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Tapping the OTC opportunity

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Pharmaceutical companies are re-focussing their over-the-counter (OTC) strategies, as there is increased self-medication and consumer interest in wellness-focussed OTC products. In fact, the OTC segment is projected to have a higher growth rate than prescription medication. But OTC products require a different set of skills, finds **Viveka Roychowdhury**

The recent news of Piramal Healthcare retaining its over-the-counter (OTC) brands while selling its domestic formulations division to Abbott Laboratories has only served to highlight the growing importance of the OTC market in India. As Alistair Sinclair, lead strategic healthcare analyst – Datamonitor Pharma analyses, pharma companies are drawn to the consumer health/OTC market as it is the third most lucrative healthcare sector after pharmaceuticals and medical devices/diagnostics, with an average operating margin of 20.2 percent for the leading companies between 2005 and 2008, and a market size of \$450 billion in 2008. This seems even more attractive considering that decreasing productivity of most drug research pipelines puts a question mark on new products and therefore depleting future revenues from the prescription (Rx) business.



This seems to be borne out by the fact that global OTC sales were up 4.6 percent in 2009 in line with the global GDP of five percent, as per Nicholas Hall's OTC database DB6 2010. Susan Josi, Managing Partner, Sorento Healthcare Communications points out that not only did the global recession fail to make OTC sales decline, it also created new opportunities for consumer healthcare with value-for-money products, economy packs and single dose stock keeping units (SKUs) in demand.

As she reasons, "Peak performance at work and job security are now more important to consumers meaning that preventive remedies, convenience OTCs, energy boosters, brain-boosting supplements and formulations for sight and hearing provide growth opportunities, along with contraceptives for women who want to work longer before having children." Speaking specifically of the Indian market, she says an upturn of 10.7 percent made it one of the fastest-growing countries in terms of OTCs.

Top 10 global OTC brands				
	Leading brands (Sales \$Million) Global	2008 90965.1	2009 95193.2	Grth'09/08 4.6
1	Tylenol	1449.9	1452.5	0.2
2	Vicks	871.5	880.9	1.1
3	Halls	792.3	830.6	4.8
4	Lipovitan	854.5	812.9	-4.9
5	Aspirin	796.1	798.5	0.3
6	Advil	716.3	722.1	0.8
7	Centrum	695.2	693	-0.3
8	Nature Made	577	639.1	10.8
9	Nicorette	525.8	525	-0.2
10	Claritin	514	488.1	-5

*Data Source : Nicholas Hall's DB6 2010**

Muralidharan Nair, Partner, Life Sciences Practice, Ernst & Young in fact believes that the OTC pharma market in India is likely to grow at a higher rate compared to the overall pharma market. Several factors drive this growth. Nair points out that amongst the Indian populace, there is growing awareness and increased focus on "wellness" as compared to "illness". The higher cost of medical treatment encourages people to opt for preventive measures such as nutritional supplements. Increasing disposable incomes and incidence of lifestyle diseases are also contributing to the demand for such products." All these factors indicate that the OTC market could witness a healthy rate of growth in the coming years.

Josi too stresses that "wellness is a big market with slimming centres, spas and ayurveda centres all growing indicating that OTC wellness products could generate big business here too. Lifestyle medications such as obesity treatments, cardiovascular regulators and evidence-based supplements also hold untapped potential."

The Indian OTC market is estimated to be about Rs. 7434 crore in 2008 (\$ 1.8 billion).Segments such as cough & cold preparations, analgesics, vitamins & minerals and indigestion preparations account for a little over Rs. 2700 crore. The Indian pharma market in comparison is valued at about \$ 8.4 billion in 2009. It grew at about 12 percent CAGR from 2002 to 2007 while it is expected to reach \$ 20 billion by 2015 (CAGR of 16 percent from 2009 to 2015), as per ORG IMS estimates..Traditional medicine (Ayurvedic) accounts for approximately Rs 1600 crore+ while other segments such as medicated skin products, topical OTC medicines, plasters and bandages, anti-smoking aids, etc collectively account for over Rs 3000 crore.

Top 10 Indian OTC brands				
	Leading brands (Sales \$Million) India	2008 1638.9	2009 1813.4	Grth'09/08 10.7
1	Dabur Chyawanprash	75.8	84.5	11.5
2	Vicks	72.4	81.9	13.1
3	Boroplus	29	32.9	13.4
4	Revital	25.4	30.7	20.7
5	Zandu Balm	28.4	30.5	7.6
6	Dettol	23.7	26.4	11.2
7	Liv.52	25	25.8	3.4
8	Becosules	22.7	24.9	10.1
9	Hajmola	20.2	21.2	4.9
10	Iodex	17.6	20.7	18.2

*Data Source : Nicholas Hall's DB6 2010**

Global trends

"The OTC product will need to be treated as a fast moving consumer goods (FMCG) product specially while communicating a benefit, ensuring distribution or ensuring consumer friendly packaging"

- Ranjit Shahani

Vice Chairman & Managing Director Novartis India



"The OTC pharma market is likely to grow at a higher rate compared to the overall pharma market. The biggest challenge for pharma companies dealing in OTC products is that, unlike the traditional pharma model of "push"ing generic products by selling to doctors, the OTC segment is more analogous to the FMCG segment. It is critical to invest in brand building that will create a "pull" for the product directly from the consumers"

- Muralidharan Nair

Partner

Life Sciences Practice,
Ernst & Young



Globally, pharma companies have chosen different strategies. Some went through a phase where they divested their OTC/consumer healthcare divisions, only to buy back into the OTC sector. Pfizer, which divested its consumer health business to Johnson & Johnson in 2007, re-entered the market through its merger with Wyeth. Analysing the moves of some global OTC players, Sinclair points out that Bristol-Myers-Squibb, Novartis and Roche sold their respective consumer health units within the last five years, while Merck & Co. gained access to the sector through Schering-Plough.

In December 2009, Sanofi-Aventis expanded its OTC portfolio, giving it access to a US distribution channel through its acquisition of consumer health company Chattem for \$1.9 billion. This was a strategic move as it switched its now expired blockbuster antihistamine Allegra (fexofenadine) into an OTC product, as well as pushing the company up into fifth position in the global consumer health market. Other pharma

players with prominent OTC franchises include Johnson & Johnson and GlaxoSmithKline. Giving a different perspective, Sabine Seifert, Managing Director at FischerAppelt, relations GmbH, Germany, the German partner of Global Health PR (GHPR) points out that, "Usually OTC and RX products are not distributed under the same company; pharma companies tend to trade under separate organisations for each product section and are often divided into an OTC and a Rx section as a whole (as is the case for example with Roche Pharma and Roche Diagnostics, Novartis and Novartis Consumer Health, Merck and Merck Selbstmedikation, Bayer and Bayer Vital, etc.)

Seifert states that, "On the whole, the trend in Germany is towards self medication. This is due to the health care system promoting patient empowerment and independence. As a result, many patients initially try self-medication with OTC products from the pharmacy (these are paid for by the patient anyway) before consulting a physician. This trend of shifting responsibility from physician to patient is called "self doctoring" and is a frequent – and not entirely undisputed - topic of discussion."

OTC strategies

The early birds who adopted an OTC-focussed strategy in the Indian pharma market are already reaping rich rewards. Ranbaxy was one of the first domestic companies to foray into the OTC segment in 2002, through a separate business division called Ranbaxy Global Consumer Healthcare. The division started with four products — Revital, Garlic Pearls, Pepfiz and Gesdyp — all of which were prescription drugs turned into OTC products. In 2008, the consumer healthcare unit of Ranbaxy clocked sales of \$44 million, growing at 25 percent. That year the company's total sales were \$1.66 billion, with a growth of eight percent. Food supplement Revital has now become one of Ranbaxy's top-selling products, even outpacing some of its top selling prescription brands. Nair points out that from January to July in 2009, Revital earned Rs 66 crore for Ranbaxy as compared Rs 63 crore for Mox, its highest-selling antibiotic.

Other successful OTC products include Sugar Free from Zydus Cadila, which earns about Rs 80-85 crore annually, compared to hypertension drug Aten (Rs 70 crore). The emergency contraceptive i-Pill, launched by Cipla in August 2007, became one of its best selling products, garnering revenues of Rs 30 crore within just two years of its launch, inspite of (or maybe even aided by) its slightly controversial positioning. In fact, Piramal Healthcare considered i-Pill such an attractive buy that it was willing to cough up three times its sales – Rs 95 crore-- in order to grow its OTC business. The buy makes even more sense when you consider that emergency contraceptives are the fastest-growing OTC category in the country following their switch to OTC in 2006.

Sounding a cautionary note, Amanda Sellers, Vice President, Spectrum, a health and science communications agency, located in Washington, DC and New York says, "People often perceive these drugs as safer than prescription drugs, but it is important for the public to understand that OTC products are still medicines that contain powerful drugs." Some categories of OTC drugs (like pseudoephedrine) can be misused to make illegal drugs. Which is why these OTC medicines are available by request only from behind the counter, requiring customers to show ID and sign a sales log, reasons Sellers. So also, though the US FDA approved approved Plan B, emergency contraception pills, for sale to adults without a prescription in 2006, women must purchase the drug behind the counter and show an ID to prove they are 18 or older.

Growth Rates of OTC markets		
(MSP)	2009	2010
USA	2.60%	3.20%
China	9.70%	10.00%
Japan	-0.60%	0.10%
Germany	-0.30%	0.10%
France	2.70%	1.00%
Brazil	11.30%	10.00%
Italy	2.80%	1.70%
Russia	23.50%	15.00%
UK	2.20%	1.00%
Canada	5.80%	4.00%

From “push” to “pull”

The opportunity exists, but domestic pharma companies have realised that marketing OTC products requires a different set of skills. Ranjit Shahani, Vice Chairman & Managing Director, Novartis India spells out this difference, saying, "In the direct to customer (DTC) world, the consumer makes his or her own choice by getting exposed to and influenced by advertising and other media. An informed consumer, who is predominantly present in the urban markets, is exposed to advertising or could be exposed to a friend's experience, and he/she consciously takes a decision to buy a product. These consumers interact with the OTC product in ways that are different from interacting with a prescription drug where the influencer is the doctor. The OTC product will need to be treated as a fast moving consumer goods (FMCG) product specially while communicating a benefit, ensuring distribution or ensuring consumer friendly packaging."

"Not only did the global recession fail to make OTC sales decline, it also created new opportunities for consumer healthcare with value-for-money products, economy packs and single dose SKUs in demand"



- Susan Josi
Managing Partner
Sorento Healthcare
Communications

As Nair says, "The biggest challenge for pharma companies dealing in OTC products is that, unlike the traditional pharma model of “push”ing generic products by selling to doctors, the OTC segment is more analogous to the FMCG segment. It is critical to invest in brand building that will create a “pull” for the product directly from the consumers. Brand building has traditionally been the strength of FMCG companies (e.g. Procter & Gamble (Vicks), GSK Consumer (Eno fruit salt)) and is a skill that will need to be rapidly developed by pharma companies."

Pharma companies therefore have to learn to think like their FMCG counterparts. These include focussing on improving penetration through traditional FMCG channels, like grocery stores, which as Nair puts "will also help pharma companies make the transition from “selling to doctors” to direct contact with consumers. " Today, OTC preparations for cough and cold, antiallergic, balms, or a low dosage of some safe non-steroidal anti-inflammatory drugs (NSAIDs) are also stocked with grocers / paan stores in India. This improves both penetration and margins of OTC products.

Another gambit is using the traditional FMCG “sachet” concept for OTC pharma products to penetrate rural / tier 2 markets, which have untapped growth potential due to their price-sensitive nature creating margin pressures. Paras Pharmaceuticals, for instance, has introduced smaller pack sizes for pain balms to drive up

consumption, illustrates Nair. Given the fact that primary / secondary healthcare is often inaccessible or expensive in these markets, OTC products have the potential to fill the void through good brand-building and penetration at the right price points, he opines.

Shahani also stresses on two other key factors: the role of distribution and trade channels. According to him, "Distribution is of critical importance because while advertising will help to create a demand for the product, distribution ensures that the consumer interacts with the brand and may take a purchase decision without the consumer having to run to 10 or 15 shops to locate the healthcare brand. Similarly, engaging with the trade will be extremely important because these business partners can make a huge difference to the success or failure of a brand."

Growth rates of different OTC categories				
Sales in US\$mn (MSP)	2009	09/08/10	CAGR Yr 14/09	CAGR Yr 19/14
Major categories - India	1813.4	10.7	10.2	10.8
Vitamins, Minerals & Supplements	634.5	8.8	9	10.2
Gastrointestinals	332.6	10.4	10.3	10.7
Cough, Cold & Allergy	318.1	7.8	9.7	9.9
Analgesics	258.7	15.8	10.3	10.6
Dermatologicals	236.5	11.3	11.9	12.7
Lifestyle OTCs	33.2	38.9	20.8	13.6

*Data Source : Nicholas Hall's DB6 2010**

Challenges

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- Sabine Seifert
 Managing Director
 fischerAppelt, relations



GmbH, Germany

"Because of potential for drug abuse, certain OTC medicines, like Sudafed with pseudoephedrine, are available by request only from behind the counter, requiring customers to show ID and sign a sales log"
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Vice President
Spectrum



The OTC cash cow has attracted the attention of not just pharma companies, even though pharma players have traditionally dominated the segment owing to their strong presence across the pharmacy channel. Higher entry barriers and competitive pricing owing to the large range of players in the segment (FMCG / FMHG entities, large pharma companies, small generic firms, etc) in this market and fragmented distribution channels with insufficient reach in rural areas are further challenges, lists Nair.

Competition will increase rather than decrease as Nair predicts that in the future, pharma companies could also face some competition from private label products introduced by pharmacy chains like Apollo and Guardian that are steadily growing their footprint across India.

From a communication perspective, Josi points out that most OTC brands have in the past grown with excellent mass exposure strategies with adequate media support. Though this holds true today as well, with

fragmented media and consumer attention, it is becoming increasingly cost prohibitive for OTC companies to create a high Share of Voice (SOV) on par with other FMCG brands which are much bigger in size.

Therefore it is crucial that OTC companies invest in brand building like other FMCG brands. The way to do it, says Josi, can be multi-pronged which begins with knowing the consumers and segmenting them so that you can reach them in a more targeted manner. Minimum media wastage and therefore cost should be the mantra, she opines.

Making a key point, Josi says that "OTC marketing differs from pure FMCG marketing as there are many possibilities of doctors/chemists changing course of therapy even in common ailments or supplements. Simultaneously it is important to understand the role of the doctor and the chemist, as they can wield a significant influence in creating a positive recommendation for the brand." She dubs this the Rainbow Coalition strategy in OTC marketing.

Regulatory rough spots

The OTC segment is quite heavily regulated in the US. As Sellers points out, "With the new Obama administration, we are seeing an increased trend in FDA scrutiny for OTC medicines and medical devices, like laser hair removal products. Pharma companies need to be ultra-sensitive when marketing OTC products, especially to children. Following a 2007 public advisory committee meeting, the FDA recommended that children under two years old should not use OTC cough and cold medicines. This heightened regulation stemmed from improper dosing and accidental ingestion." So also, the FDA has also increased regulations surrounding supplements, vitamins and herbal ingredients. It is becoming more important to differentiate between these elements and the drug's active ingredients.

Josi points out that China and India are quite similar among the Asian countries with large proportion of traditional remedies also in China similar to our Ayurvedic products here. However in China the enabling regulatory changes made in the last four-five years has helped the OTC industry to flourish. They have grown leaps and bounds and have overthrown Japan to compete for the second position. These regulatory changes have also helped many global OTC players invest in the OTC divisions of their local companies to build large OTC brands in the past four-five years.

Shahani states that currently, OTC products are governed under the Drugs & Cosmetics Act of India. "The Indian government is to expand Schedule K to help give the OTC industry in India the right direction. This is yet to happen," he mentions. He sums up saying that while OTC segments definitely have the potential to grow at a very rapid pace, it will require both innovative marketing practices as well as a favourable

regulatory environment to help drive rapid growth.
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