BUSINESS INTELLIGENCE

OTC HEALTHCARE

Zenith

The ROI agency

Contents

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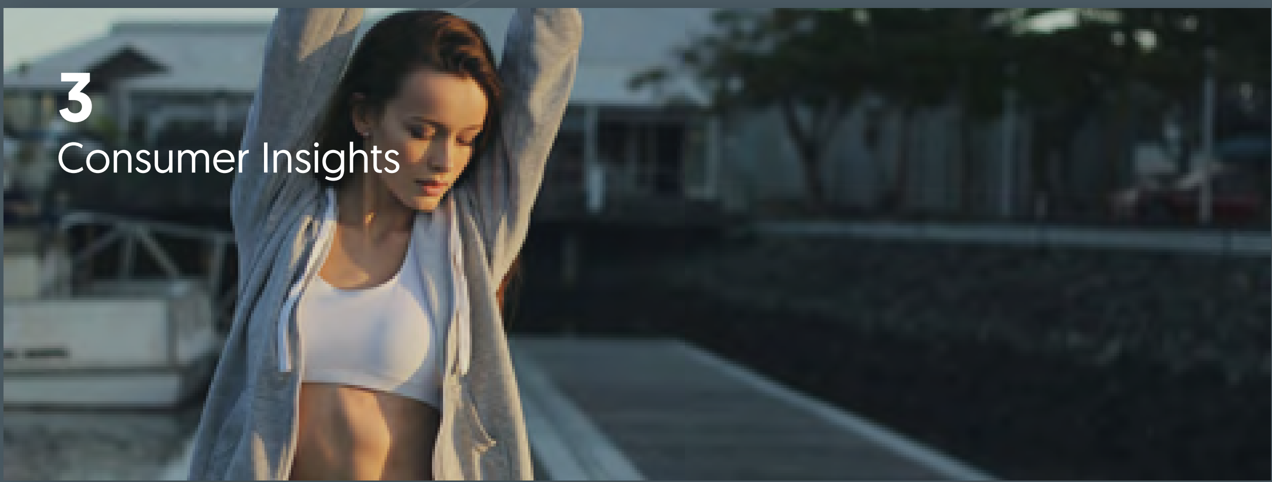


Introduction

Welcome to *Business Intelligence – OTC Healthcare*, the tenth of Zenith's *Business Intelligence* reports, which analyse the advertising, business and consumer behaviour trends shaping different categories.

Consumers' attitudes to over-the-counter (OTC) healthcare have been evolving over recent years. Instead of relying on medicines to cure themselves when they become sick, consumers are taking preventative measures to stop themselves becoming sick in the first place. They are embracing technology that monitors their health and enables personalised interventions. The pandemic focused consumers' attention on their health and accelerated these underlying trends.

Meanwhile OTC brands have stepped up their investment in ecommerce, though they have a long way to go to catch up with the market as a whole. And they are starting to make use of personalised digital advertising to tailor their messaging to consumers' specific health needs, having historically relied on television to maintain brand awareness. The rise of ecommerce and digital advertising offers brands the opportunity to bypass tradition channels of distribution and communication, and form new partnerships with digital platforms, or even create their own direct-to-consumer (DTC) operations.

Scope

This report covers medicines and remedies sold over the counter, including cold and allergy remedies, contraception, digestion care, eye care, oral care, pain relief, skin care, sleep aids, stop-smoking aids and wound care. The 13 markets it includes are Australia, Canada, China, France, Germany, India, Italy, Poland, Russia, Spain, Switzerland, the UK and the US, which between them account for 74% of total global adspend.

OTC HEALTHCARE ADSPEND FORECASTS

8%
IN 2022

OTC adspend to grow 8% in 2022

38%
IN 2021

Television accounted for 38% of OTC advertising in 2021, compared to 21% of the ad market as a whole

+3%

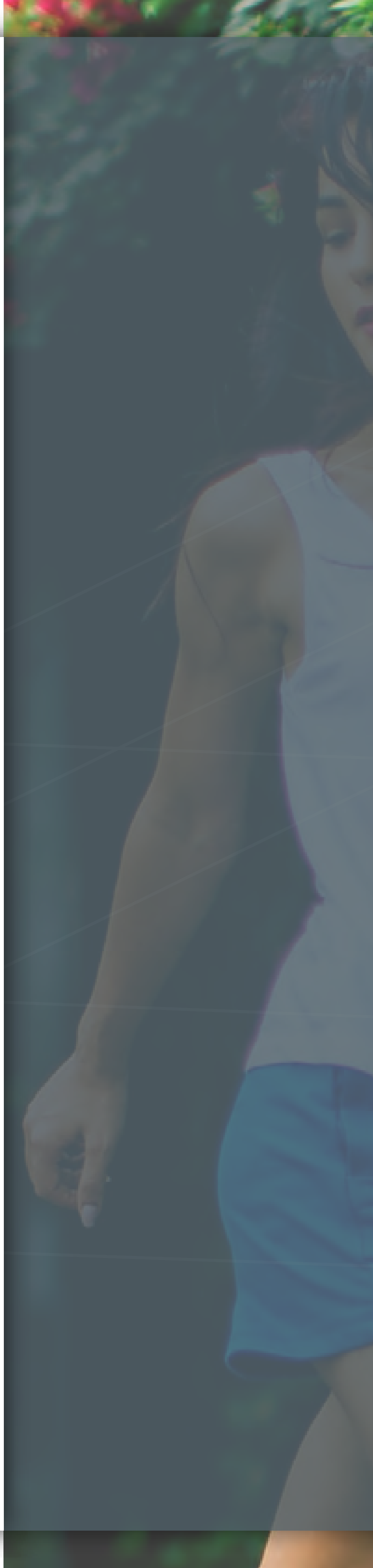
2021-2023

Digital to rise from 46% of OTC adspend in 2021 to 49% in 2023

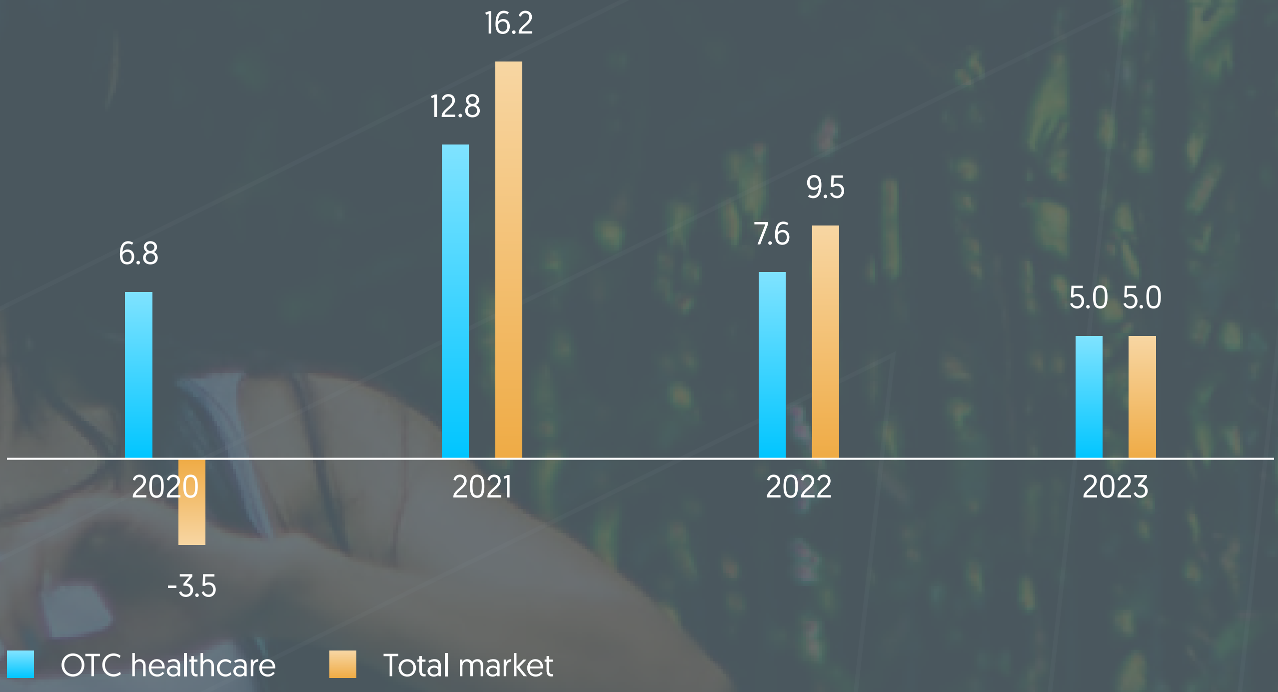
India and Russia will enjoy double-digit annual growth

OTC EXPANDS AS CONSUMERS FOCUS ON WELLBEING

Over-the-counter (OTC) advertising expanded by 6.8% in 2020 while the market as a whole shrank by 3.5%, as healthcare messages soared in relevance for consumers. Demand for cold and flu remedies sank sharply as social distancing cut their transmission, but most other sub-categories continued to grow, and sales of sleep aids spiked. When the pandemic hit, brands in many categories cut back or even ceased their communications, concerned that their messaging was no longer appropriate, or in some cases counterproductive in the new context. This gave OTC brands the opportunity to use plentiful cheap media to reinforce their contribution to consumers' health and wellbeing.



Year-on-year growth in adspend (%) – 13 key markets



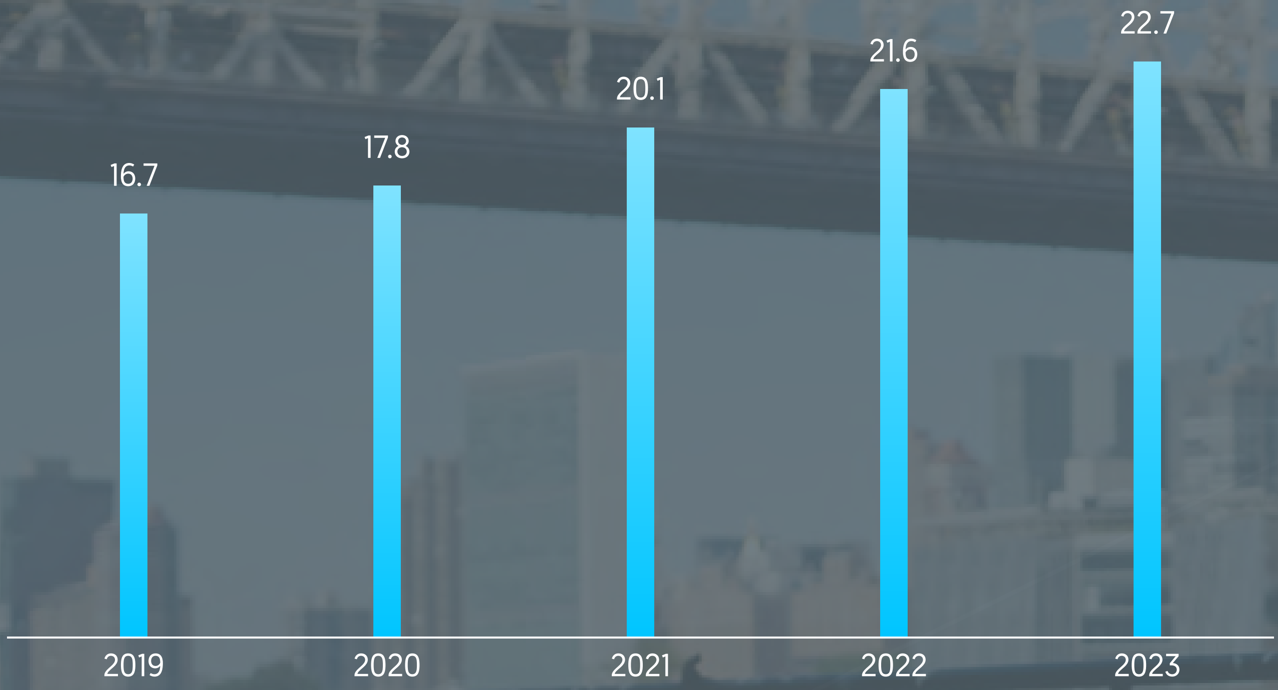
Source: Zenith

OTC advertising then rose a very healthy 12.8% in 2021, though in this case its growth was slightly behind the overall market, which had its lost ground to make up. We forecast growth in OTC advertising to remain healthy over the next two years, at or slightly behind the overall market, as brands defend their price premiums and ecommerce platforms compete to establish dominance.

Many OTC brands compete against substantially cheaper own-label products, and brand advertising is one of the key tools in maintaining the price premium, by reinforcing their effectiveness and reliability, and the wider benefits of maintaining a healthy lifestyle. Growth in OTC advertising is therefore directly linked to the growth in brand value in the category.

OTC has lagged some way behind the market as a whole in embracing ecommerce, but the lockdowns and other restrictions led to a leap in OTC ecommerce in 2020, as detailed later in this report. Now that more consumers are aware of and comfortable with the option of shopping for OTC products online, it will become an ever more important sales channel over the next few years. This means

Total OTC healthcare adspend (US$ billion) – 13 key markets



Source: Zenith

traditional distributors such as pharmacies and supermarkets are facing new competition from digital ecommerce platforms, and brands have new opportunities to launch new partnerships or even direct-to-consumer ventures. The increased competition for traffic and sales will fuel continued growth in brand and performance advertising.

We forecast that OTC healthcare adspend will grow from US$20.1bn in 2021 to US$22.7bn in 2023, 36% above pre-pandemic spending of US$16.7bn in 2019.

SHIFT TO DIGITAL HELPS BRANDS TAILOR MESSAGING TO CONSUMERS' SPECIFIC NEEDS

Share of adspend by medium, 2021 (%) – 13 key markets

Source: Zenith

When consumer first buy an OTC product, they often spend time researching the purchase and discussing it with family, friends and trusted advisors like pharmacists. But after the first purchase, buying OTC products quickly becomes routine, part of the regular shop. The fundamental role of OTC advertising is therefore to maintain brand awareness at the point of purchase, much like FMCG advertising. And, much like FMCG, OTC healthcare makes heavy use of television for its high-impact mass reach. OTC advertisers spent 38% of their budgets on television advertising in 2021, compared to 21% for the average advertiser across all categories. OTC brands also spend more on radio and magazines – radio for its mass reach and magazines for their high impact.

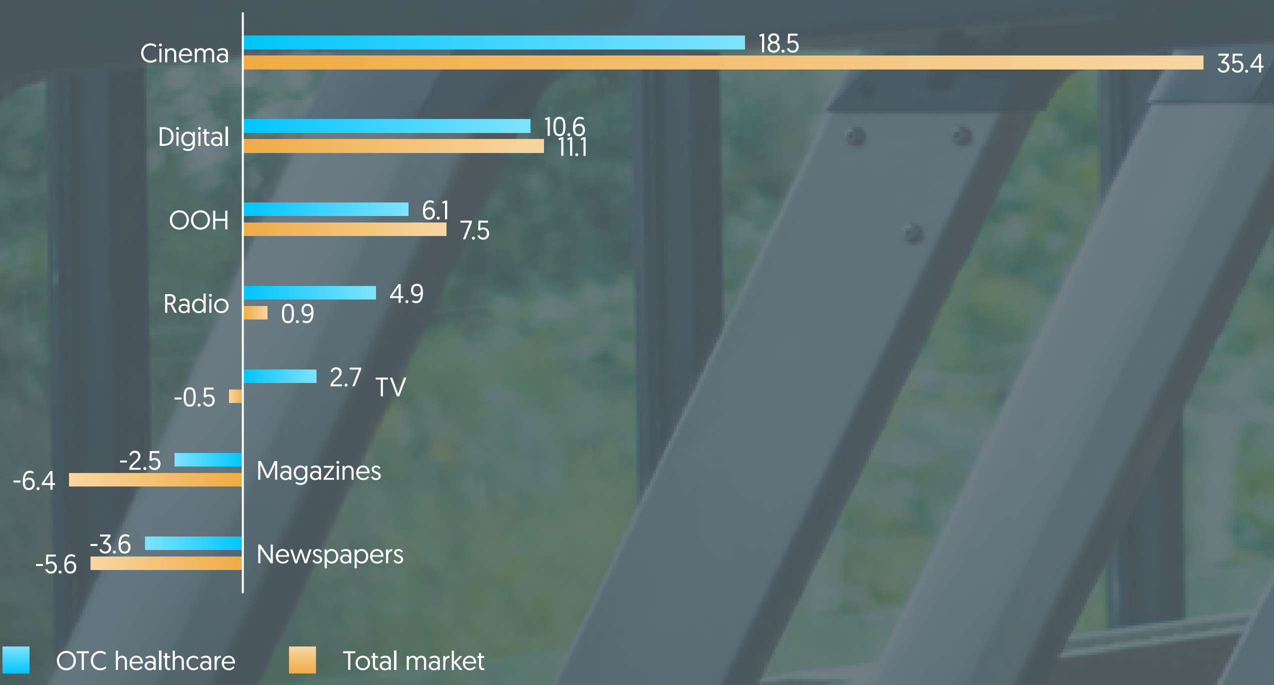
Until recently it was difficult to use digital advertising to create emotional connections and lasting brand awareness. But the rise of high-quality advertising environments, online video and retailer media – ads that appear on retail websites and ecommerce platforms – means brands can use digital to convey brand values effectively right through to the sale.

As traditional media audiences migrate to digital platforms, brands are rebuilding their reach online, though the walled-garden nature of different platforms means that balancing reach and frequency requires significant investment in data, technology and expertise. Brands are also spending more on performance advertising as OTC ecommerce scales up.

Zenith forecasts that OTC brands will increase their digital adspend at an average rate of 11% a year between 2021 and 2023, the same rate as the market as a whole, while radio grows by 5%, television by 3%, and magazines shrink by 3%. Digital will account for 49% of OTC advertising in 2023, up from 46% in 2021.

The shift to digital allows OTC brands to use smart segmentation and dynamic creative to market the same products to different people with different needs. The gym-goer with muscle ache, the office worker with a headache and the parent whose child has growing pains all need pain relief, but their preferred content will vary substantially, as will the messaging that persuades them most effectively. This ability to tailor the creative to the needs of the audience gives digital advertising an advantage that traditional media never had.

Average annual growth in adspend by medium 2021-2023 (%) – 13 key markets

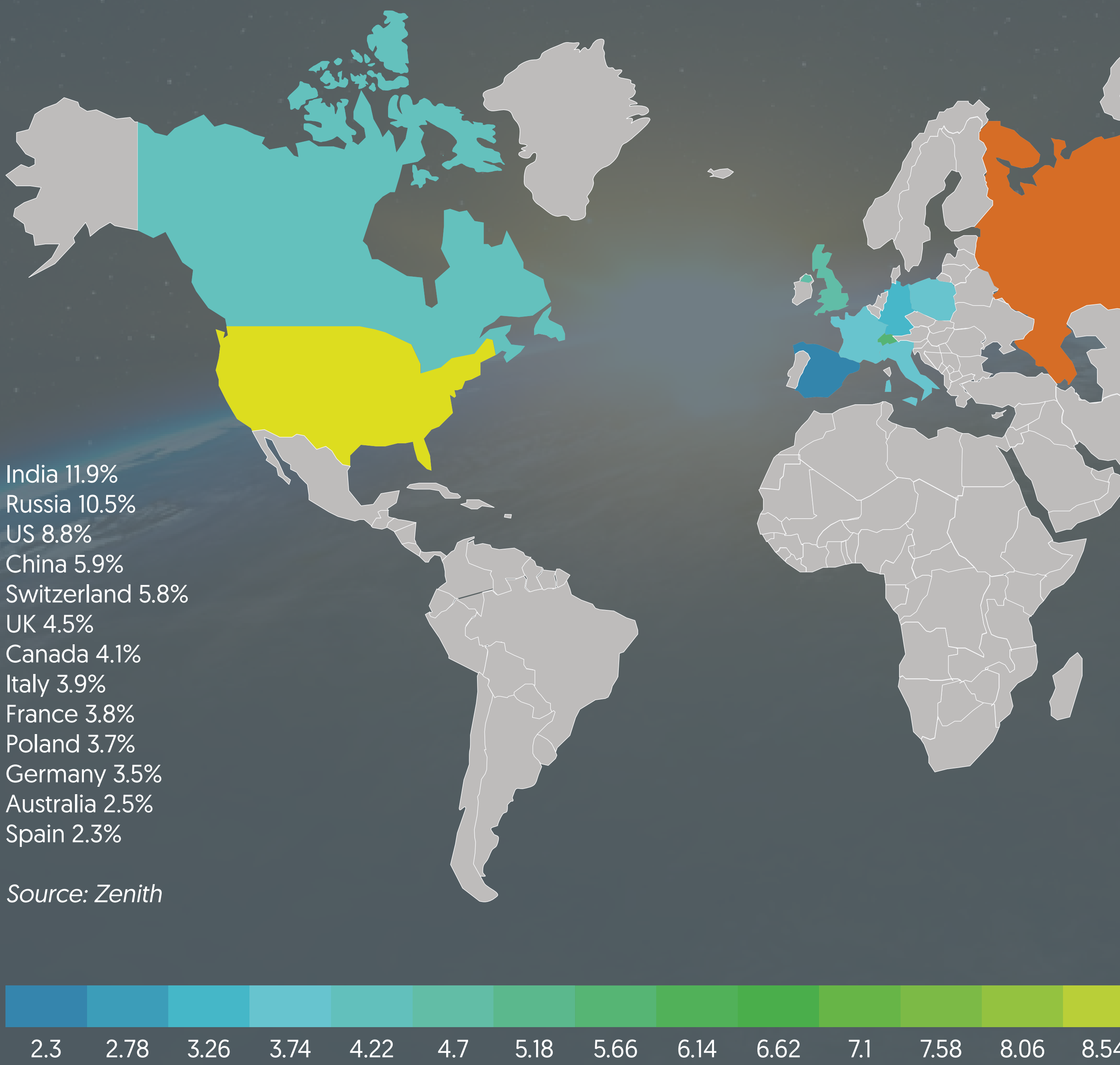


Source: Zenith


ASSAULTFITNESS
AIRRUNNER
ASSAULT FITNESS

INDIA AND RUSSIA TO LEAD WITH DOUBLE-DIGIT GROWTH

Average annual growth in OTC healthcare adspend by key market 2021-2023 (%)



India 11.9%
Russia 10.5%
US 8.8%
China 5.9%
Switzerland 5.8%
UK 4.5%
Canada 4.1%
Italy 3.9%
France 3.8%
Poland 3.7%
Germany 3.5%
Australia 2.5%
Spain 2.3%

Source: Zenith

Zenith forecasts India and Russia to lead growth in OTC advertising, with average growth of 12% and 11% a year respectively between 2021 and 2023. Their economies and ad markets enjoy a higher baseline of growth as they catch up with their more developed counterparts, driving rapid expansion of disposable incomes and consumption.

The US is forecast to grow at 9% a year, driven by the rapid pace of digital transformation in its economy, which is fuelling huge growth in digital advertising. The US had lagged behind more mature ecommerce markets in Asia and Europe, partly for cultural reasons and partly because of distribution problems in rural regions. The pandemic sparked a huge change in the way consumers shop in the US, and a corresponding leap in adspend as brands took advantage of new digital opportunities to drive sales. This has lifted spending in all categories. OTC in particular is benefiting as US consumers take a more proactive approach to wellbeing, using OTC products as preventative measures to stave off illness, instead of only taking curative measures once they have become sick. See the consumer research section for more details.

China is another market enjoying strong growth in consumer demand for OTC products, and is forecast to grow by 6% a year. Switzerland will also grow at 6% a year, mainly because it's still recovering from an unusual 11% drop in OTC adspend in 2020.

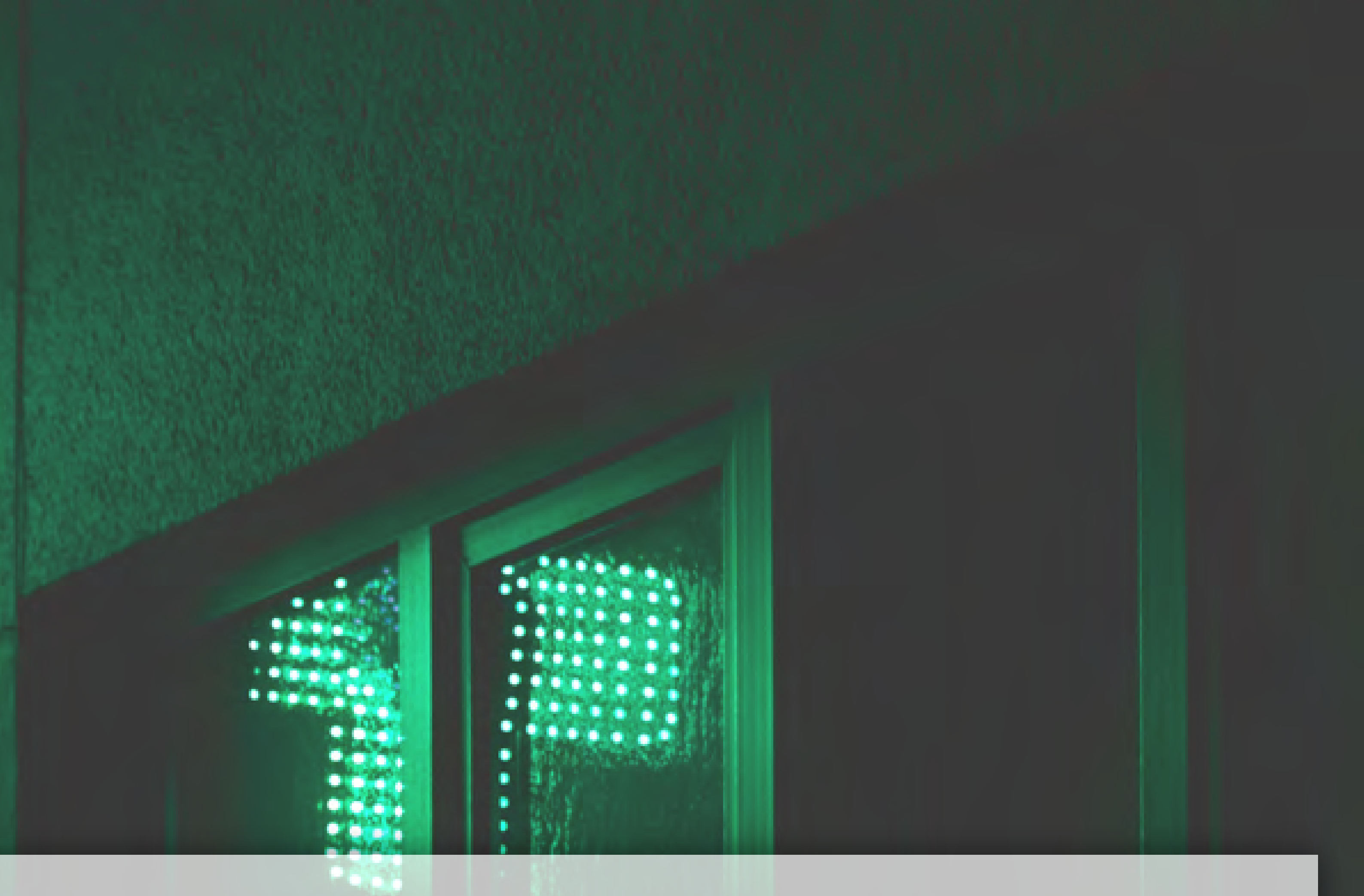
Other markets are forecast to grow at unremarkable rates of 2%-4% a year.

OTC HEALTHCARE CATEGORY GROWTH

4%-5%
GROWTH A YEAR

Demand for OTC products to grow 4%-5% a year

Sleep-aid sales jumped 18% in 2020 and will lead growth at 8% a year



4.5%-7.0%

2019-2020

OTC ecommerce jumped from 4.5% of retail sales in 2019 to 7.0% in 2020

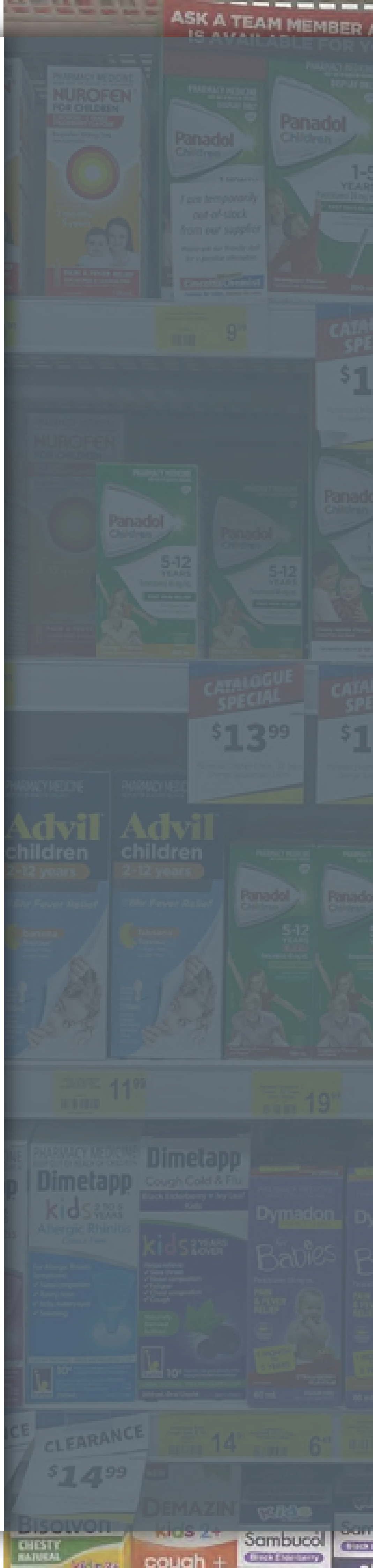
The two largest OTC manufacturers will be spun off into independent companies in 2022-2023

BRAND GROWTH A CHALLENGE IN COMMODITISED CATEGORY

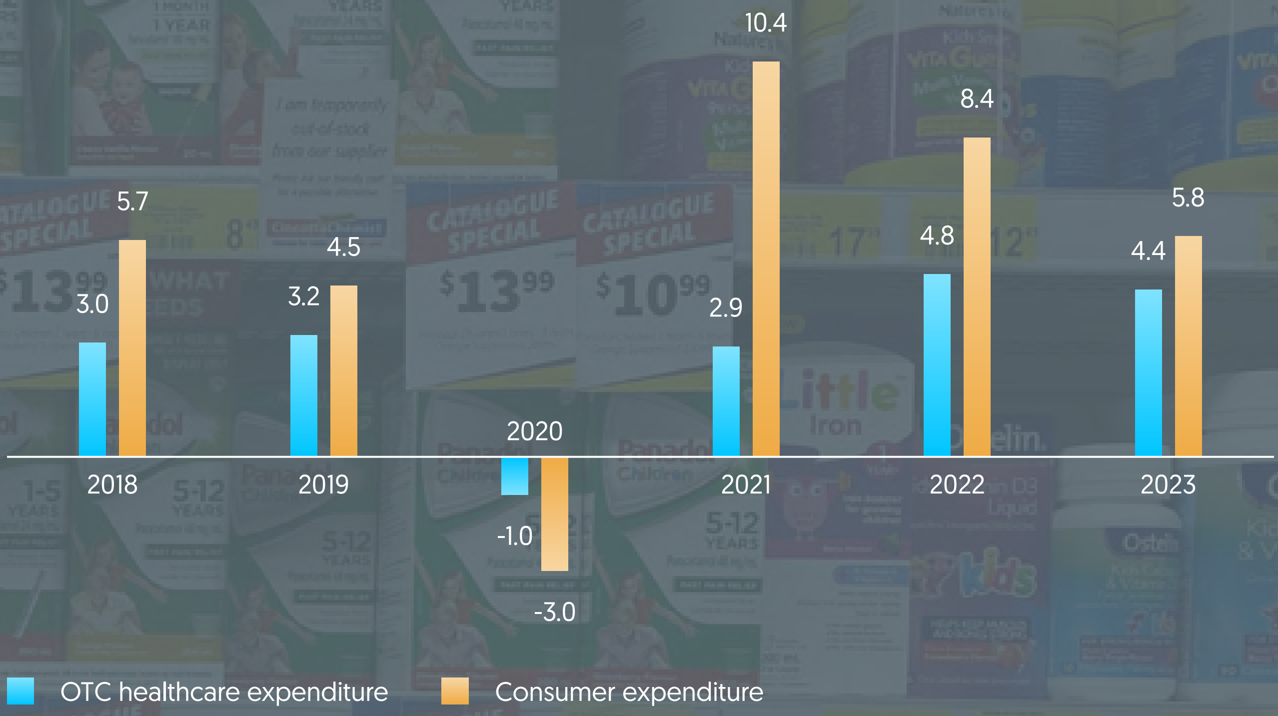
OTC healthcare is a relatively commodified market. Its retail sales generally grow at about the rate of inflation, and well below overall consumer expenditure growth, with 2020 the sole recent exception. The widespread availability of own-label alternatives means brands need to continually defend their price premium, principally through brand advertising. OTC healthcare sales are forecast to grow 5% in 2022 and 4% in 2023, while consumer spending as a whole grows 8% and 6% respectively.

OTC has historically lagged well behind in ecommerce, but there has been a surge in ecommerce sales since the pandemic, disrupting the traditional distribution system and squeezing the revenues of pharmacies and supermarkets.

OTC healthcare sales are forecast to reach US$85bn in 2023, up from US$78bn in 2021 and US$76bn before the pandemic in 2019.

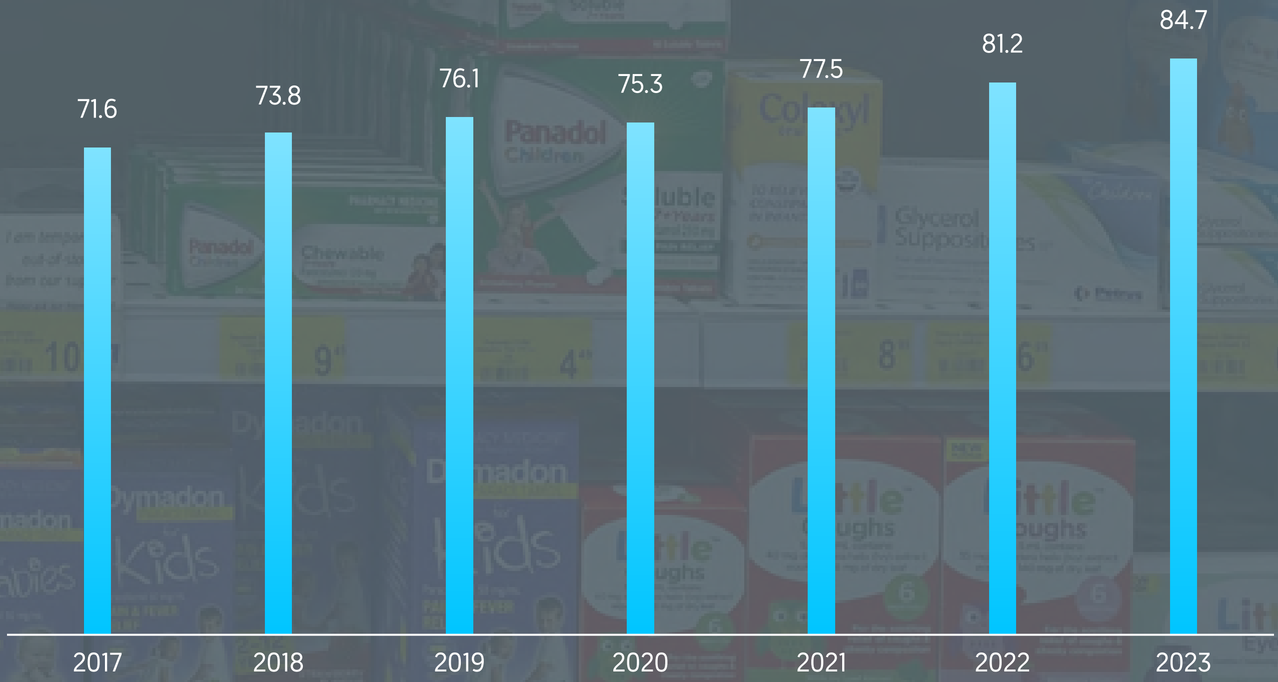


Year-on-year growth – 13 key markets (%)



Source: Euromonitor International

OTC healthcare expenditure (US$ billion) – 13 key markets



Source: Euromonitor International

DEMAND FOR SLEEP AIDS AND CONTRACEPTIVES TO DRIVE OTC GROWTH

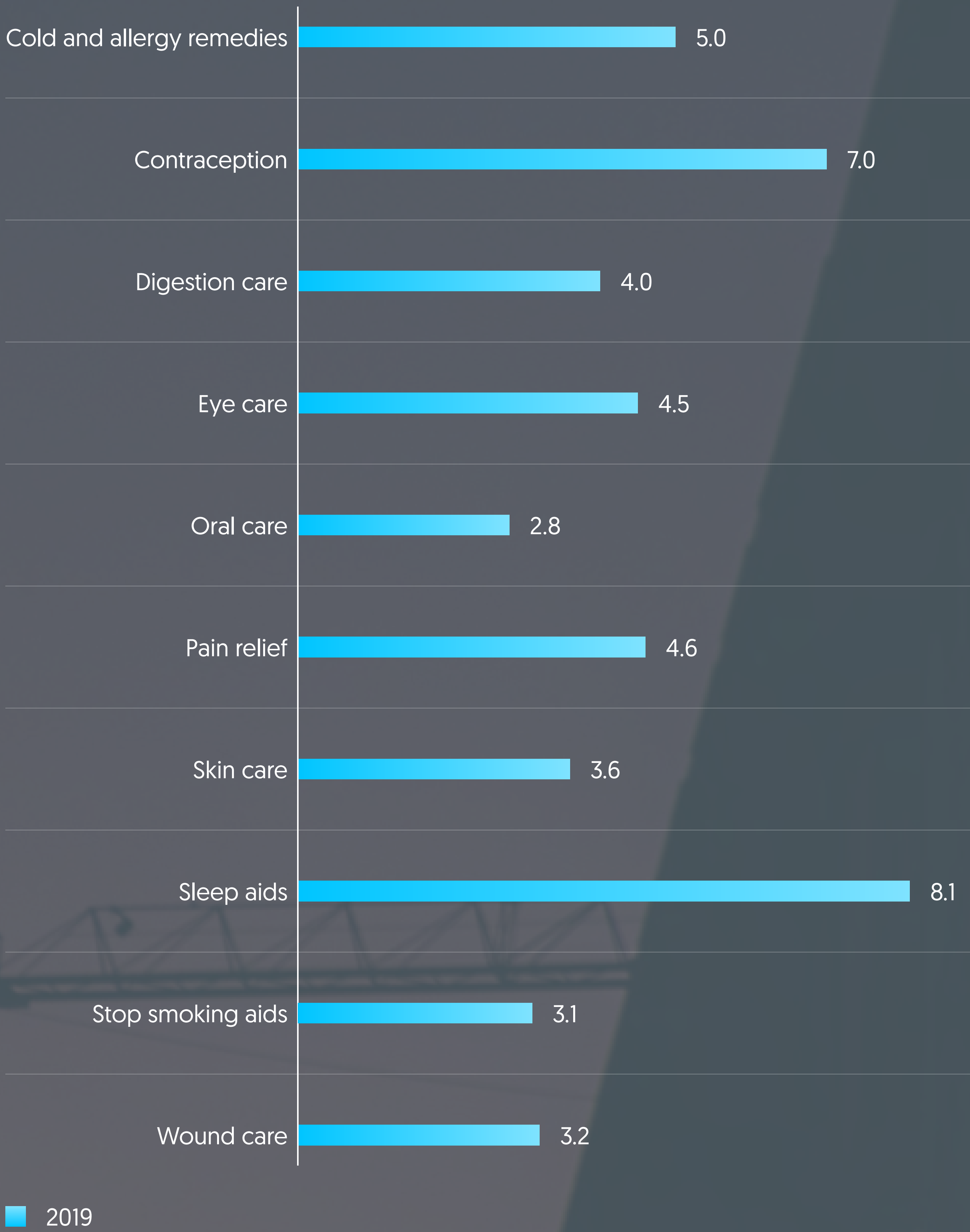
The onset of the pandemic in 2020 resulted in clear shifts in demand for OTC products. The growth of contraception, digestion care, pain relief and wound care fell sharply as people stopped going out, having sex and taking risks. The most dramatic decline was the 8% drop in cold and allergy remedies, as isolation cut the transmission of endemic diseases. There was also an enormous 18% surge in sales of sleep aids to confined and stressed people whose sleep patterns became disturbed.

All OTC sub-categories are expected to return to growth over the next few years. Sleep aids will continue to grow the fastest, but at 8% a year between 2021 and 2023 their growth will be much slower than in 2020. Contraception is forecast to bounce back to 7% annual growth, while cold and allergy remedies will grow 5% a year as consumers get back to mixing in public places. The slowest growth is expected to come from oral care, stop-smoking aids and wound care, at 3% a year each.

Year-on-year growth in retail sales by sub-category – 13 key markets (%)

Source: Euromonitor

Average annual growth in retail sales by sub-category 2021-2023 – 13 key markets (%)

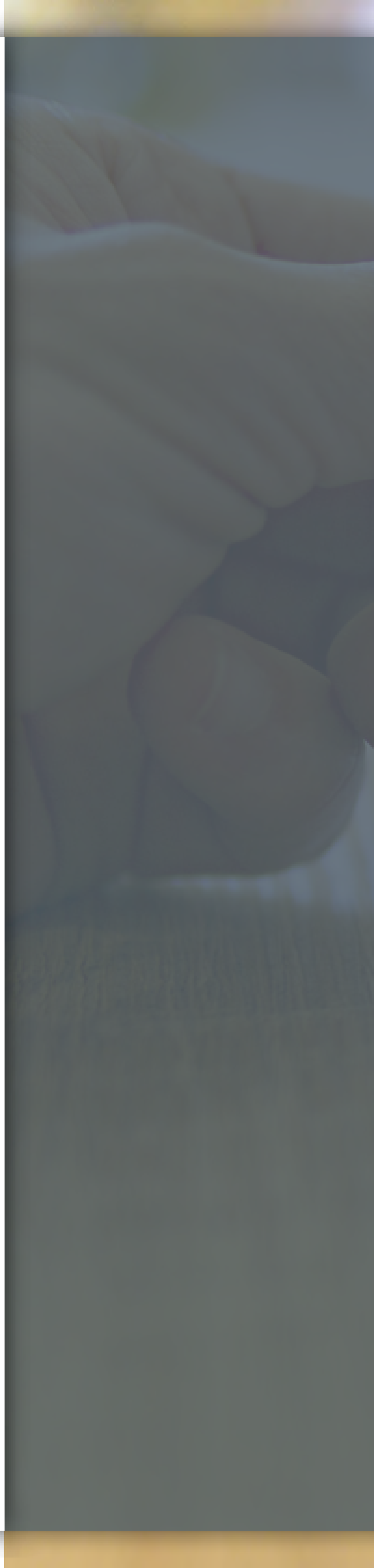


Source: Euromonitor

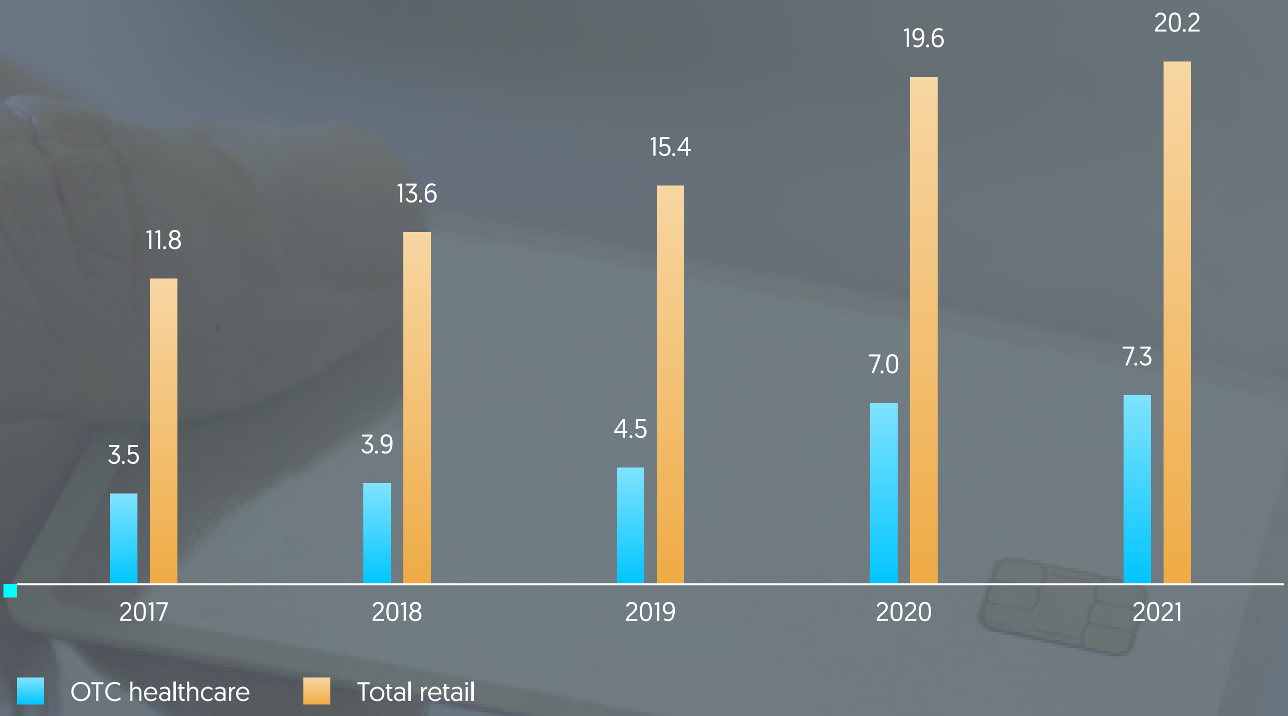
LOCKDOWNS KICK-START OTC ECOMMERCE

The OTC category has historically been slow to embrace new channels of distribution, partly because of regulations to limit the sale of potentially dangerous products and provide access to expert advice at the point of sale. In 2019 ecommerce was responsible for just 4.5% of OTC sales, compared to 15.4% for retail as a whole.

The coronavirus pandemic accelerated the expansion of ecommerce for all categories in 2020, when consumers were locked down, had limited access to bricks-and-mortar stores, or were fearful of public places. But the increase was particularly dramatic for OTC products: the ecommerce contribution to their sales increased by more than half, to 7.0%. Despite the general loosening of restrictions in 2021, OTC ecommerce sales continued to expand, reaching 7.3% of total sales. Now that consumers and distributors have become more familiar and comfortable with the idea of OTC ecommerce, it should continue to grow healthily over the next few years.



Ecommerce share of retail sales (%)



Source: Euromonitor International

Traditional distributors like supermarkets have invested heavily in ecommerce infrastructure since 2020, but will face growing pressure from digital ecommerce platforms. The growth of ecommerce also provide OTC brands with the opportunity to form stronger relationships with consumers by developing direct-to-consumer (DTC) operations, which could strengthen their position against own-label products.

So far relatively few OTC brands have gone direct to the consumer, faced with the possibility that retailers will reduce the shelf space allocated to those that do. But some new DTC brands have launched successfully, including products that consumers might be embarrassed to buy face-to-face, like medications for urinary tract infections. More are likely to launch in future as ecommerce becomes a normal way of buying OTC.

ALL CHANGE AT THE TOP

Source: Euromonitor International

The corporate structure of the OTC market has remained stable over the last five years. All the top companies increased their OTC retail sales over this period, with the exception of Procter & Gamble, which focused on improving margins at the expense of top-line sales over the first half of this period. Particularly large gains were made by the number one OTC manufacturer GlaxoSmithKline (GSK), which expanded by 49%, and the number four Sanofi, which expanded 66%. In both cases this was fuelled by acquisition: in 2017 Sanofi acquired the OTC brands owned by Boehringer Ingelheim, and in 2019 GSK became the majority owner of the merged OTC assets of GSK and Pfizer.

Big changes are coming however: the two largest companies have both announced plans to spin off their OTC operations over the next couple of years. GSK intends to turn its consumer health division into a separate company by mid-2022, while Johnson & Johnson (J&J) will do the same by 2023. Both see more innovation and potential for growth in their remaining pharmaceutical, vaccine and medical devices operations. They believe the OTC operations will have more incentive to transform their businesses as stand-alone publicly listed companies, forced to justify their own growth numbers to shareholders instead of coasting in the wake of fast-growing sister companies.

These spin-offs will have no immediate drastic effect on the OTC market: the two companies will retain their positions, just under different names and separate ownership. But if GSK and J&J are right, they should spark greater innovation and spur OTC sales to surpass their current pedestrian growth rate.

OTC HEALTHCARE CONSUMER INSIGHTS

Over the past two years, the COVID-19 pandemic has brought about changes in behaviour and technology that will likely result in seismic changes for the health care category. For consumers, every decision made over this time has been a health decision, the majority of news coverage has been health news, and scientists and pharmaceutical companies have become household names. With engagement high, advancements in technology accelerated and a growing interest in the quantified self, the stars are aligning to fundamentally change the way we think of health and how we treat both mental and physical illness.

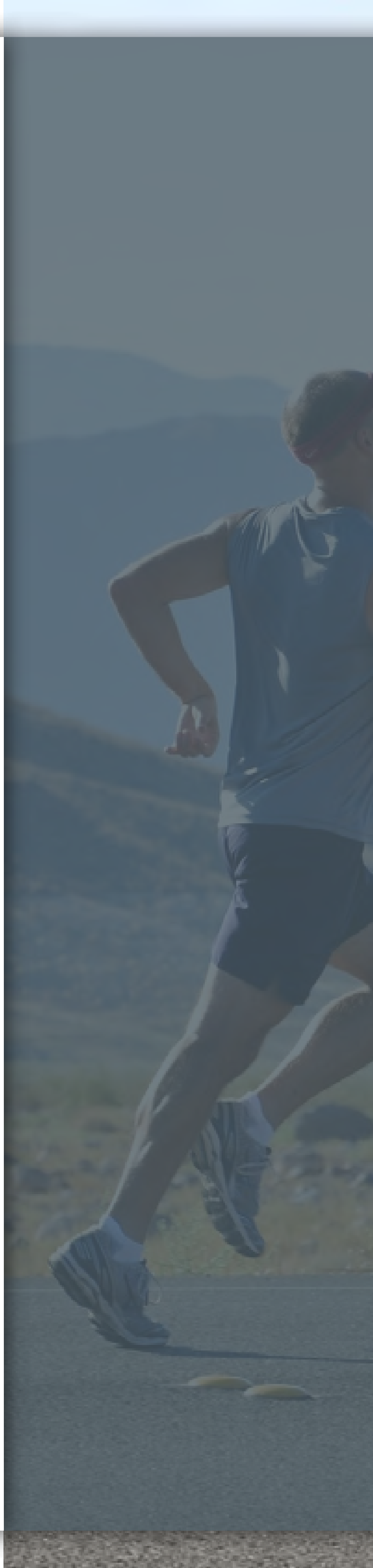
Health has evolved to become more holistic, with a focus on individual ‘wellness’

COVID accelerated e-commerce for the category and consumer interest in using technology to self-track

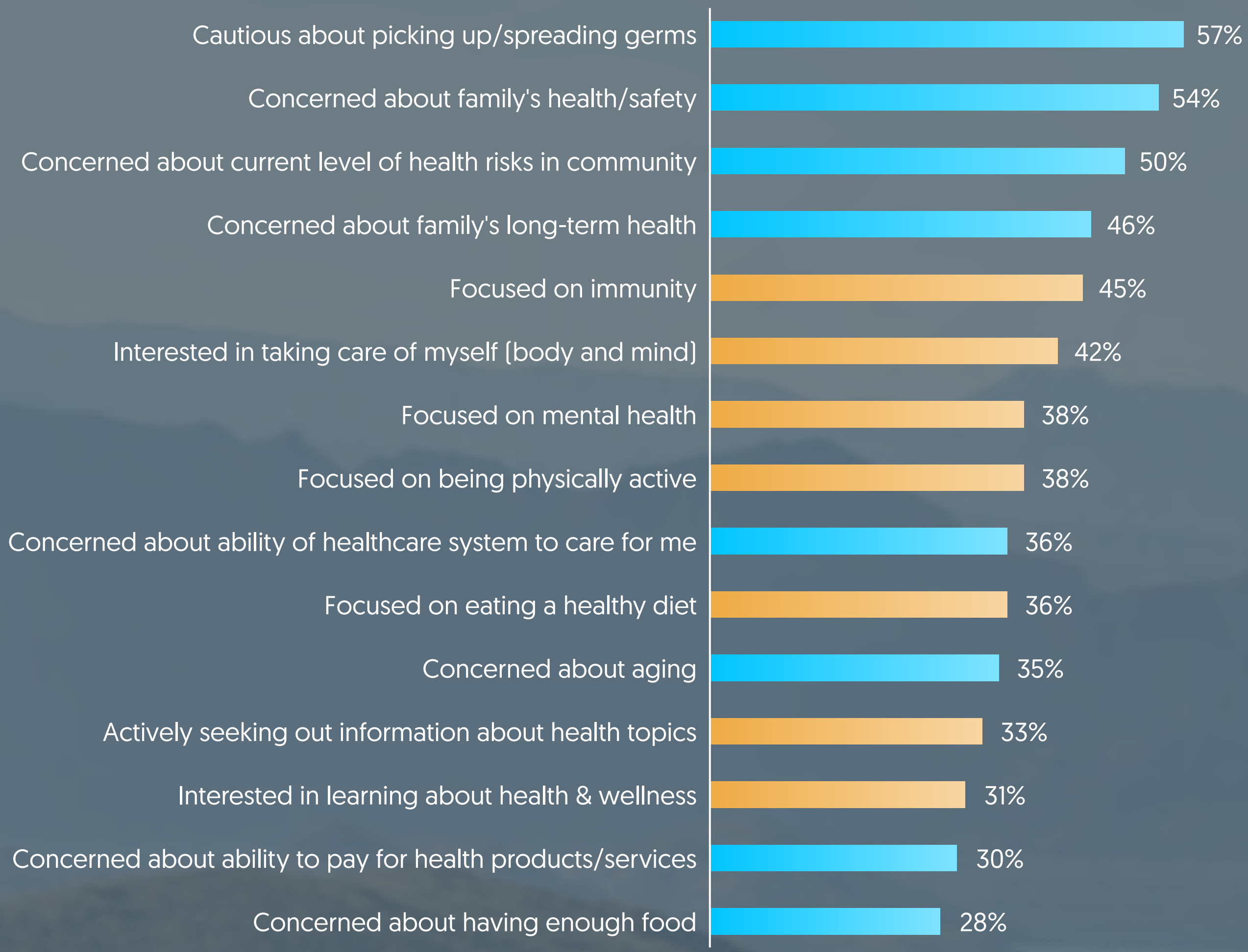
Consumers increasingly engaged with health and sciences

PHYSICAL HEALTH IS JUST ONE COMPONENT MAKING UP OVERALL ‘WELLNESS’

Health can be a difficult concept to define and measure. Historically, for consumers, it has meant the absence of a physical disease or condition. But today it is much broader, and physical health is more commonly considered as one element making up a persons’ overall ‘wellness’ - diet, fitness, sleep and mental health all also contribute. Research by the Hartman Group in the US shows increased consumer caution in picking up and spreading germs, in taking care of both body and mind, in being active and in eating a healthy diet.



Changes in health and wellness views among U.S. adults in 2021



Source: The Hartman Group

It also shows a significant interest in immunity (45%). Whilst not a new concept, the Western world, in particular, has tended toward the 'curative' rather than the preventative when it comes to health. But in light of the pandemic and the increased attention, particularly at its height, on the better COVID outcomes of healthier individuals, the idea of being in your best health to avoid illness has resonated. This more holistic and preventative view of health has led to a rise in the popularity of alternative and complementary therapies, supplements and wellness behaviours. The research by the Hartman Group also showed that almost half of adults in the US are taking supplements or vitamins, 44% were ensuring they got sufficient sleep, 22% practising mindfulness and just over a quarter were taking steps to support their mental health.

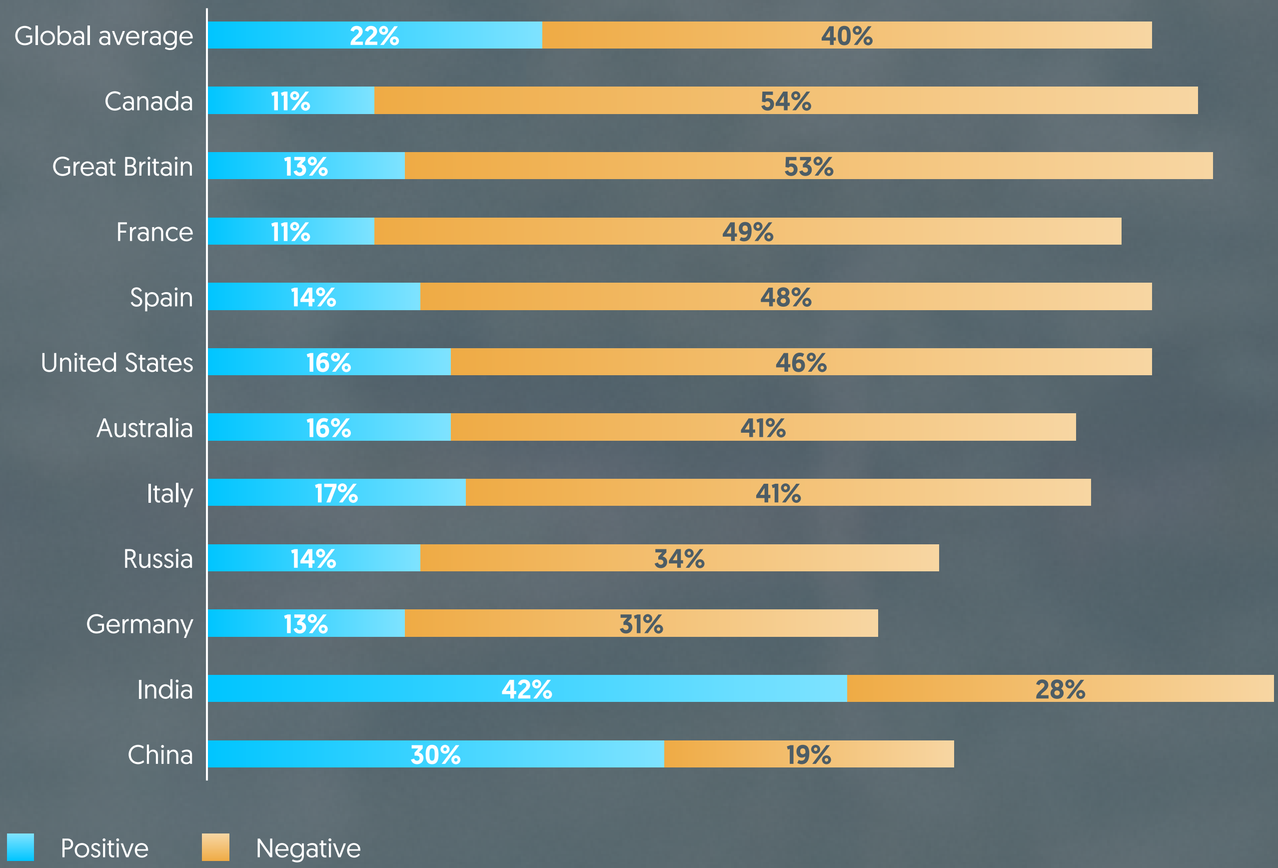
Health and wellness activities among U.S. adults in 2021

Source: The Hartman Group

COVID-19, and government measures as a result of it, really shone a light on the importance of mental health - some commentators even referred to mental health as its own pandemic – as many were faced with increased isolation, job losses, and financial difficulties. In fact, research by IPSOS indicated that 31% of adults worldwide thought mental health was the top problem facing their country in 2021, and 40% of respondents worldwide said that the last 6 months had had a negative impact on their mental wellbeing. This was particularly high in Canada and Great Britain where more than half indicated there'd been a negative impact.

As it became more acceptable to talk about mental health, so it became more acceptable to seek treatment. As a result, a number of apps emerged or gained traction, that allow consumers to seek therapy, mental health advice, or to manage the increased anxiety or depression. These range from apps such as 'Headspace' and 'Calm' that give users tips on how to self-manage anxiety, stress, depression, or practice mindfulness; to apps that provide users with ways of accessing support via a certified mental health specialist, speaking with professionals via chat, video calls or telephone, at convenient times, at a fraction of the cost of face-to-face appointments, and mostly without the associated waiting times.

Impact of COVID-19 on mental wellbeing worldwide 2021



Source: IPSOS

However, whilst making care more affordable and convenient, these changes do highlight the risk of health being determined by social status or wealth, a situation already reflected in the U.S. Research by the Commonwealth Fund shows that the U.S. overall has generally poorer health outcomes when compared to other similar high-income countries. This, in part, is due to an income-related disparity in performance. The more health relies on access to the internet and technology, the more important it becomes to ensure health equity.

A broader more holistic view of health means consumer acceptance of a broader range of treatments and preventative measures. OTC brands will need to define their place and role within ‘wellness’, to become a key aid and help to healthy lifestyles. They will need to provide clarity on the ingredients, benefits and usage for their more engaged consumers, who will have an increasing number of options available to them.

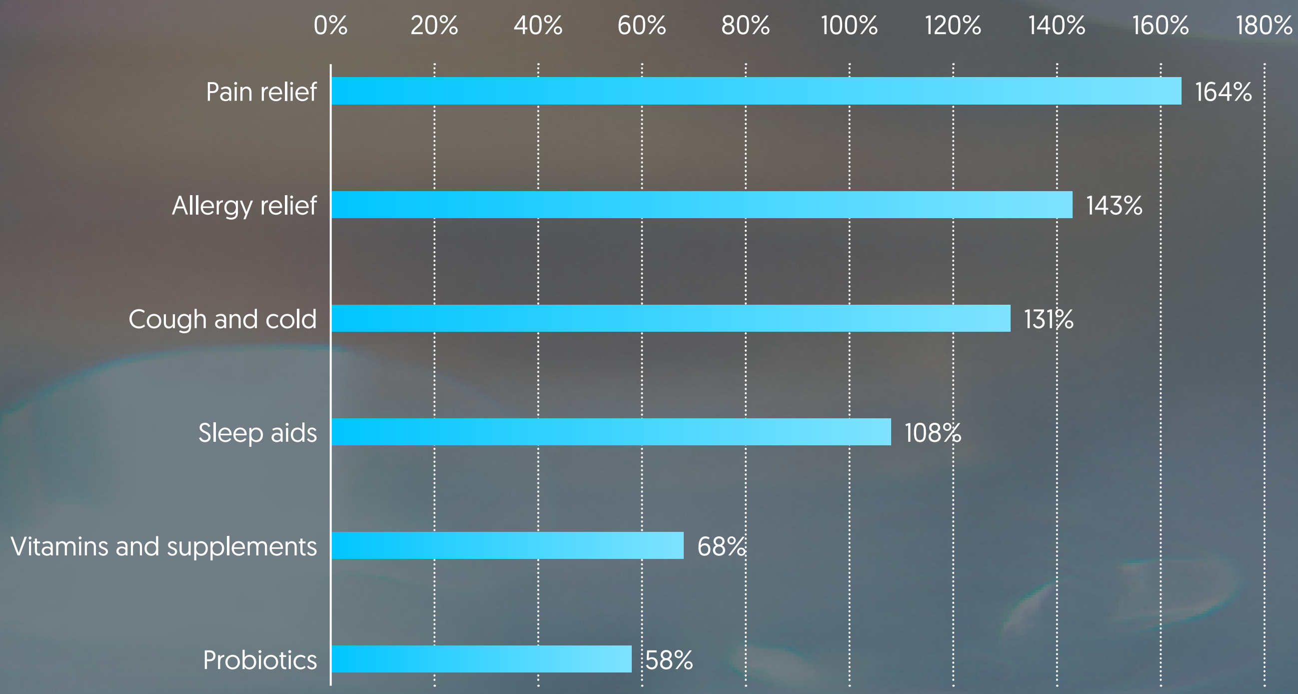
THE RISE IN E-COMMERCE AND 'THE QUANTIFIED SELF'

As with many categories, the pandemic also brought a swift shift to online purchasing. Whilst a result of necessity initially, the consumer desire for quick, easy, effortless shopping will continue. There has been already been a rise in online pharmacies, and as brands and companies worked hard during the lockdowns to navigate market restrictions or obstacles we will likely see more focus on e-commerce for the category. 1010 data shows that in the U.S. in 2020, all OTC products saw an increase in online sales, particularly pain killers which had a year on year sales growth of 164%.

The need for OTC brands and retailers to make sure they have the infrastructure in place to easily allow and fulfil online orders is further exaggerated by the presence of Amazon, who have started to take steps into the healthcare category with Amazon Care, Amazon Pharmacy and Amazon Basic Care – "Healthcare essentials at feel-good prices". With Amazon's already proven ability to provide easy, convenient and incredibly quick delivery whilst maintaining low prices, retailers need to be wary. According to Bloomberg, U.S. drug stores, distributors and health insurers lost around $22 billion in market value when Amazon announced they'd be selling prescription drugs to Prime members.

But OTC and pharmaceutical brands can take inspiration from outside of the category on how to navigate these changes. For example, in late 2021 Boots, a British health and beauty retailer and pharmacy chain announced a pilot partnership with Deliveroo, an online food delivery company, to allow customers to order OTC and other products via an app.

OTC online sales growth in the U.S. 2020, by category



Source: 1010data

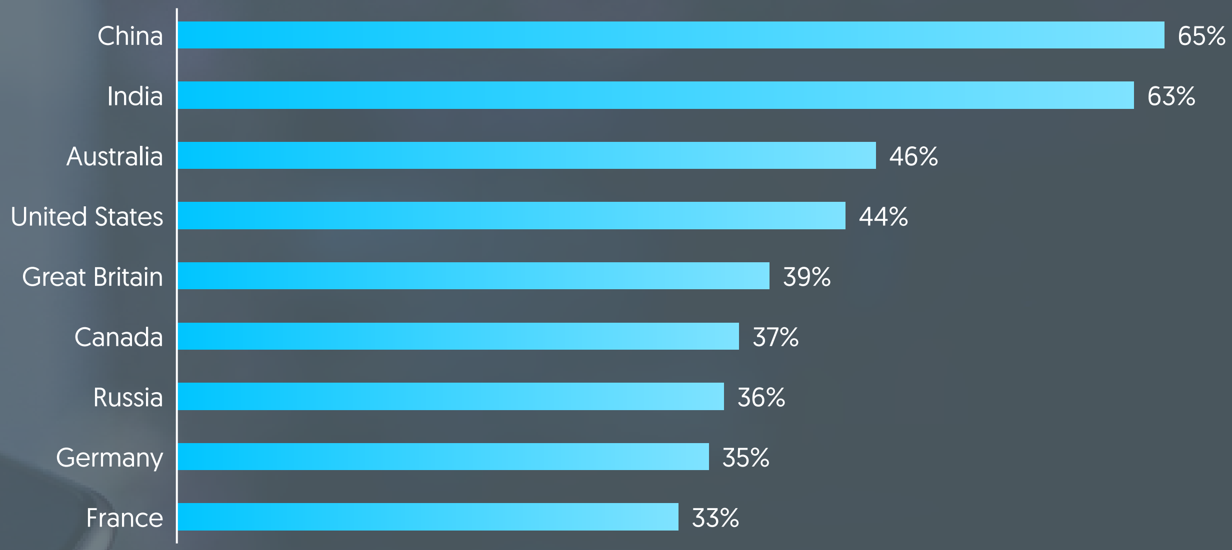
With lockdowns confining people to their homes, not only did online ordering increase, but a rise in the use of health apps. According to the Statista Global Consumer Survey around a third of people in Western European countries like France, Germany and Great Britain are using health apps, but this rises to 65% in China and 63% in India.

Health apps are often paired with wearable technology and give individuals the ability to track and monitor their health and exercise. In some cases they can even detect and predict e.g. The Oura Ring which can monitor body temperature to predict menstrual cycles, or if you're about to be unwell. Without the hassle of manually inputting data, users have easy access to an array of information about their health – heart rates, sleep cycles, exercise etc. – giving them control and a sense of empowerment. According to the IDC and Statista, there was a 28.4% year-on-year increase in global shipments of wearables, suggesting this category is only going to continue to grow.

With the rise in data available, we will likely see a move to more personalised health in general, i.e. using this individual data to determine the medicine or treatment that would work best for the individual, not just a standardised one fits all treatment. The start of this can be seen in the rise of companies offering personalised supplementation, e.g. vitamin supplements based on your individual needs, concerns and health goals, delivered to your door.

Consumers desire the convenience in healthcare that they experience in other categories, and so OTC brands and retailers need to strengthen not only their digital presence but make sure they have the infrastructure in place to fulfil online orders quickly and easily. As consumers are now more aware of their own health and can track changes, there will be more 'self-management' of health issues. OTC brands need to consider how to use these apps to their and the consumers benefit – i.e. by improving consumer understanding of symptoms and conditions so they know which OTC products would be most effective for them as an individual.

Health app user share in select countries 2020



Source: Statista Global Consumer Survey (GCS)

Total wearable device unit shipments worldwide 2014-2020

Source: IDC; Statista

ENGAGEMENT IN SCIENCE IS AN OPPORTUNITY TO BUILD DISTINCTIVENESS AND TRUST

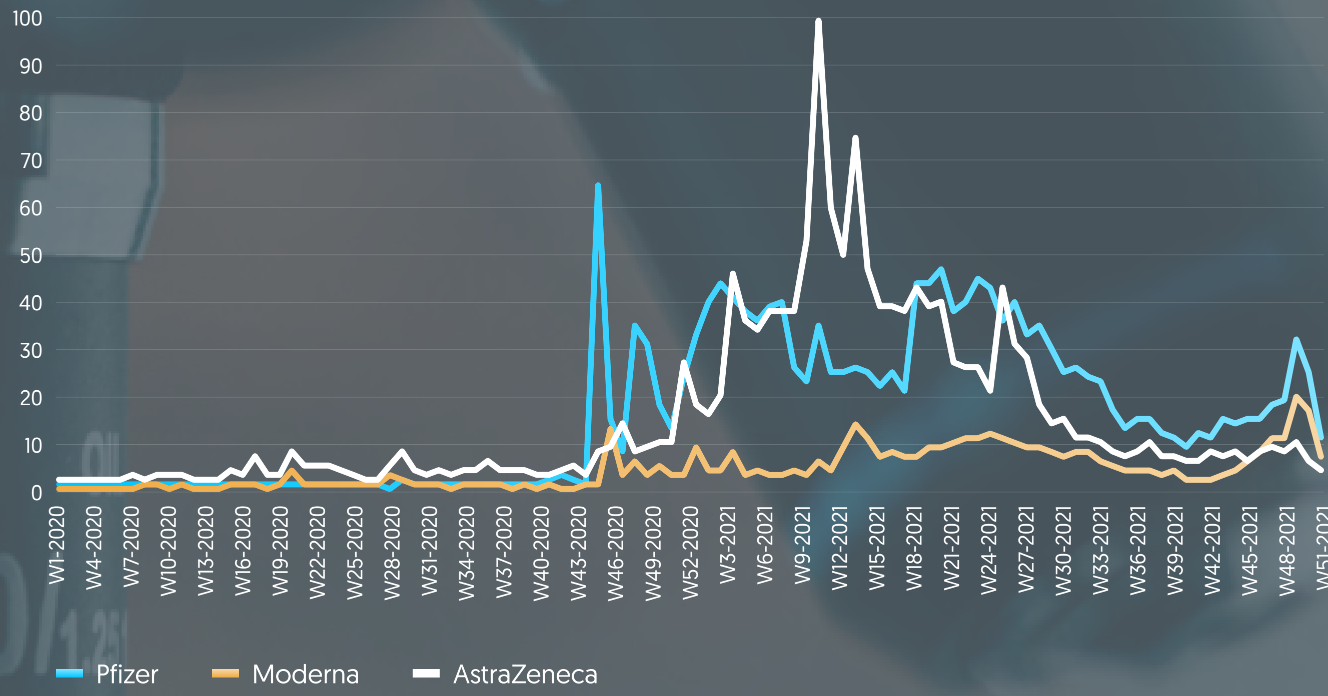
Engagement in health has not been limited just to consumers' own or family health. In 2021, there was massive media coverage dedicated to the companies working on the development of the COVID-19 vaccinations, and as such huge consumer interest in those pharmaceutical and biotechnology companies. Google Trends data for the UK shows the growing number of searches toward the end of 2020 and throughout 2021 for Pfizer, Moderna and AstraZeneca.

This interest extends beyond adults too. In survey results published in 2020, the British Science Association (BSA) found that one effect of COVID-19 was an increase in 14-18-year-olds considering working in a scientific field, with 37% of this age group more likely to consider such a career. Furthermore, the public attitude toward science, in general, has become more positive too. Research by the Wellcome Trust shows that public interest in 'hearing directly from scientists about the research they are conducting' increased from 63% to 82% in the UK from 2015 to 2020.

Whether the interest extends to trust in the pharmaceutical industry is not clear, however. Edelman's Trust Barometer in 2021 showed the differing levels of trust across countries, from very high at 80% in India, to 'distrustful' in Russia and France (31%, 38%).

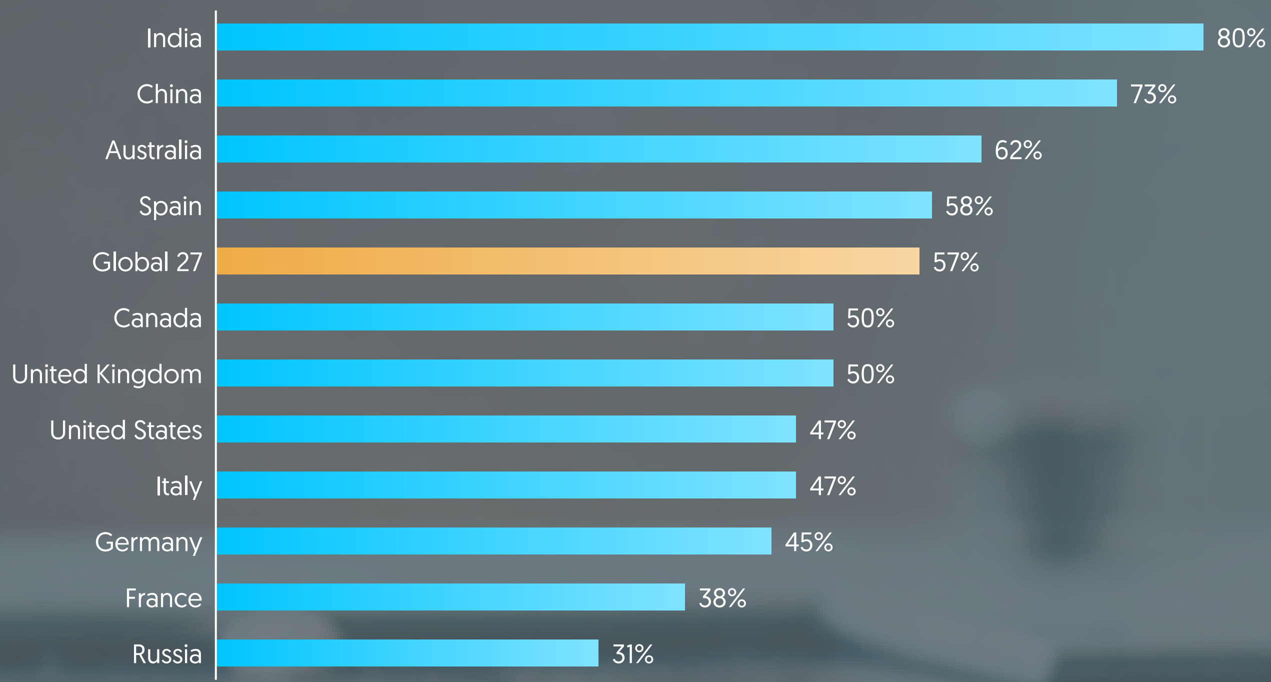
This greater interest in science gives brands in the category a bigger licence to talk to consumers about the science behind their products and educate them on the process. They can drive a better connection to the brand, with human stories about the scientists working on their development, making them more relatable. To build trust, they will need to show they have a clearly defined brand purpose, be more transparent and honest in their communications, and show how their brand or company fits into the wider healthcare and wellness categories.

Google Search Data UK: Pfizer, Moderna, AstraZeneca



Source: Google Trends

Trust levels towards pharma industry by country 2021



Source: Edelman

WHAT DOES THIS MEAN?

The COVID-19 pandemic has ignited and accelerated changes in the healthcare category that will disrupt the way in which services are delivered and used in future – from funding and embracing technology, changing the approach from curative to preventative and encouraging self-management. OTC brands will need to position themselves within overall 'wellness', showing how they can complement other aspects of a healthy lifestyle. They should play on consumer engagement with their health and take the opportunity to improve understanding of symptoms and conditions so that they can self-manage. The interest in science should be leveraged to communicate a brand purpose, build trust and drive better connections with consumers.