Innovation key to driving OTC market

While the consumer healthcare industry accepts that innovation is key to driving growth, it needs to think bigger and focus more on what the consumer wants and is prepared to pay, according to IMS’ Andy Tisman. Matt Stewart reports.

Innovation in the consumer healthcare space needs to be about “big, bold advances and not so much about tinkering around the edges”, according to Andy Tisman, senior principal, consumer health at market researcher IMS Health.

Speaking to delegates at the 50th Annual Meeting of the Association of the European Self-Medication Industry, the AESGP in London, UK, Tisman said that while it was obvious industry “recognised the need for innovation”, the question was: how well does it innovate and do these innovations impact the consumer?

“Innovation is key as most of the value growth in the market is pretty limited,” Tisman pointed out. “The majority of growth in the developing world in many cases comes from value growth rather than volume growth” (see Figure 1).

“So innovating to provide better products with additional benefits for which consumers are willing to pay more money is really key,” he insisted.

“When we look at the growth drivers in the past five years, taking Europe as an example, innovation really does drive all the growth in the market place,” Tisman explained.

Innovation drives growth

Growth of almost a quarter in the European OTC market in the past five years had come from innovation, Tisman noted, with 17% of the growth coming from line extensions and 7% from new products (see Figure 2).

However, the figures in Europe offered a warning to industry. Tisman said. “We count innovations as all the new products and line extensions,” he pointed out. “In fact, the majority of innovation we cover here comes from line extensions, which by definition are probably not adding huge benefits to the consumer”.

“I think industry is doing a number of things to innovate, but does it need to be thinking of the bigger picture and driving more meaningful innovation to the consumer?” he asked.

Other sectors, including the fast-moving consumer goods (FMCG) and consumer packaged goods industries, could provide models for successful innovation, Tisman noted, as they rolled out simple advances – such as in dosing and delivery technologies – that added benefits for the consumer and increased margins through a slightly higher price point.

It was also clear, Tisman explained, that due to global diversity there was not a “one-size-fits-all” approach to innovation.

“Europe alone is 30-40 different countries, Latin America 15-20, Asia-Pacific is many countries and there is a huge diversity of consumers there,” he pointed out.

“So, while we need to think about breakthrough innovation, we also need to think about what is right for each country,” Tisman said, “and it is probably true that a one-size-fits-all approach probably isn’t going to work.”

Looking at the European market more closely, Tisman said that in the region new products – defined as products launched in the past two years – accounted for 4% of the OTC market in value terms in 2013, with contribution varying between countries.

In Belgium and Switzerland, Tisman pointed out, new products took just a 2% share of the market, while in Poland this increased to 8% (see Figure 3).

What was also interesting, he noted, was the “inverse relationship” between the “average
price premium for innovation” and the contribution innovation was making to the category.

“The vitamins, minerals and supplements (VMS) category, which has the lowest price premium for new products, also has the highest contribution from new products,” Tisman explained, “whereas skincare is the other way round (see Figures 4 and 5).”

“Is this telling us something about the need to get the right balance with innovation between the benefits and the price we are asking the consumer to pay?” he asked.

Furthermore, innovation should be about more than just product development, Tisman said. Social media was now “ever present in consumers’ daily lives”, he pointed out, but needed to be used better by consumer health-care companies.

Meanwhile, healthcare apps were growing rapidly, with cardio, diet and women’s health apps accounting for half of the volume, Tisman added. Devices designed to improve efficacy and control were becoming more common and ‘wearable tech’ products gave consumers direct feedback on the current state of their health.

“Science is important and will continue to be so, but there are many other aspects to consider in this ‘techno’ age – which includes digital, devices, and many other ways of engaging with the consumer – apart from just tweaking the product formulation,” Tisman said.

Despite the growth of new areas of innovation, one area continued to provide “big, game-changing innovation in OTC” and that was switching, Tisman admitted.

“It has been a big driver of growth over the years,” Tisman pointed out, “and the path to switch in both North America and Europe is well established.”

In the US, six of the top-10 OTC brands – including Sanofi’s Allegra Allergy, Procter & Gamble’s Prilosec and Johnson & Johnson’s Zyrtec – were recent prescription-to-OTC switches, Tisman said, accounting for 9% of total OTC sales in the country.

It was a similar picture in Europe, Tisman added, with switch products accounting for eight of the top-20 OTC brands and 6% of total OTC sales.

Historically there had been quite a “strong focus on switching within traditional OTC categories”, such as pain relief and digestion, Tisman noted, but this was starting to change.

“We’ve seen things like GlaxoSmithKline’s weight-loss drug Alli,” Tisman said, “like Merck & Co’s Oxytrol for Women – which created the new OTC treatment category in the US of overactive bladder in women – and of course the announcement of Sanofi’s plan to switch erectile dysfunction drug Cialis” (OTC bulletin, 30 May 2014, page 1).

**huge interest in Cialis**

There would be huge interest in the Cialis switch, Tisman predicted, as it was public knowledge that Pfizer had looked at the erectile dysfunction category in the past with Viagra. So far, Tisman noted, Pfizer had not been able to get the product into the OTC marketplace.

Although the innovation potential of the OTC space could be exploited better, growth in the global OTC market continued to outpace that of the total pharmaceuticals sector, Tisman said.

Looking at value sales for the calendar year 2013, Tisman pointed out that the OTC market had moved forward by 7.2% compared to the 4.6% growth in the worldwide pharmaceutical
Emerging markets drive growth

Looking at where the growth in the global OTC market was coming from, Tisman said that emerging markets were still driving the gains.

“Where we are seeing the growth is very much in the emerging markets, they now account for over 50% of the total OTC marketplace and around 80% of total OTC growth,” Tisman pointed out.

Asia-Pacific – excluding Japan – alone accounted for a third of the growth in the OTC market, he noted, while Central and Eastern Europe, the Middle East and Africa (CEEMEA) combined with Latin America generated almost half (see Figure 8).

Industry was now facing the “important challenge”, Tisman said, “of maintaining scale in the big markets of Western Europe and North America while also taking advantage of the growth opportunities elsewhere”.

“When we look at the one- and three-year figures, North America and Western Europe have both increased their growth a little bit compared to the historical picture, due to the cough and cold season we’ve seen in calendar 2013,” (see Figure 9) Tisman noted.

“But Latin America, South-East Asia, and Central and Eastern Europe (CEE) continue to grow more strongly,” Tisman said, adding that the China figure was “overstated.”

The sub-regions of Australasia had fallen into decline in the past year, Tisman noted, while Japan was still struggling to improve.

Looking at the key firms around the world in 2013, Tisman pointed out that during the past few years the main leading global players didn’t seem to quite keep up with the global OTC growth rate of 8.1% (see Figure 10).

This was partly down to the fact they were “not as strong in the developed markets”, Tisman noted, “and partly due to the fact that the 2013 growth was heavily driven by cough and cold”.

The cough and cold boom, however, had been beneficial to Reckitt Benckiser (RB), Tisman added, which had had a “fantastic 2012/2013”, especially with the Mucinex FastMax cough and cold range in the US.

“The other companies closest to the global growth rate – Novartis and PGT Healthcare – are the ones also focused strongly on the cough and cold business,” he said.

New world order in OTC

While Johnson & Johnson topped the global rankings by a slight margin, there was a “new world order coming” in the shape of the GlaxoSmithKline/Novartis consumer healthcare joint venture (OTC bulletin, 25 April 2014, page 1) and a bigger Bayer once it completed its acquisition of Merck & Co’s OTC business (OTC bulletin, 9 May 2014, page 1).

Who would then be number one was anyone’s guess, Tisman noted, as you could “cut the data any which way you wanted” and it was “too close to call”. But IMS’ data agreed somewhat with the public announcements of the companies involved, he added, that GlaxoSmithKline/Novartis would be number one and Bayer number two.