

Balancing Value and Safety

Drivers for Consumer Purchasing Decisions

There are some unique ways for OTC marketers to tackle the challenge of “innovation,” and some savvy brand leaders are doing this by addressing the growing consumer concerns for a balance of safety, efficacy and pricing of their OTC products.

BY SAMANTHA CHMELIK

➤ At first glance, innovation in OTC products may seem limited to new combinations or switches. In 2009, to compete for the shrinking consumer wallet, savvy OTC companies realized that real innovation or understanding key consumer concerns was critical to achieving success with new products.

Price became more important in 2009 both for existing and new products. The recession prompted many consumers to compare prices between brick and mortar retailers and online stores and/or between branded and generic/private label products. As people lost their jobs and companies cut back on benefits, consumers could no longer use Health Savings Accounts to pay for OTC products or other medical costs.

Consumers searched for deals, especially on products that are used heavily. If the branded version of a product could not offer a unique difference from the generic/private label version, then consumers selected the generic/private label version. The starkest example of this trend occurred in the proton pump inhibitors (PPIs) category. Prilosec, the first switched PPI in the United States, entered the OTC market in 2003. With its strong brand recognition and popular prescription version, Prilosec initially enjoyed strong sales. The introduction of generic/private label omeprazole has taken share

from Prilosec and could blunt the potential of the recently-switched Prevacid. (See Figure 1)

Consumers did not perceive a benefit from using Prilosec versus omeprazole, so their product choice was based on price. Prevacid and Zegrid, which will be introduced in 2010, are now forced to adjust to the generic/private label threat as soon as they launch. Retailers welcomed private label products because of their high profit margins of 50 percent to 60 percent.

Generic/private label manufacturers also realized that consumers might return to branded products when the economy rebounds. In response, they introduced innova-

tive products to move their competitive advantage from price to product features to new products. Perrigo, for example, created a line of gluten-free products, extended release formulations, and the company has expanded its flavor options. It also plans a private label version of the original Mucinex 12-hour mucus relief in 2010. By keeping pace with branded products, generic/private label offerings are becoming true equivalents of their branded counterparts, with prices and margins attractive to consumers and retailers.

TACKLING SAFETY CONCERNS

Safety was another key consumer concern that drove purchasing

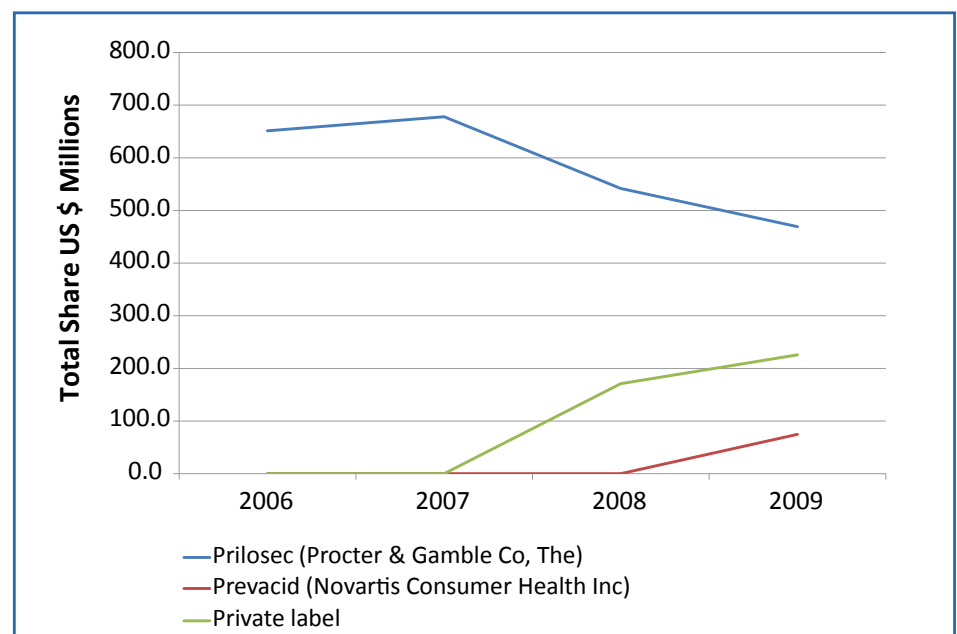
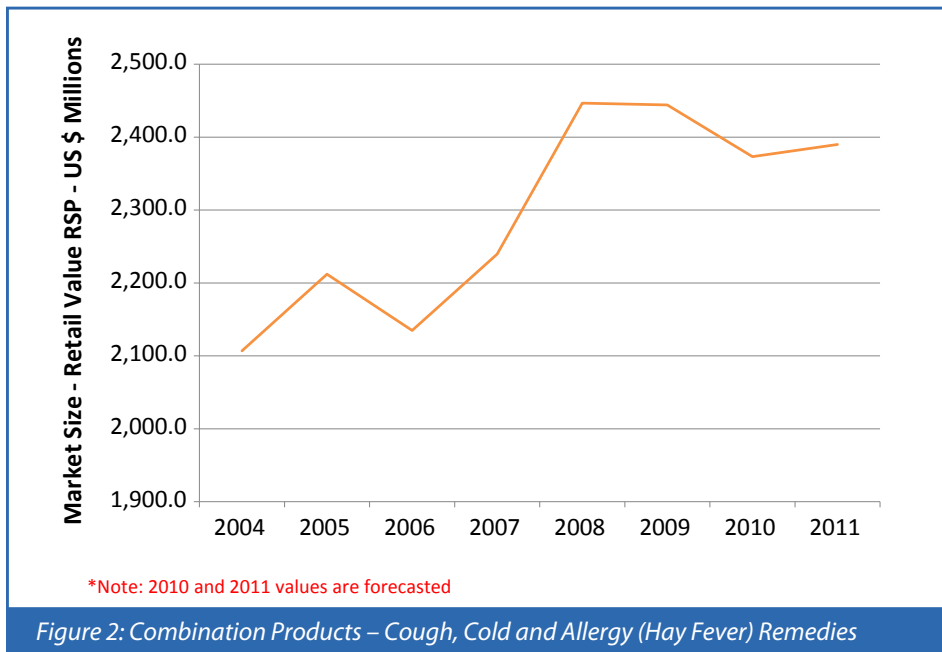


Figure 1: Proton Pump Inhibitors – Brand Shares (National Brand Owner) USA



behavior in 2009. Acetaminophen is America's most consumed OTC ingredient with over \$1 billion in retail value sales within the analgesics sector, according to Euromonitor International research. The year began with the FDA mandating stricter warning labels on acetaminophen, due to an increasing risk of liver damage from increased dosage strengths and use in combination products. Then, an FDA advisory panel recommended that the strongest available OTC dosage of acetaminophen be cut from 1000 mg to 650 mg. By June, the FDA was considering dosing limits, even stronger warning labels, and more consumer education about the dangers of acetaminophen. The acetaminophen issue is still unresolved.

Additionally, Quality Formulation Laboratories Inc. and Caraco Pharmaceuticals were cited for failing to follow Good Manufacturing Practices. By the end of the year, Johnson & Johnson had recalled Tylenol Arthritis Pain caplets, Motrin, Benadryl Allergy Ultratab, Rolaid

Antacid Tablets, Simply Sleep, and St. Joseph products due to a mildew or mold smell.

Consumers then became wary of standard OTC drug products, due to these ingredient contamination and potential overdose issues. Combination products with their use of acetaminophen were of particular concern. Growth in combination cough, cold and allergy products slowed dramatically in 2009, after several years of strong growth. (See Figure 2)

Consumers still desire products that can treat multiple symptoms. Combination products with Allegra D or Claritin are expected to be introduced in 2012 or 2013. The next frontier for OTC new product development may lie in herbal versions of products, especially combination products, such as Procter & Gamble's Vicks Cough Syrup with Honey.

Herbals, seen as a natural solution, are increasingly being used as a safer alternative to "drugs." Some consumers come from an ancestral heri-

tage of using herbal or folk remedies to treat ailments. Returning to those roots provides a sense of comfort. As the backlash against chemicals and toxins continues, herb-based products will grow in popularity. According to Euromonitor International research, the compound annual growth rate (CAGR) for herbal/traditional products was 3.7 percent from 2004 to 2009; CAGR growth from 2009 to 2014 is predicted to be 4.3 percent.

Vitamins and dietary supplements also attracted consumer interest as an alternative to standard OTC products. Consumers used vitamins and dietary supplements to prevent disease and for general health maintenance. Vitamins and dietary supplements, along with a healthy diet and active lifestyle, are becoming increasingly important, especially among aging baby boomers wishing to hold on to a youthful appearance and lifestyle. For many seniors, vitamins and dietary supplements are a part of their daily diet. While many consumers do not necessarily see or feel the effects of taking vitamins or dietary supplements, many believe that they are preventing or delaying the onset of age-related ailments. (See Figure 3)

Procter & Gamble attempted to merge standard OTC products with vitamins by introducing Vicks DayQuil with Vitamin C and Vicks NyQuil with Vitamin C. The FDA decided that the Vicks products did not comply with appropriate OTC monographs about combining drug and dietary supplement ingredients. FDA also does not allow vitamin C to be promoted as cold prevention or treatment product. Now manufacturers will have to submit applications for new monographs

and conduct clinical trials in order to combine standard OTC drugs with vitamins and dietary supplements.

FDA's position is understandable. Over the past year, it has been working with the FTC to remove unsafe dietary supplements from the market and actively enforcing the Dietary Supplement Health and Education Act of 1994 (DSHEA). The agency asked U.S. marshals to confiscate 23,000 bottles of Methyl 1-D, Methyl 1-D XL, and Formadrol Extreme XL sold by LG Sciences, because they contained unapproved steroids. Until 2009, dietary supplement manufacturers did not have to include their addresses or phone numbers on their labels. After consumer complaints about shoddy products, the FDA began requiring dietary supplement companies to include contact information on their labels. The Government Accounting Office (GAO) recommended in March that the FDA more rigorously enforce DSHEA and issue more guidance about the evidence needed to determine the safety of

dietary supplement ingredients. GAO also suggested that the FDA embark on a public education campaign about the use and safety of dietary supplements.

By the end of the year, the consumer continued to be unsure about the safety of standard OTC and alternative dietary supplement products.

SAFETY FOR CHILDREN

Consumers will always turn to standard OTC products to treat or relieve serious health problems. Parents are a critical – and nervous – consumer segment. Between 2007 and 2008 the FDA reviewed children's cough and cold medications and reached an agreement with manufacturers to restrict dosage instructions in most oral cold medications to children 6 years and older. Sales of child-specific products have fluctuated accordingly.

Products with fool-proof instructions and self-contained tools are vital. For example, Johnson & Johnson offers Children's Zyrtec Perfect Measure with a 5-ml, single-unit

spoon dosage. Jr. Tylenol Meltaways are quick-dissolve tablets, enabling easy ingestion, reducing the risk of accidental overdose and delivering an accurate amount of medication.

Adult consumers are attracted to precise delivery; they don't want to waste medicine or accidentally ingest too much medicine. Adult consumers are also turning to fast-acting or immediate-relief products. Effervescent tablets, once used for indigestion remedies or denture cleansing, are now used for analgesics and cough/cold remedies, like Cepacol Fizzlers. Topical analgesics and cough/cold remedies like Theraflu VP are used and sold as patches. Other precise delivery products include, Mentholatum's Ironman, available as a roll-on topical analgesic, Gas-X oral melting strips and antiseptics which are offered as spray pens. Standard pills and liquids are now making room for other innovative ways of delivering medicines.

Innovation in delivery devices also provides companies with a strategy for revitalizing sales in the more mature OTC categories, like topical analgesics, acne treatment, among others.

Moving forward, OTC companies who can balance the consumer concerns over safety, efficacy, and price and who can clearly communicate the unique benefits of their products will be successful with consumers. <<

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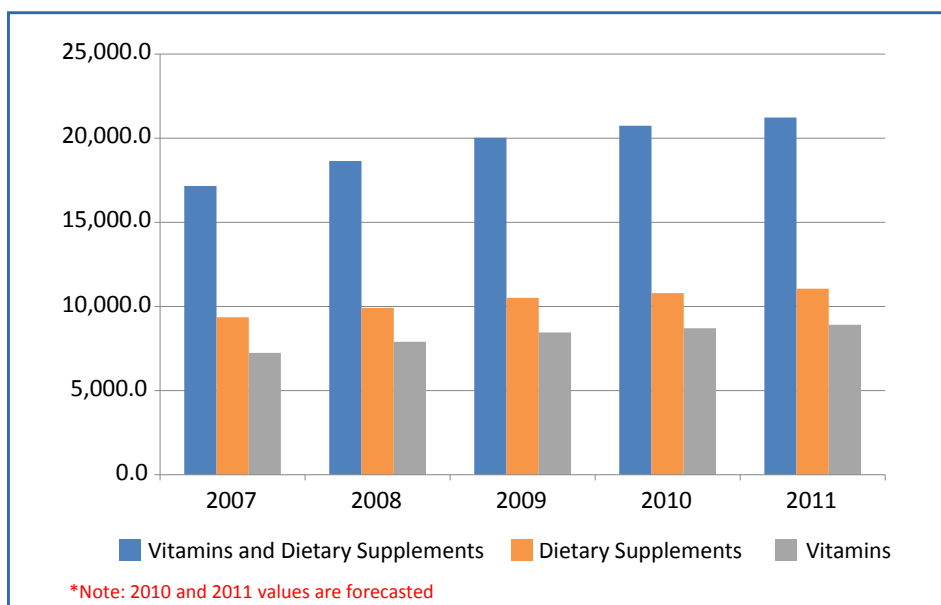


Figure 3: US sales of Vitamins and Dietary Supplements – US \$ Millions