

Market Research

Online OTC market continues to evolve

Germany and the UK now share 80% of Europe’s mail order and online pharmacy market for non-prescription products worth almost €3 billion, according to a new European study published by James Dudley Management. OTC medicines account for over a third of this market, the study adds, with the remainder from other non-prescription pharmacy products.

The report – *Mail Order and Internet Pharmacy in Europe 2017: Reaping the Benefits of an Omnichannel Presence*, which covers 17 European countries and includes key learnings from China and the US – found that the online pharmacy market in Europe has split into three distinct groups in terms of development: mature; developing; and entry.

Using sales of non-prescription products – which represent the bulk of online medicines sales in Europe – Germany and the UK are the most mature markets with mail order and internet pharmacies holding over a 10% share of sales of non-prescription products.

Austria, Norway, Poland and Sweden are classified as developing with non-prescription market shares of between 4% and 10%, while entry-level markets with shares of under 4% include Belgium, Bulgaria, Czech Republic, Denmark, France, Hungary and the Netherlands.

Earlier this century, there was a shift in the regulatory environment in favour e-commerce in retail pharmacy, OTC market strategist James Dudley points out.

This resulted from the combined effects

of entrepreneurial drive, case law from the European Court of Justice, European Union (EU)-driven directives and cross border trade, he adds, noting that most of the players in the market have accepted the status quo and evolved within the established framework.

As a result of differences in direct regulation governing the distance marketing of registered medicinal products, and more general rules governing pharmacy establishment, the digital retail landscape has split two ways:

- The first split is between the regulatory conditions of different European markets. They divide the sector between countries allowing a full range of pharmacy services, including prescription fulfillment, and those which restrict mail order and internet pharmacy to non-prescription medicines and parapharmacy products only.

- The second split is in the way pharmacy groupings in each market are developing strategies to respond to e-commerce in the retail sector overall. In those markets where there are substantial, wholly-owned retail drugstore and pharmacy chains, there is a trend towards omnichannel retailing whereby e-commerce is transforming traditional ‘bricks and mortar’ business. Where this is unfolding, ‘pure play’ entities tend to struggle. But where chains are either non-existent or are unresponsive to the incursions of ‘pure-play’ competition, these entities appear to thrive.

Hence country markets can be split between



James Dudley

those which are evolving omnichannel retailing – where e-commerce and traditional retailing are merging – and those where a clear distinction persists (see Figure 1).

The UK and Germany illustrate the different approaches vividly, Dudley says, with the UK accounting for nearly €1.5 billion of Europe’s mail order and online non-prescription pharmacy market in 2015, mostly with an omnichannel retailing approach. Meanwhile the German model, with sales of over €1 billion, has predominantly ‘pure play’ retailing by stand-alone online businesses.

With companies like Walgreens Boots Alliance (WBA) and LloydsPharmacy (Celesio McKesson) leading the way, the UK has a 45% share of the European mail order and online pharmacy market, the report says, thanks to a ‘clicks and bricks’ approach by the country’s retail pharmacy chains (see Figure 2).

Integrated services

“Retail pharmacy chains have integrated online services and mobile applications into their traditional offer to provide shoppers with greater and more rapid access to the retail brand. This includes stock availability advice and display, backed by real-time inventory data and effective logistics,” observes Dudley.

“This omnichannel approach combines the physical and digital elements of the offer along all the touch points of the retail brand,” he adds, noting that operations like Apoteket in Denmark and Poland’s Apteki Dbam o Zdrowie – I care for my Health – are developing their own approaches to multi-channel pharmacy retailing.

With a total European market share of more than a third, Germany is the largest ‘pure play’ mail order and online pharmacy market in Europe. Online firms like DocMorris – owned by Switzerland’s Zur Rose – generate over 90% of e-commerce-generated sales.

For historical reasons, related to Germany’s ban on large pharmacy chains, more than half of the German ‘pure play’ market is concentrated into two foreign-owned companies, the report

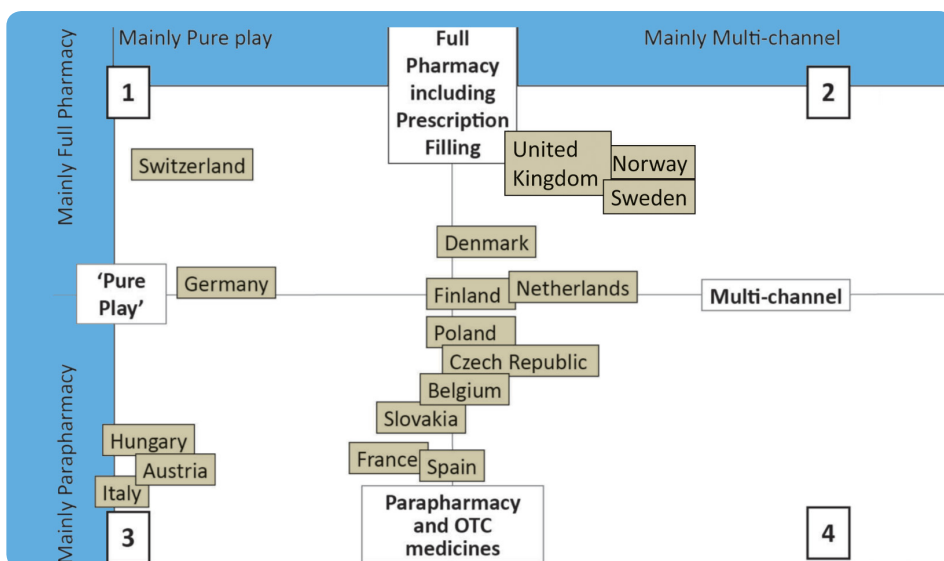


Figure 1: Matrix showing the evolutionary splits in the mail order and internet pharmacy landscape (Source – James Dudley Management)

notes, namely Zur Rose and Europa Apotheek Venlo (EAV) of the Netherlands with its Shop-apotheke brand.

With a turnover in excess of €400 million, it adds, Doc Morris leads the top-12 largest 'pure play' internet pharmacies in Europe, which together had sales of more than €1 billion in 2015.

The developments in Europe, Dudley points out, contrast with the market in the US, which has been built on a prescription-based online model developed by Pharmacy Benefit Manager (PBM) companies.

Prescription pharmaceuticals drive the US mail order and internet pharmacy sector and account for over 80% of the channel's sales, Dudley explains, with the channel's growth largely thanks to PBMs, the largest of which have built their own mail order and internet pharmacies to compete with their participating retail pharmacy networks.

Furthermore, PBMs represent a consolidating sector that competes on cost, he adds. Mail order is the most economical form of distribution for filling 90-day prescriptions for patients with chronic conditions, hence the reason PBMs recruit customers to use the channel.

As a result, PBMs have been ahead of the drugstore chains in developing mail order and online services.

The stated aim of retail pharmacy chains in the US, such as Walgreens, is to squeeze more profit out of their portfolios, Dudley says, a goal they are aiming to achieve by increasing the turnover of higher margin non-pharmacy front end merchandise such as cosmetics and OTC medicines.

Mail order will play a key role in supporting this development, he states.

US retailers, Dudley notes, are bringing to-

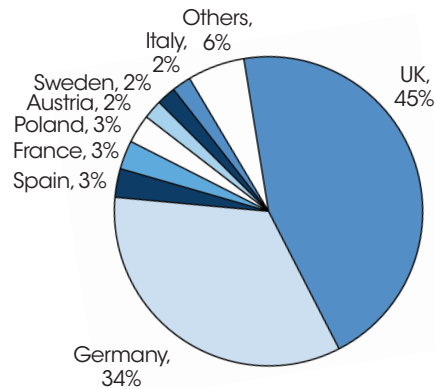


Figure 2: National shares of Europe's mail order and online pharmacy market for non-prescription products worth almost €3 billion in 2015 (Source - James Dudley Management)

gether the different benefits offered by their physical stores, online models and mobile applications and blurring the differences between e-commerce and traditional in-store retailing.

Consumers today, he adds, are shopping wherever and however they are able to obtain the goods and services they want.

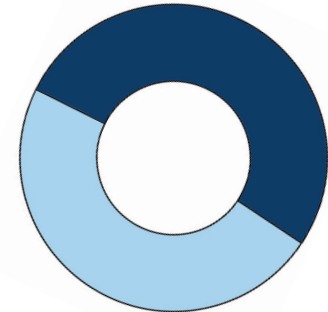
Consumers are driving the growth of digital and mobile technologies, the study points out, with WBA's websites alone receiving an average of around 68 million visits per month.

This has resulted in the development of omnichannel retailing, Dudley says, namely the integration of online and mobile technologies into a seamless shopping experience along all the touch points of the retailer's brand.

This trend, he points out, is becoming established in the US and is one that is spreading to other markets, such as the UK.

The study has also looked at the rapidly developing Chinese mail order pharmacy market, noting that online e-commerce has primarily been driven by the expansion of mobile net-

52% of Chinese smartphone users do not use device to shop



48% of Chinese smartphone users use device to shop

Figure 3: Proportion of China's 600 million smartphone users who use their device to shop online (Source - James Dudley Management)

works, which are fast becoming the way Chinese consumers access the online world.

There are already 650 million smartphone users in China – a figure which is set to rise to 700 million by 2018, the study shows, adding that 48% of Chinese smartphone users employ the device to shop, compared to 33% in the US (see Figure 3).

Online pharmacy barely existed in China until earlier this decade, Dudley says, but in the past few years it has grown rapidly and now accounts for over CNY7 billion (€957 million) – around 3% – of all retail medicines sales.

Unclear regulatory environment

However, whether this fast rate of growth will continue remains to be seen, Dudley warns, given that the unclear regulatory environment has stifled plans by some of the country's largest online retailers to expand their offering into the online pharmacy market.

Noting that to operate an online pharmacy in China, a company must hold a Internet Drug Transaction Service Qualification Certificate issued by the Chinese Food and Drug Administration (CFDA), Dudley points out that in May last year, the regulatory picture became cloudier, when the Hebei provincial branch of the CFDA issued an "urgent" directive halting OTC sales via third-party platforms.

Despite the uncertain regulatory environment, it seems unlikely China's online pharmacy market will fail to take-off, Dudley says, especially given that the world's biggest retailer, the Alibaba Group, recently entered the space with the purchase of a pharmacy chain with an official online retailing licence.

Furthermore, one of China's biggest pharmaceutical wholesalers and distributors Shanghai Pharma is establishing an omnichannel pharmacy presence in the world's fastest-growing online market through a deal with Alibaba rival, Jingdong Mall.

More details available at james-dudley.co.uk OTC

Regulatory Affairs

US issues supplements plan

The US National Institutes of Health's Office of Dietary Supplements (ODS) has outlined the four key areas it wants to tackle in a new strategic plan for the 2017-2021 period.

In the document titled *Strengthening Knowledge & Understanding of Dietary Supplements*, the ODS says that the five-year plan "captures the momentum of current ODS programmes and activities" and is flexible enough to cover any public health research opportunities that emerge during the period.

The four key goals outlined in the plan are:

- Expand the scientific knowledge base on dietary supplements by stimulating and supporting a full range of biomedical research, and developing and contributing to collaborative initiatives, workshops, meetings and conferences.

- Enhance the dietary supplements research workforce through training programmes and career development.

- Foster development and dissemination of research resources and tools to enhance the quality of dietary supplement research.

- Translate dietary supplement research findings into useful information for consumers, health professionals, researchers and policy makers.

Expanding on how the ODS will better inform consumers about the risks and benefits of supplements, the plan notes that mobile versions of the Dietary Supplement Label Database will be rolled out to "enhance consumer access".

The full strategic plan document can be downloaded from the ODS website: <https://ods.od.nih.gov/About/StrategicPlan2017-2021.aspx> OTC