



# CONSUMER HEALTHCARE: COVID-19 IMPACTS AND OBSERVATIONS



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## Table of Contents

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Introduction.....	2
COVID-19 Impact on Public Health and the Economy.....	3
Historical Perspective: Recession and Consumer Healthcare.....	5
Current Market Situation.....	7
Consumer Behavior in Light of COVID-19.....	8
At the Peak.....	8
Beyond the Peak.....	9
Outlook and Forecast.....	10
Summary.....	12
About the IRI/Kline alliance.....	12
About IRI .....	12
About Kline & Company.....	13

## Introduction

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The unprecedented crisis of the coronavirus (COVID-19) outbreak has affected the U.S. population in profound ways that seem to change daily. From early to mid-March 2020, the country began social distancing policies, with more stringent “shelter-in-place” orders enacted across much of the country by early April. With that, schools, colleges, restaurants, lodging establishments, office buildings, some industrial facilities, recreational facilities, and many non-essential government facilities closed, and a unique recessionary/boon economy (for some) ensued. Much of this patchwork mixture of experiences continues in November as we experience a resurgence of the virus in the United States.

How has this impacted Consumer Healthcare (CHC) practices and product sales patterns? What will the future bring? In this short paper, we assess the possible impact on the consumer healthcare market, a space with which both Kline and IRI are deeply familiar, having tracked the industry for decades. For clarity, we’ve looked at the impacts of COVID-19 on the consumer healthcare market, defined as nonprescription or OTC drugs, dietary supplements, and devices used by consumers to manage their health.

# COVID-19 Impact on Public Health and the Economy

Since the outbreak began in March 2020, our health and economy have been in crisis, as depicted in Figure 1.

### HEALTH CRISIS

- Social distancing
- Shelter-in-place
- Masks
- Panic shopping/pantry loading
- Putting off healthcare/medical

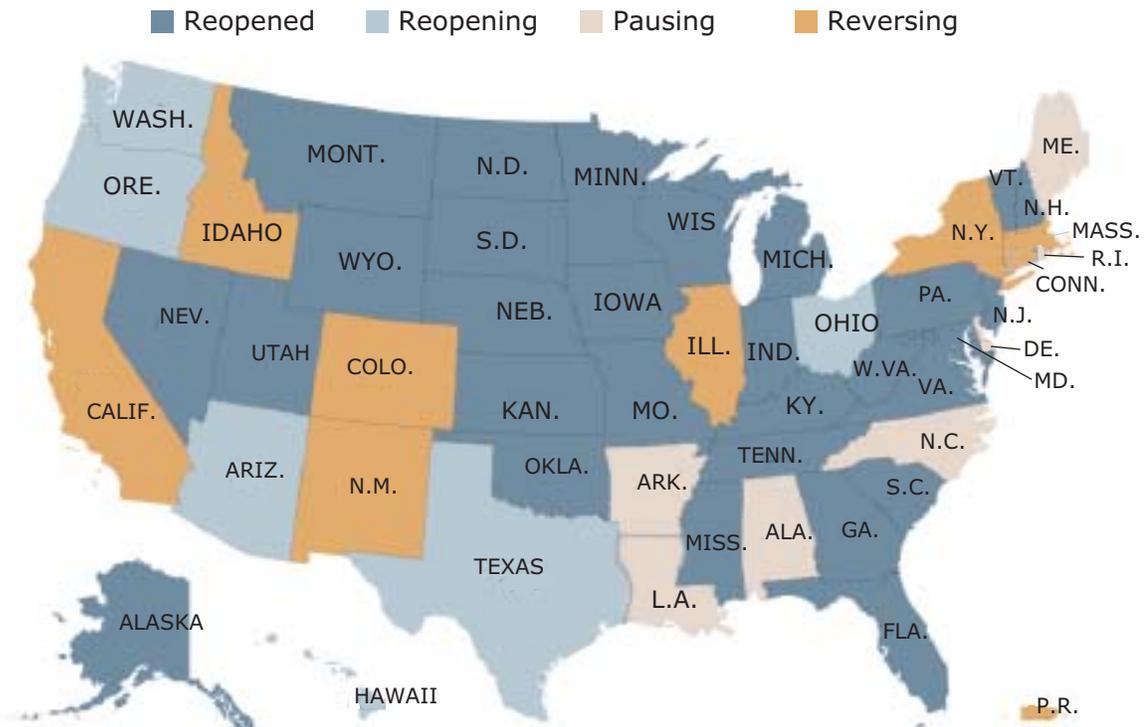
### ECONOMIC CRISIS

- Business closures
- Unemployment rising
- Stock markets declining

## UNCERTAINTY, ANXIETY, STRESS, PANIC

As of November 2020, there have been 10.1 million cases of coronavirus reported in the United States, with more than 238,000 deaths nationwide. Worldwide, there have been 50.5 million cases reported and 1.3 million deaths. This upper-respiratory virus is easily transmitted and has a disproportionate effect on those over age 60 and especially on those with pre-existing conditions including heart disease, diabetes, asthma, emphysema, and obesity. The pandemic has resulted in worldwide lockdowns to slow the spread of the disease, with the U.S. lockdowns starting in March 2020. As of November 6, 2020, the United States remains in various stages of lockdown, with thirty states reopened and nine states in the process of reopening; meanwhile, seven are reversing, and four are "paused." See data below from The New York Times in Figure 2. Furthermore, a surge or second wave of cases is likely to occur this Fall.

FIGURE 2



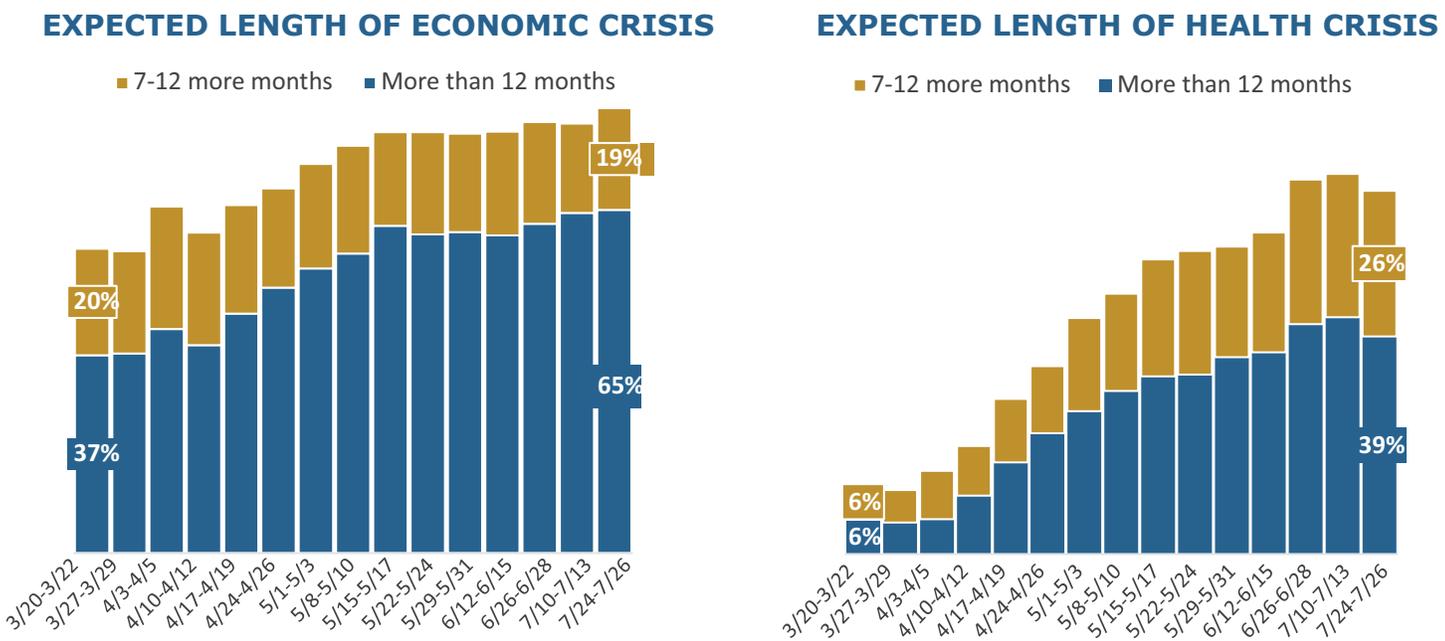
Source: *The New York Times* as of 11/6/20

The forced lockdowns in the United States have resulted in a recessionary period that is unusual, as it is characterized by high levels of unemployment with business closures. However, the blow to the economy has been mitigated somewhat by stock market rallies, stimulus spending by the government, and consumer stockpile spending on essential items, including many self-care categories. Consumers' COVID-19 concerns have risen as the number of U.S. cases surged in June and July, with expectations that both health and economic crises will last for 12 more months. With the current recession, induced via coronavirus lockdowns, we are seeing a juxtaposition of extremes when it comes to employment. Unlike past recessions, this recession has seen 22 straight weeks (into September) of both 1 million-plus filing for unemployment benefits and others remaining in stable jobs and feeling optimistic about their future financial situation. Recipients of the first stimulus payment spent it on groceries and everyday household essentials. Consumers report they will spend a second round of stimulus the same way.

According to the Bureau of Labor Statistics, the U.S. unemployment rate sits at 8.4% as of the end of August, which is up markedly from the 3%-3.5% rates seen in 2019 but less than the worst levels seen in April 2020 of 14.7%. As of September 5, 2020, there are an estimated 26 million Americans claiming unemployment benefits, according to the Department of Labor. There are also millions who have been furloughed by their employers in both the private and public sectors, and many small businesses have been forced to close permanently as a result of the pandemic. Despite the U.S. economy being very strong pre-COVID with unemployment around 3%, it is now at over 10% unemployed and may continue to rise. Americans expect the economic downturn to continue to have an impact for many months and possibly years, along with the health crisis which generated it, per the data in Figure 3.

FIGURE 3

**Americans Are Bracing for Even Longer Duration, as 65% and 39% Now Expect the Economic Crisis and Health Crisis to Last Over 12 More Months, Respectively**



## Historical Perspective: Recession and Consumer Healthcare



The consumer healthcare market is need-based, and even in tough economic times, consumers still require OTC pain relievers, cough and cold medications, digestive products, dietary supplements, etc. However, when the economy is in a recession, the impact on the consumer healthcare market often comes via consumers increasingly opting for lower-priced, private-label products or store brands. The data in Figure 4 show the impacts of various recessions on private-label market share of the U.S. OTC market dating as far back as 1980. Since that time, store brands have evolved and matured to account for better than 20% penetration in many consumer healthcare categories. This penetration has been driven by several factors. First, market leader Johnson & Johnson's widespread recalls of brands such as Tylenol, Tylenol Cold, Benadryl, and Zyrtec caused many consumers to switch to store brands when these national brands were not available between 2009 and 2015. Second, store brands have strong reputations among consumers and are promoted alongside national brands by retailers, making Costco's Kirkland, Walmart's Equate, and Target's Up&Up brand, among others, ubiquitous and viewed by consumers as lower-priced "brands" on par with the quality of national brands.

To date, we have not seen an overall shift toward private-label or store-brand CHC products similar to the micro shift observed in 2008-2009 (see Figure 4). However, as economic uncertainty grows, preference for store brands may increase, as we have seen historically.

The share of sales that private label and store brands account for is 26.3% (YTD through 9/6/20) compared to 26.7% a year ago, relatively flat overall.

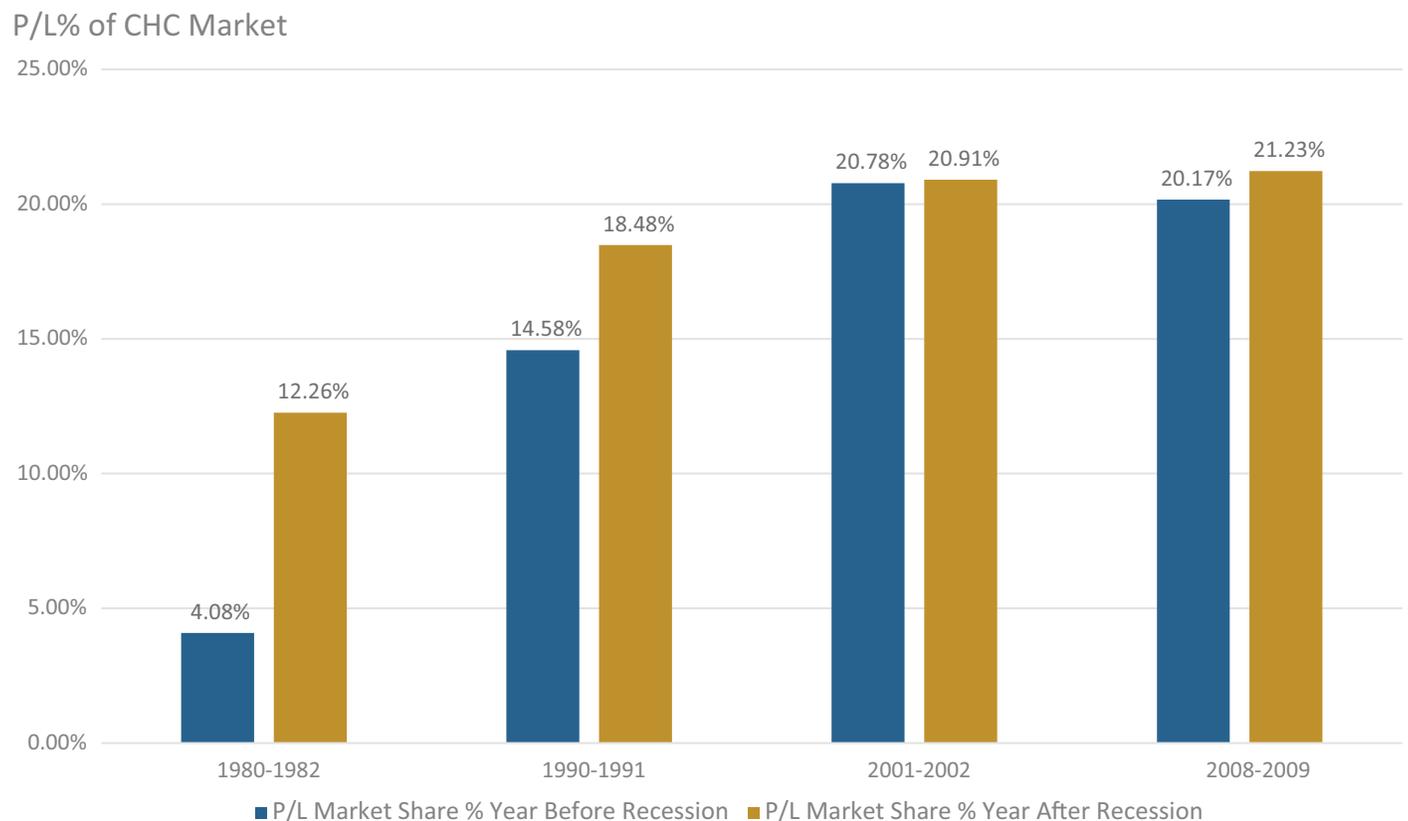
But similar to the wide range of personal experiences of citizens in this pandemic, we do see certain CHC product categories that have greater PL sales growth rates and penetration versus the CHC industry average during this period. These include:

- Single-entity vitamins/supplements
- Internal analgesic tablets/capsules
- Antacid tablets
- Laxative liquids/powders
- Personal thermometers
- Heating pads
- Sleep tablets/liquids
- Blood pressure kits
- Diabetes accessories/lancets

Not only are these categories emblematic of the high demand driven by the pandemic, but their pricing and the store brand strength prior to the pandemic factor in as well. Also, the increase in private-label products in these categories may also have been spurred in part by branded out-of-stocks.

FIGURE 4

### IMPACT OF RECESSION ON OTC MARKET



Source: Kline & Company's Impact of Recessions on the U.S. OTC Market

## Current Market Situation

Overall, the consumer healthcare market has grown 6.6% through September 6, 2020 year to date versus the same period in 2019, about three times the pre-pandemic growth rate. The increase this year has been driven by strong double-digit growth for nutritional supplements, sleeping aids, and select respiratory and analgesic items. Within the dietary supplement segment, consumers have boosted the use of multivitamins; vitamins B12, D, and C; minerals including zinc, magnesium, and calcium; herbs elderberry and echinacea; and probiotics to maintain wellness. The respiratory and analgesics categories are also growing at faster-than-normal rates as consumers loaded their pantries with these products earlier in the year, anticipating that they might get sick.

The external analgesics category has been growing in low double-digit annual rates recently, but this category saw an even greater boost in 2020 with the launch of GSK's Voltaren topical NSAID gel in Q1 2020. Below, in Figure 5, are IRI sales data for the consumer healthcare market for the 52 weeks ending September 6, 2020.

How long is this kind of consumer behavior likely to continue? Will some of these behaviors become permanent?

FIGURE 5

### Retail Sales of Consumer Healthcare Market, 52 weeks ending 9/6/20

Select Brand Categories	Sales, \$ million	% change from year ago
Sleeping aids	1,173.6	24.5
Nutritional supplements	12,764.5	10.9
Ear care	259.8	9.6
Internal and external analgesics	5,388.8	7.3
<b>Total consumer healthcare</b>	<b>65,884.0</b>	<b>6.6</b>
Respiratory	9,496.4	4.2
Miscellaneous-a	9,003.9	4.1
Sexual health	1,060.1	4.4
Gastrointestinal	4,888.4	3.3
Feminine products	3,983.8	2.7
Oral care	9,089.0	2.4
First aid/skin	6,011.8	1.5
Smoking cessation	1,013.0	(0.8)

SOURCE: IRI Multi Outlet sales, 52 weeks ending 9/6/20.

a- Includes antiperspirants, adult incontinence, eye/lens care, humidifiers/vaporizers, personal thermometers, foot care, lice treatments, electric heating pads, Epsom salts, motion sickness products, hair growth products, caffeine tablets, boric acid, drinking-water germicidal tablets, bedwetting remedies, salt tablets, and thumb-sucking remedies.

## Consumer Behavior in Light of COVID-19

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### Enormous & Rapid Change

Since the pandemic hit the United States, we have seen unprecedented consumer behavior changes—so much so, we believe there is no amount of advertising or innovation that would have ever caused such drastic changes in purchase patterns and product selection. We note:

- Increased engagement in self-care to the point where nearly all previously unengaged consumers now have a proclivity to practice self-care to a degree. Even consumers who were not in the habit of regularly buying items like supplements or sanitizing products are now engaging with these categories.
- Stockpiling
- Immune enhancing/home-cleaning items used more regularly
- Shift to online buying
- Cost-conscious consumers looking for value
- Preference for safe shopping in clean stores
- Less browsing, more sticking to lists and getting out of brick-and-mortar stores quickly
- Out-of-stocks frustrating consumers

### At the Onset

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In March/April, we have seen strong demand from consumers with a broader behavioral response to take care of themselves. Many consumers have loaded their pantries with self-care products and are focused on immunity and prevention. Also driving gains are new consumers entering the market with a strong focus on health and keeping family members safe. Online shopping has also increased during the shelter-in-place mandate, even for CHC products as a whole, now hovering around 20% of sales.

Furthermore, pantry-loading of OTCs and supplements has driven sales of these products up by higher-than-usual growth rates. For example, in March 2020, 19% of consumers stockpiled OTCs even though no one in their home was sick. By July 2020, consumer pantry loading of OTCs was still occurring but had fallen to 9%. We have also seen increased sales of supplements and We have also seen increased sales of supplements and probiotics as consumers seek to stay well and fight infection.

This is being driven by regular supplement users taking these products in higher doses or more frequently than they had prior to COVID-19 but also from new users entering the category. IRI's consumer research reveals that in March 2020, 15% of consumers were buying more wellness products such as vitamins and probiotics; by July 2020 this was still at 11% of consumers, as noted in Figure 6.

FIGURE 6

Category	% of consumers stockpiling	
	March 2020	July 2020
OTC medicines	19	9
Supplements (e.g. vitamins, probiotics, herbal products)	15	11

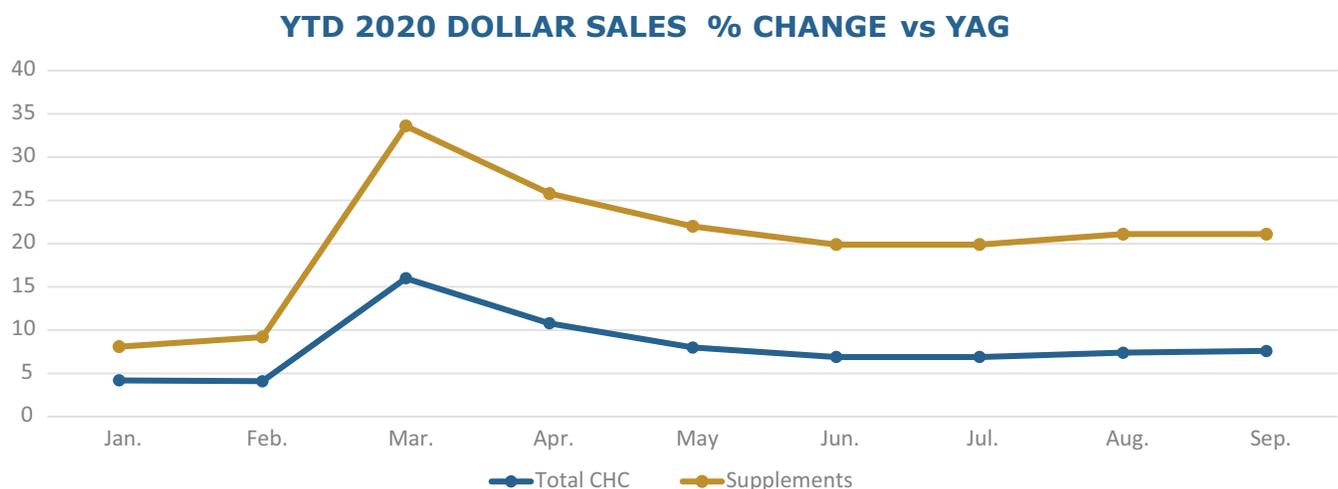
Source: IRI Consumer Trends, August 2020

## Summer and early Fall

Market data from IRI also support the fact that consumers are still using immune-enhancing products on a fairly regular basis. However, when it comes to OTC categories that offer treatment—such as pain relievers and upper respiratory products like cold medications, cough syrups, and allergy medicines—consumer purchases have not sustained the high gains seen during the beginning of the outbreak. In fact, many consumers loaded their pantries with these products in March and April, but consumers weren't as sick as they anticipated, leaving medicine cabinets stocked with treatment items. Take note of the monthly growth rates below for the overall consumer healthcare market; they were up significantly in March and April but then fell below 8% from May through September. In contrast, the supplements market also experienced tremendous growth in March of over 17%, but its growth rates have remained consistently higher-than-usual, hovering at or close to 14% from April through September. These growth rates are consistent with the consumer trend that is focused on prevention and wellness, perhaps leading to a reduced need for treatment categories.

Below, in Figure 7, we can see that nutritional supplements are growing at a faster pace than the overall CHC market driven by of daily use and focus on prevention.

FIGURE 7



Source: IRI MULO sales data through 9/6/2020

## Outlook and Forecast

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Overall, we expect the consumer healthcare market to show stronger-than-pre-COVID growth in the foreseeable future and certainly while the threat of COVID-19 remains. However, some categories will benefit more than others during this time. Once an effective vaccine is available, likely sometime in the first half to middle of 2021, and given to much of the population, we expect to see the market return to more normal low single-digit growth rates toward the second half of 2021 or early 2022. The pantry-loading of certain categories that has been fueling strong gains during 2020 and potentially part of 2021 will eventually lead to flatness in categories such as upper respiratory products and pain relievers. Typically, the cough, cold, and flu (CCF) category season is a key driver in the sales growth of the total CHC market due to its commanding size.

That said, during the fourth quarter of 2020 and first quarter of 2021, we expect to see a weaker cold and flu season for several reasons:

- More Americans are likely to get the flu vaccine this year to avoid illness, especially those in high-risk groups.
- Social distancing, fewer crowds, masks and the use of technology to enable more virtual events will make it harder for the flu virus to spread.
- The pandemic has caused many K-12 schools to remain physically closed and offer remote learning through October and November, the prime time for flu incidence to ramp up. Schools have long been recognized as one of the key incubators for the spread of CCF viruses and often the kick-off to CCF symptom incidence annually. Fewer students physically present at schools should translate to less CCF.
- Many colleges and universities are also only offering remote learning, which will further hamper the spread of cold and flu viruses during the fall of 2020 and winter of 2021.

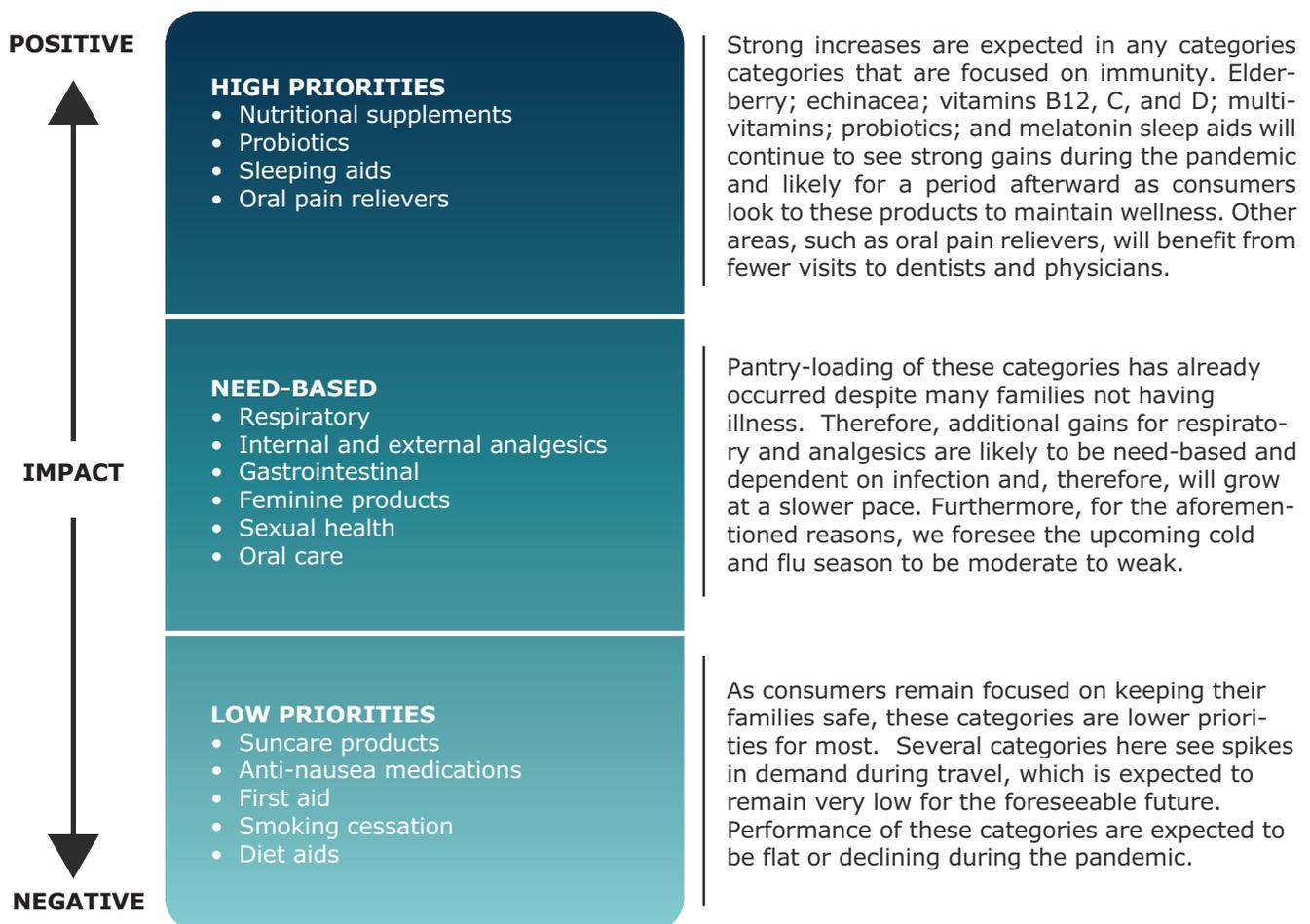
Reduced incidence of CCF symptoms has already been observed in Australia, where the 2020 flu season is practically over. The rate of flu infections there was down dramatically by 91%, with 21,000 cases reported in 2020 compared to 247,000 flu cases in 2019. Australian officials point to increased flu vaccinations (18 million doses were given in 2020 compared to 13 million doses in 2019) and social distancing measures plus mask-wearing as contributors to the drastic reduction in the number of flu cases. According to Ian Barr, Ph.D., deputy director of the WHO Collaborating Centre for Reference and Research on Influenza based in Melbourne, Australia, the reasons for this include “all the measures which have been taken for COVID-19: the social distancing, the low circulation of people, hand hygiene, now mask-wearing and one of the big ones, I think, is school closures.” While the Australian experience can’t be directly translated to the U.S. market, it is reasonable to think that this reduced rate of flu is possible during our upcoming flu season, depending on flu vaccine rates and social distancing compliance.

Therefore, in the U.S. market, we foresee a slowdown in growth rates of some OTC categories, such as upper respiratory products. Furthermore, we expect to see strong demand for any products that enhance immunity, even after there is a vaccine for COVID-19. We believe this buying habit/behavior is likely to persist for many consumers as a key element of their commitment to self-care. Nutritional supplements, probiotics, and herbal products are likely to continue to grow at a strong pace well into 2022. Also, several byproducts of the pandemic and the prolonged lock downs including more stress and anxiety, more insomnia, less exercise, increased screen time,

and fewer visits to physicians. These are expected to increase consumers' reliance on nonprescription drugs and consumer healthcare and increase the amount of self-treatment (when needed) during the pandemic. Consumers are likely to continue to shop for essentials like OTCs and supplements online as well as at their local grocery stores or pharmacies as they value one-stop shopping. Manufacturers of CHC brands that provide a steady supply to these selling partners are likely to benefit from consumers' tendency to do contact-less and one-stop-shopping and will be less susceptible to competitive national brand or store brand substitution.

Several consumer healthcare categories that are tied to travel, vacationing, sports, and recreational activities have been negatively impacted since the pandemic began; they include suncare products, anti-nausea/motion sickness medications, and first-aid products. Since Americans are staying at home more and have greatly reduced travel, there is less need for these products. Also, some lifestyle categories seem to be a lower priority for consumers, including smoking cessation aids and diet aids; we expect this trend to continue during the pandemic. Below are our hypotheses on how we foresee CHC categories faring through this pandemic and, likely, into the better part of 2021:

FIGURE 8



## Summary

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The coronavirus pandemic is expected to continue to impact the U.S. market for many months and will result in increased self-treatment and consumers who embrace prevention and wellness. Categories that enhance immunity and/or help with sleep, stress, or anxiety such as vitamins, herbal and mineral supplements, and probiotics are expected to see stronger than usual sales and growth. Other categories that address symptoms of upper-respiratory infections such as internal analgesics and cough and cold medicines are expected to decelerate at a slower pace based on the assumption that there will be less cold/flu this season. A preference for purchasing through food stores, value chains, and clubs will continue (both brick-and-mortar and online), as a portion of consumers will be price-sensitive, and most consumers will continue to seek one-stop-shopping to limit exposure to COVID-19 and other viruses.

## About the IRI/Kline alliance

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Information Resources, Inc. (IRI), the global leader in innovative solutions and services for consumer, retail and over-the-counter healthcare companies, and Kline & Company, a global market research and management consulting firm, have established an exclusive alliance to service the worldwide, over-the-counter drug and overall consumer healthcare industries. This powerful alliance will provide a higher level of data accuracy and an unparalleled, global range of thought leadership on stimulating topics in the consumer healthcare space.

As part of this collaborative relationship, IRI will contribute its granular, widely recognized, point-of-sale (POS) market data, related insights, and thought leadership. Meanwhile, Kline will provide its unmatched historical database, global network, and 360-degree view of the complex OTC drug market, including its comprehensive channel coverage and vast expertise in the area of Rx-to-OTC switches.

The collaborative thought leadership will manifest through white papers like this one on such topics as Rx-to-OTC switches, merger and acquisition activity, and new product innovation, as well as trends and issues in international and emerging markets within the OTC drug industry.

## About IRI

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IRI is a leader in delivering powerful market and shopper information, predictive analysis, and the foresight that leads to action. IRI goes beyond the data to ignite extraordinary growth for clients in the CPG, retail, and especially in the OTC healthcare industries by pinpointing what matters and illuminating how it can impact their businesses. Experience the power of IRI's mantra "Growth Delivered" at [IRIworldwide.com](http://IRIworldwide.com).

## About Kline & Company

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Kline is a worldwide consulting and research firm dedicated to providing the kind of insight and knowledge that helps companies find a clear path to success. The firm has served the management consulting and market research needs of organizations in the life sciences, consumer products, agrochemicals, chemicals, materials, and energy industries for more than 60 years.

For more information, visit [www.KlineGroup.com](http://www.KlineGroup.com).

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