

- Time to Think Change in OTC Distribution in Europe
- A Brief look at Self-medication in Hungary

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Winter/Spring
2005

Time to think Change in OTC Medicines Distribution in Europe

Review of James Dudley's 18-country study.



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Europe's €14.05 billion non-prescription and OTC self-medication markets are entering a period of considerable change.

This is being fuelled by the gradual deregulation of distribution channels; continuing de-reimbursement on a large scale; abandonment of resale price maintenance; consolidation of wholesaler networks; the emergence of pan-European retail pharmacy multiples and a massive expansion of 'virtual' pharmacy chains. There has also been considerable growth of Internet pharmacies across

Europe following a European Court ruling legitimizing the Internet as a retail pharmacy channel for OTC medicines'.

So says a major new 18-country strategic study from James Dudley 'OTC Distribution in Europe – The 2005 edition – Embracing Change' published in January

Among some of the key issues identified in the Dudley report are: -

- **Radical reform** of reimbursement, pharmacy establishment and the abolition of retail price maintenance for OTC medicines in Germany in 2004
- **The rapid growth of large 'virtual' pharmacy chains** especially in Germany, Switzerland and The Netherlands coupled with moderate growth in the UK and their emergence in Italy and the Nordic and Baltic region.
- **Implications of the concentration of pharmaceutical wholesalers' buying power** across European borders and vertical integration into retailing
- **A gradual deregulation of the supply chain** especially pharmacy establishment and ownership rules
- **The significance of the Internet** as an evolving distribution channel but more importantly as a major change agent
- **A growing trend in the expansion of general sale lists (GSL) of OTC medicines**
- **Accession** of Poland, Czech Republic, Slovakia, Hungary and the Baltic States into the European Union in 2004.

Europe's largest OTC Medicines Market

The gradual uncoupling of the of the non-prescription sector from the mainstream prescription only pharmaceutical market took another step last January when Germany announced a further round of large scale health reforms. Germany is the largest pharmaceutical market in Europe and represents a little under a quarter of sales of non-prescription medicines in the region.

At the turn of 2003 and 2004 the German Government implemented wide ranging health reforms which had a direct and profound effect on the consumer health industry.

German Health Reforms in Brief

- **Removal of all non-prescription products from reimbursement.** Exceptions are made for children aged 12 years and under, young people with learning difficulties and 10 to 12 specific indications
- **Abolition of resale price maintenance on non-prescription medicines** in pharmacies (GSL products were already freely priced in Germany)
- **Partial deregulation of pharmacy ownership** restrictions to permit a single pharmacist to own up to four pharmacies
- **Legitimization of Internet pharmacies** following a ruling from the European Court

Under partial deregulation measures introduced in January 2004 a pharmacist may own up to 4 pharmacies. Even so, Germany has evolved the largest groupings of independent pharmacies in Europe. The number of pharmacies involved with major 'virtual' chains has tripled to almost 40% of German pharmacies since 2002.

While pharmacy groupings are not new in Germany the development of symbol group branding is. MVDA with some 2,800 members, of which Phoenix is the logistics partner, is the oldest grouping of independent pharmacies with a history stretching back some thirteen years. Around 1,000 members of this group have banded together under the name Linda.

The German health reforms represent a continuing process of gradual deregulation of the European non-prescription medicines sector. However, the latest German reforms are significant

in that the country has, at one go, moved from a reluctant follower of the process to leader.

Health reform has been a Europe-wide issue since the mid-1990's. While this has been largely fuelled by governments' perceptions of cost and best therapeutic value, deregulation of pharmacy channel monopolies for OTC self-medication and abolishing price maintenance are about creating competition in hitherto restricted markets.

'Virtual' Pharmacy Chains on the Up

Since 2002 there has been a phenomenal growth in 'virtual' pharmacy chains. While these have existed in the UK for many years, the pace of growth has been greater in Germany, The Netherlands and Switzerland. With the main international wholesalers Celesio, Alliance UniChem, Phoenix, Galenica and OPG as the drivers behind this form of retail grouping it is fully expected that 'virtual' chains will expand across the whole continent within a very few years.

Awesome Buying Power and Pharmacy Retailing in Europe

At the same time, the need for scale, cost efficiencies and competitive customer service levels combined with lower margins have driven the consolidation of the pharmaceutical wholesaler industry across Europe.

Yet, deregulation of pharmacy ownership and creative structuring of 'virtual' pharmacy groupings is providing a strategic opportunity for the leading wholesaler groups to move up the distribution chain to polarize the retail sector on a regional scale.

The combined European market shares of the leading pharmaceutical companies Celesio, Phoenix and Alliance UniChem have increased from two thirds of the wholesale pharmaceutical market in 2002 to almost three-quarters in 2004.

"Such a share potentially gives these players awesome buying power", says author of the report James Dudley.

Leading Pharmaceutical Wholesaler Retail Interests in Europe

Company	Group Turnovers 2003 (euros bn)	Owned Retail Outlets	Associated 'Virtual' Pharmacy Chains
Celesio	18.5	1,882 UK, Netherlands, Norway, Belgium, Ireland, Italy, Czech Republic	Vantage - UK Commitment - Germany
Phoenix	16.2	+560 Norway, Baltic States, Italy, UK	MVDA/Linda & Midas - Germany SPEM -- Italy Apteek - Estonia Selmos Valstine - Norway Numark - UK
Alliance UniChem	12.7	1,130 UK, Netherlands, Norway, Italy	Alphega - France & Italy Community Pharmacy Initiative (CPI), and Pharmacy Alliance - UK Kring - Netherlands
Sanacorp	2.4	none	Meine Apotheke - Germany
Anzag*	3.2	none	Vivesco - Germany
OPG	2.1	376 Netherlands, Poland	Extra Apotheek - Netherlands
Galenica**	1.8	+100 Switzerland	Winconcept Switzerland

*Largest shareholder is Alliance UniChem ** In partnership with Alliance UniChem

Source: OTC Distribution in Europe the 2005 edition Embracing Change © James Dudley Management 2005

While all three are powerful wholesalers and command much of the European pre-wholesale industry, they present a major challenge to suppliers in two particular ways: -

- Their ability to consolidate their retail customer base into 'virtual' chains across Europe
- Forward integration into retailing in Northern Europe and to a lesser extent in Italy

Internet Pharmacy coming of Age

Legitimization of the Internet pharmacy in the European Union has had a profound effect in stimulating the spread and diversity of online marketing models across the European region. In late 2003 the European Court ruled in favour of 0800docmorris who had challenged the German courts on the legality of cross-border B2C Internet trading in pharmaceuticals. Effectively, the ruling combined with the ubiquity of Internet renders domestic controls on online pharmacy marketing of OTC medicines both illegal and impractical.

800 online pharmacies have appeared in Germany since January 2004 of which the largest are of Dutch and Swiss origin. The largest is 0800DocMorris with estimated European sales (mostly in Germany) of €140 million in 2004. Between and quarter and a third of which are OTC medicines. At the same time, new consumer and healthcare portals have facilitated growing networks of 'clicks and bricks' online pharmacy services.

With the German statutory health insurers actively encouraging their 36 million or so members to use Internet pharmacies for their prescriptions, Germany is set to become the largest Internet pharmacy market in Europe. While best estimates expect the Internet pharmacy channel to take between 7% and 9% of the European retail pharmacy market with the next five years, its impact is already being felt because of price discounting of pharmaceutical products on the net.

The main Internet pharmacy enabled markets in Europe are Germany, Switzerland, the UK and Holland. However, Internet pharmacies and online purchasing of OTC medicines is likely to expand following the ruling of the European Court.

Supermarkets Benefit from Deregulation of OTC Medicines

GSL (general sale list) has been expanded both in terms of geography and the length of the lists. Poland, Norway and Denmark are the latest countries to introduce GSL OTC medicines. The Dutch government is expected to introduce such a list in 2005 or 2006.

Furthermore, most European Union States are under political pressure to introduce GSL.

Management concerns regarding the mass-market as a channel for OTC medicines: -

- In some markets pharmacies will refuse to stock products marketed in the mass market although this attitude was quickly stopped by government action in Norway
- The mass market is ruled by chains many of whom aggressively promote on price and private label brands
- Assortment selection is based on market share and turnover rates. This has a rationalizing effect on brands with low market shares or slow turnover rates.

Accession

The accession of Poland, Czech Republic, Slovakia, Hungary and the Baltic States into the European Union in 2004 marks a key milestone in the evolution of the region. The accession states bring 73 million citizens into the European Union and a rapidly growing €1.2 billion self-medication market. These eight countries have made the transition from controlled economies in the early 1990's to functioning 'free market' economies today.

The privatization of pharmacy retail and wholesale channels combined with the regulatory changes to meet EU legal codes and standards making up the Community's law has led these nations through a painful period of adjustment in recent years. Even so, the major wholesaling groups have invested heavily to secure market leadership in all the new markets and have created new retail pharmacy chains in the Baltic States, Poland and the Czech Republic.

The implications of the accession of the eight Northern, Central and East European States to the European Union are: -

- A gradual but continuing improvement to the business environment in each state will benefit those companies already present in these markets
- Opportunities for new companies to enter these growing markets, especially with the introduction of more simplified EU regulatory procedures.

Challenges for Manufacturers

It is clear that over time manufacturers will need to explore new opportunities and embrace challenges emerging in a rapidly changing market environment.

There is a need for companies to explore their strengths and skills to develop marketing strategies for their brands that will enable them to compete in a consumer driven market in which potentially powerful retailing groups are emerging.

Vertically integrated buying organizations are becoming a growing force in the European self-medication market. Thus manufacturers will need to adapt their marketing strategies to manage customers with considerable buying power. These are customers whose priorities are to maximize consumer footfall through branding, formats, location, space efficiencies and category management as well as cost-effective logistics and keen buying terms to grow and thrive.

An understanding of the purchasing behavior of regionally organized channel managers in terms of competing for retail shelf-space and negotiating competitive terms will be critical.

These skills in key account management already exist in markets such as the UK and the Netherlands. Yet, while many international companies are adopting these skills across Europe as a whole, the majority of OTC medicine manufacturers still need to make a strategic shift.

For executive summary and table of contents - OTC Distribution in Europe – The 2005 Edition visit www.jamesdudley.info or email information@james-dudley.co.uk

A brief look at Self-medication in Hungary

Hungary joined the European Union in May 2004. The country has a population of 10.3 million.

The Hungarian market for non-prescription pharmaceuticals is worth around €231million at MSP in 2004 and has grown by almost 144% since 1999.

One of the principal reasons for this has been the growth in brands. In 1997 there were some 504 brands of non-prescription medicines. By 2002 this had grown to 685 and by 2003 had reached 844.

The OTC medicines sector in Hungary is worth a little over €187 million in 2004 or 85% of total non-prescription bound medicine sales. The Hungarian OTC medicines sector has grown some 185% since 1999.

Pain Relievers Showing best Growth

Hungary non-prescription Sales - Pharmacies - % Split by Major Category (Value) 2003 Hungary

Category	% Share
Digestives and VMS	29.1
Pain Relief	20.0
Skin Care	8.3
Respiratory	5.0
Others	37.7
Total	100.0

Source: MAGYOSZ/MIS Consulting Ltd

Pain relief products have shown the strongest growth at 44% between 2001 and 2003. Cough and cold products produced 34% growth over the same period. Both the digestive and skin care categories grew more slowly at 24% and 26% respectively.

Top OTC Medicine Players - Hungary

The top ten suppliers of non-prescription medicines in Hungary account for almost 65% of sales. The overall leader is Sanofi-Synthelabo with 16%. This company markets Algopyrin, which is the leading, general pain relief brand in Hungary.

Algopyrin accounts for about 45% of the company's non-prescription medicine sales.

Main Competitors Non-prescription Medicines in Hungary

Company	% Market Share 2003 (Non-prescription Medicines)
SANOFI-SYNTHELABO	16.1
NOVARTIS	8.5
BERES	7.4
TEVA	6.8
GEDEON RICHTER	5.9
SERVIER	4.9
ROCHE*	4.3
BAYER*	3.9
GLAXOSMITHKLINE	3.6
WYETH	3.2
OTHERS	35.4

* Bayer acquired Roche's Consumer Division in 2004

Source: medotceurope.com, GlaxoSmithKline 2004

Up until 1997 there were about eighty pharmaceutical wholesalers in Hungary, which accounted for almost 75% of turnover. By 2004 most of these had disappeared leaving just seven main players. Even so, Hungaropharma and Phoenix account for 78% of pharmaceutical wholesale share in Hungary.

All retail pharmacies in Hungary are now privately owned. There are 2,030 independent pharmacies in Hungary 2004. In 1990 there were just 50 private pharmacies. By 1994 there were just 300.

Today large pharmacies and city pharmacies represent some 77% of the retail pharmacy market and around 750 village pharmacies in rural areas account for 18%. The largest pharmacies, however, are the 22 situated in hypermarkets. On average these generate three times the sales of city pharmacies.

For more information on Hungary and other European markets for non-prescription and OTC self-medication as well vitamins, minerals and supplements visit www.medotceurope.com

Events

Budapest Marketingpirula LIVE - 24th of March

"How can we create value in the pharmaceutical industry?" Is it an easy question? By building brands, visiting doctors, doing market research, using modern sales tools in the pharmacies, or something else? Marketingpirula, the leading pharmaceutical marketing magazine in Hungary is organizing a conference Marketingpirula LIVE on the 24th of March in Budapest, where the industry's experts: top leaders of local pharmaceutical companies, communications managers, local and international consultants will give their thoughts on the topic.

Among the main speakers' topics are: **Beke Zsuzsa**, Richter Gedeons PR manager will talk about how Richter Gedeon became a successful multinational company, **Leitner György**, GlaxoSmithKline's local GM, gives his thoughts about brand building. Leading European consultant, **James Dudley's** presentation will be about creating value through extending the products life after the patent expires. **Robin Skelding**, editor of Pharmaceutical Marketing Europe will talk about Rate of Investment and show some successful UK case studies.

The conference will provide not only the opportunity to hear some interesting thoughts and gain new insights, it will provide a good opportunity for the industry to meet each other. See further details on the web site www.marketingpirula.hu.



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LAUNCH OF MEDOTCEUROPE.COM

James Dudley Management, one of the leading strategic marketing consultants specializing in self-medication and consumer healthcare in Europe, announced the launch of a new information web site medotceurope.com in November. James Dudley Management has been working on medotceurope.com for over twelve months to put the company's market information services into an Internet format. www.medotceurope.com

James Dudley Management is a knowledge-based strategic marketing consultancy founded in 1989 and has been publishing strategic studies and market reports for the European consumer healthcare industry for over 15 years.

"We are not only putting our European OTC medicines market reports into an electronic format with medotceurope.com the site also provides:

- Individual OTC (self-medication) category market data snapshots
- Sections of our market report series 'Self-medication in Europe'
- Country briefings on Europe's OTC self-medication (non-prescription medicines) and vitamins, minerals and supplements markets

Furthermore, there are specific important papers on current topics such as Rx to OTC switching and issues regarding OTC self-medication markets in Europe that would not otherwise find circulation", says James Dudley, founder of James Dudley Management.

The company is at pains to stress that the new James Dudley site - medotceurope.com is not a reseller site. It is the knowledge base of James Dudley Management. There is no subscription fee, users can buy the information services they need online and download immediately.

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