

Building blocks for OTC growth

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The 'BRICs' promise to offer the best opportunities for the OTC healthcare industry, both for international players looking to expand geographically and for domestic players looking to boost sales, according to new research from Euromonitor International.

Brazil, Russia, India and China (BRIC) each have in common a large population, and a rapidly-growing middle class. Brazil and China both showed double digit growth in 2005, with a 20% and 11% increase in OTC value sales respectively; Russia and India showed significant but slower growth of 8% and 7%. Whilst this growth acceleration is amongst the highest in the world, the main drivers of growth differ for each country.

Wider distribution in Brazil

The driving force behind growth in Brazil's OTC healthcare market is wider distribution of OTC products. Since it is forbidden to commercialise OTC drugs in supermarkets/hypermarkets, grocery stores adopted the strategy of opening their own licensed drugstores inside their establishments. Although they are located inside supermarkets/hypermarkets, they compete with traditional drugstores, as they are considered separate entities that are legally registered as a drugstore. In turn, this has prompted an increased drive towards self-medication, as OTC products have become more readily available.

The ABIMIP (AssociaÃ§Ã£o Brasileira da IndÃºstria de Medicamentos Isentos de PrescriÃ§Ã£o) has found that Brazilian consumers are increasingly self-medicating. The research showed that 85% of all purchases were planned and 77% of those who purchased did not receive advice from pharmacists or shop assistants. This would imply that consumers are well informed about self-medication, as well as the branded products they purchase.

Russian spending power

OTC healthcare now constitutes 30% of all pharmaceutical expenditure in Russia. Despite the erratic economic fluctuations in the six years to 2003, consumer spending on pharmaceuticals and healthcare products soared by 37% in 2001 and 26% in 2002. In 2005, expenditure for OTC consumer healthcare products rose by 20% and consumer spending is only expected to increase further as GDP grows.

Currently, generics hold substantial ground in this market. However, Euromonitor International forecasts that higher consumer spending power will drive a move to branded products and prompt a decline in the generic product hold from 60% in 2005 to 48% by 2010.

Domestic manufacturing of OTC products in Russia holds a dominant position in this market. Russia's Beneficiary Drug Provision programme requires 70% of the drugs included in the beneficiary to be domestic, thereby prompting companies to consider partnership with local companies as an easier route to entry.

Relaxation of OTC laws in India

India's rapid growth to prosperity is well documented and the OTC market will primarily be boosted by the growing middle class. In addition, changes pending to Schedule K of the Drugs and Cosmetic Act will alter current sales legislation regarding consumer healthcare products. Subject to approval, the legislation is expected to bolster sales for aspirin, acetaminophen, analgesic balms, antacids, oral dehydration solution, gripe water, cough and cold treatments including inhalers, tetracycline-based ophthalmic ointments and low-dose hormonal contraceptives through non-pharmacy channels.

Self medication in China

The SARS outbreak in 2003 transformed Chinese consumers' attitudes to healthcare and underpinned consumers' growing preference to self-medicate. As a result, China's OTC market is expected to grow significantly over the 2005-2010 forecast period.

The competitive environment in China is complex and variable, however, with a plethora of domestic and large multinationals compete fiercely on price. Retail prices for OTC healthcare products declined in 2005 as a result of

increasing competition, government implementation of price controls and the rapid expansion of discounters across the country.

Cementing growth

While these countries lack the regulations and structured operating environments of developed markets, the changes in operating legislation and consumer attitudes towards the OTC concept are expected to provide the backbone for growth in the years to come. Multinational corporations are expected to leverage joint alliances with local manufacturers who have established distribution channels in these markets in order to offset the stagnant growth they are facing in mature markets.

Euromonitor International's research shows that the BRICs generated approximately US\$11.9 billion in sales value in 2005 and their combined growth over 2005-2010 is expected to reach 8% year-on-year. The Russian market alone is expected to enjoy over US\$1 billion value sales growth over the forecast period, which will be mainly driven by increasing affluence and demand for high-quality, effective healthcare products.

Brazil and India are not likely to experience such dramatic growth, as generic products are expected to cannibalise those markets and undercut value sales. In Brazil the value of generics alone are expected to reach 20% of the total Rx and OTC market. The generic introductions will be facilitated by the increasing number of products reaching patent expiration, and familiarity amongst consumers as they slowly become exposed to these cheaper alternative products.

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