure could make entry harder.<sup>594</sup>

- 8.178 We also received concerns from manufacturers and charities responding to our interim report that standardised labelling in retail settings could compound feelings of guilt some parents report in relation to their use of formula milk and/or stigmatise those who want or need to use infant formula.<sup>595</sup> For example, Sustain, the Alliance for Better Food and Farming, expressed concern that such radical changes to infant formula labelling and packaging might carry risk of additional stigma associated with formula feeding.<sup>596</sup> Feed was unsure of the impact. On the one hand it felt this measure could destigmatise the purchase of more affordable products, but on the other hand it could increase the stigma associated with formula use.<sup>597</sup>
- 8.179 Having regard to the range of potential unintended consequences against this measure, we are not recommending that it is implemented.

### **Public provision**

- 8.180 In our interim report, we raised the possibility of government(s) (either collectively or individually) procuring infant formula from a third-party contract manufacturer at a competitive price point and entering the market directly.
- 8.181 We noted that this type of intervention carries significant uncertainty regarding its effectiveness. In particular, if parents continue to see price as a proxy for quality, they may not choose the publicly provided infant formula product, even if it is offered at a lower price. Additionally, there is uncertainty about how parents will respond to a product branded, for example, as 'NHS', compared with alternative branding from well-known established infant formula brands. There may also be a stigma associated with such a product.
- 8.182 The majority of stakeholders (ranging from charities to manufacturers) who responded to our interim report raised concerns over the effectiveness and feasibility of this potential measure.<sup>598</sup> However, a few individuals told us that they supported the possibility of the government sponsoring an 'NHS' branded infant formula.
- 8.183 We are not recommending this measure due to concerns around its likely effectiveness. Additionally, it is likely to require high upfront investment costs from

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<sup>593</sup> Danone's response to the CMA's interim report, p32.

<sup>594</sup> HiPP's response to the CMA's interim report, p12.

<sup>595</sup> For example, HiPP's response to the CMA's interim report, p12..

<sup>596</sup> Sustain, the Alliance for Better Food and Farming's response to the CMA's interim report, p7.

<sup>597</sup> Feed's response to the CMA's interim report, p8.

<sup>598</sup> First Steps Nutrition Trust compiled on behalf of the Baby Feeding Law Group UK's response to the CMA's interim report, p16. Infant Feeding Alliance's response to the CMA's interim report, p6. Feed's response to the CMA's interim report, p9. Nestle's response to the CMA's interim report, p16. HiPP's response to the CMA's interim report, p12.



the public purse in setting up the supply chain, managing distribution, and building awareness with a high degree of uncertainty over the price governments would be able to offer parents.

## **Next steps**

- 8.184 We consider that implementing this package of measures is essential to drive improved outcomes for parents. We therefore strongly encourage governments to act on our recommendations, vigorously and in full. We note however that these options are aimed at shifting widespread and deep-seated patterns of consumer behaviour. While we believe that this package has a strong chance of achieving this, the extent to which it will do so is inherently uncertain. It remains open to governments to consider, additionally, removing some regulatory restrictions including on price promotions should they wish to revisit the public policy position in terms of any impact on breastfeeding. We note in this regard that we have not seen any evidence that infant formula prices influence the decision of whether or not to breastfeed.
- 8.185 If, having implemented our recommendations, governments consider that the impact on consumer outcomes is insufficient, it remains open to governments to consider the backstop option of introducing price controls.
- 8.186 Following publication of our final report, we stand ready to engage with governments and others to explain the recommendations, and to facilitate and support their implementation.