

IRI MID-YEAR REPORT: OTC PHARMACY

By James Guild, Group Account Director, IRI.

Market dynamics

The Australian over-the-counter pharmacy sector surpassed \$8 billion in sales in 2019, with value sales increasing by two per cent per annum (MAT to 19/5/19). Growth is more subdued than in previous years, although front-of-store sales have added an incremental \$539 million over the past two years.

Growth in the OTC pharmacy market continues to be primarily driven through the discounter/big box operators. For the first time in four years, it seems even these operators are not secluded from the overall slowing rate of growth in this market.

The notable slowdown in growth is observable across four of the top six categories: natural health, baby care (infant formula), analgesics and cough and cold. These categories collectively account for 40 per cent of annual OTC pharmacy sales, and while all are in growth, the increase versus prior year is \$170 million less (MAT to 19/5/19). With the preliminary view of June data, we are expecting a noticeable turnaround in the short term for the cough and cold category with the flu season in full swing and arriving earlier than expected.

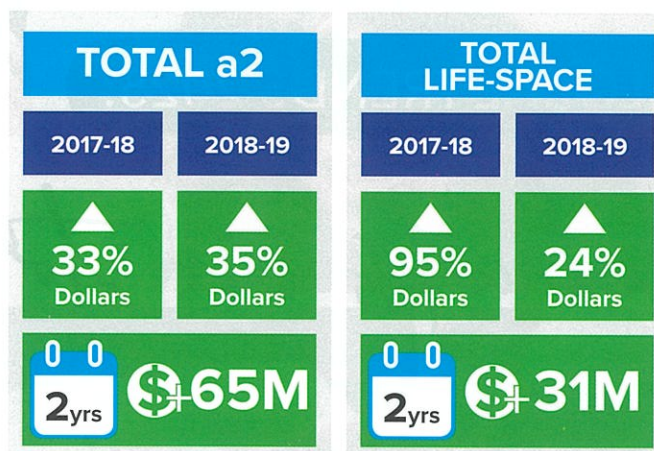
Health continues to sustain its position as the largest business unit within the OTC pharmacy channel, with a current annual value of \$4.7 billion. The beauty department is valued at \$3.3 billion, and the 'catchall', general merchandise, currently sits at \$100 million pa.

Beauty outperforms health in its rate of value growth within the latest year. Key contributors to beauty's growth are skin care (facial and eye) and fragrances (male and female). The growth in skin care (eye) is most encouraging and currently growing at 18 per cent versus prior year, with products such as Swisse Argan Anti-Ageing Eye Cream a notable standout.

Exports snapshot

IRI uses proprietary advanced modelling techniques to identify and calculate individual product level domestic sales. This solution enables IRI and its customers to identify domestic demand and the growth being driven through non-domestic sales (export). Over the past two years non-domestic sales have been a large contributor to overall growth in the sector. This growth has notably slowed in the latest year, but overall continues to add an additional \$102 million of value to the channel.

Natural health, skin care, fragrances and infant formula account for \$63 million of non-domestic sales growth. The well-known a2 platinum infant formula continues to sustain



remarkable levels of growth, with non-domestic sales a key element to success.

Brand highlights: drivers of growth

When identifying drivers of growth and themes contributing to growth in the sector, there is a clear path to growth at an overall level. Premium ingredients at affordable prices drive growth: a familiar trend we see occurring not only in the OTC pharmacy sector, but also more broadly in the grocery and petrol and convenience channels.

Some stellar examples that highlight this theme are:

- Ego. Continues to record growth well over the industry average, with retailer exclusive SKUs. Brand growth has been consistent at seven per cent in the past two years.
- Swisse Manuka Honey Detoxifying Facial Mask and Argan Anti-Ageing Eye Cream. These are in triple-digit growth, the latter a top five growth SKU within total skin care.
- Life-Space. Has soared with a local and China focus, increasing sales by more than \$31 million in the past two years. The branded Life-Space Zone within Chemist Warehouse reflects the strength of the brand sales and demand.

Final thoughts

For brands and retailers to win in the OTC pharmacy sector they need to deliver on simple and virtuous proposition at an affordable price – underpinned with a product experience that is both natural and technical in terms of efficacy.



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