

The Fall and Rise of Zicam

Just eight months after Matrixx was forced to pull its major gel products from the shelf by the FDA, the Zicam brand has regained much of its lost market share. Here's the story on how Matrixx returned from the brink.

BY SCOTT EHRLICH

» It's every marketer's nightmare. On June 16, 2009, Matrixx Inc. found its worst-case scenario to be coming true. An FDA warning letter was sent to the company citing its Zicam brand nasal cold remedy. The letter claimed that "these products may pose a serious risk to consumers who use them. Specifically, FDA has received more than 130 reports of anosmia, (loss of sense of smell, which in some cases can be long-lasting or permanent), associated with use of these products. To protect consumers, and in light of the violations described [in the letter], we ask that within fifteen working days of receipt of this letter, you notify this office in writing of the specific steps that you have taken to correct the violations."¹

To make matters worse for Matrixx, the FDA followed this warning letter with a press conference citing these issues. Furthermore, unlike many companies with diversified portfolios, Matrixx was built around the brand name Zicam alone. In fact, at the time the warning letter was issued, Zicam Cold Remedy Gel Swabs was the No. 1 selling SKU in the cough/cold category.

To many companies, this could be a deathblow. And Matrixx was not spared. It was forced to pull its major gel-based products, and the company's stock plummeted 75 percent while Matrixx showed losses of \$9 million for the product recall and an astounding \$24 million for the loss of goodwill. Yet Zicam, and in turn Matrixx, has been recovering.



Just eight months after pulling its major gel products, the Zicam brand had regained much of its lost market share. How did Matrixx return from the brink of destruction to regain its place as a viable player in the cough/cold market?

TAKING A PROACTIVE STANCE

Matrixx was proactive to consumers with existing stock of the products being recalled, offering them the opportunity to receive a refund for their existing products or to trade them for one of the other 17 cough/cold lines bearing the Zicam name.

Matrixx also got out in front of the public, releasing a video from the chief executive officer to explain the recall as well as putting letters in newspapers and setting up an FAQ on its Web site to answer questions about the recall and which products were affected. It also started a campaign to let the public know that the FDA's concerns did not relate to the entire Zicam brand, but rather to a specific ingredient, intranasal zinc gluconate, which was featured

in only about two of the Zicam SKUs (albeit ones that accounted for about 40 percent of total Zicam sales). The company used social media tools, such as Twitter, to keep consumers informed and to understand their concerns.

FIGHTING BACK²

Matrixx may have pulled two of its Zicam products due to safety concerns from the FDA, but the company refused to back down. In fact, Matrixx vigorously refuted the FDA's charges and requested a withdrawal of the warning letters and a public acknowledgement of such.

Matrixx claims that the FDA's accusations were based on faulty and discredited science, primarily articles published by Dr. Bruce W. Jafek and Dr. Terence M. Davidson, and a 1930s polio study. These studies were discredited scientifically in 10 Federal court cases involving Zicam and therefore should not have been the basis for FDA action, the company said.

It is also noted that anosmia,

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the condition that the FDA accuses Zicam of causing, is most often caused by the common cold itself. Zicam, as a popular drug used by people suffering from a cold, could easily then be confused for the likely cause of anosmia.

Since the active ingredient in these Zicam products was zincum gluconium, an ingredient that has widely been considered safe and effective in homeopathic circles since 1997, and the FDA made no new scientifically based assertions regarding that ingredient's safety, it seems odd that the agency would suddenly declare it to be unsafe, but only in these particular products. As Zicam has made its case to the FDA that Zicam does not cause anosmia,



there is some question why the FDA issued the sudden warning letter without notice to Zicam.

Since the complaint rate was just over 6 per 100,000 units of the product consumed, a rate was fairly consistent, Matrixx found it very odd that the FDA felt the need to issue a warning letter without talking to Zicam first, reviewing Zicam's evidence on the product's safety, or to see if Matrixx could do something to address the sudden concerns. Matrixx has been very public and consistent in asking for the reasons as to why it was issued the letter that required the company to pull some of the highest-selling SKUs in the cough/cold category, and, that if none could be identified, for the FDA to retract its letter and issue a public pronouncement that it has not found these products to be unsafe. As of press time, the FDA has done neither.

MOVING FORWARD

While waiting for an FDA response on these two Zicam products, Matrixx has moved forward with the other products in its portfolio. The results have been very strong. Matrixx has tried to take advantage of this fact, with increased in-store promotion and advertising in an effort to convert consumers of nasal cold remedy products to its oral delivery forms.

This has begun to show up in sales of other Zicam products. Sales of the oral medications have risen 62 percent versus a year ago for the fourth calendar quarter of 2009. What this has shown is, despite the



multitude of choices in the cough/cold category and the tarnishing of the Zicam brand name, incredible brand loyalty still remains.

THE FUTURE OF ZICAM

While it remains to be seen whether Zicam will be able to again market its nasal swabs and gels or ever get the public retraction from the FDA that it seeks, it will be hard to put the genie back in the bottle. A simple Google search brings up many articles advising on the dangers of Zicam that even an FDA retraction won't make go away. And so Zicam carries on, with new emphasis on marketing its oral products, trying to retain the brand loyalty and restore the market share it took so long to build. And so far, in large part due to its handling of this crisis situation, the future of the Zicam brand looks far brighter today than it did just under eight months ago. <<

1 The complete FDA warning letter can be found at <http://www.fda.gov/ICECI/EnforcementActions/WarningLetters/ucm166909.htm>

2 Matrixx's response to the FDA was pulled from a letter included in their November 19, 2009 8-K filing to the Securities and Exchange Commission which can be found at <http://www.matrixxinc.com/secfiling.cfm?filingID=950123-09-64333>

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