

Supply Chain Collaboration: Maximizing Health, Beauty, and Wellness Product Sales in Independent Pharmacy

October 2011



in partnership with



Table of Contents

Executive summary	1
The current climate	3
Opportunities for growth	4
Trends poised to inspire growth	7
Recommendations for collaboration	9
Acknowledgements	

Executive summary

During HDMA’s Business & Leadership Conference in June 2011, healthcare distributors, manufacturers, and independent pharmacists participated in a series of panel discussions on the topic of improving the sales of health, beauty, and wellness (HBW) products within independent pharmacies. In particular, representatives from manufacturers of over-the-counter HBW products expressed optimism about the growth potential within independent pharmacy. They are enthusiastic about becoming re-acquainted with distributors’ programs specifically designed to help independent pharmacies succeed and thrive.



“We are out for success
for independent
pharmacy.”

— *Distributor executive*



The dialogue sparked by these panel discussions led to HDMA commissioning—in partnership with the Consumer Healthcare Products Association (CHPA)—a study to determine and describe current levels of collaboration among the key stakeholders and to identify important growth opportunities within the independent pharmacy market.

This study shares how healthcare distributors work with their pharmacy customers to provide displays, advertising support, and marketing guidance (including category management) to put the right HBW products within easy reach of pharmacy shoppers. It also offers exclusive analysis and action items for each segment of the independent pharmacy HBW supply chain designed to shift the paradigm of “business as usual” to one of “innovate for success.”

Primary findings

The following pages identify several HBW categories that have increased in sales within independent pharmacy and outpaced the food, chain drug, and mass channels. Categories focused on health and wellness continue to be the capstone of independent pharmacy.



This research also offers key action items:

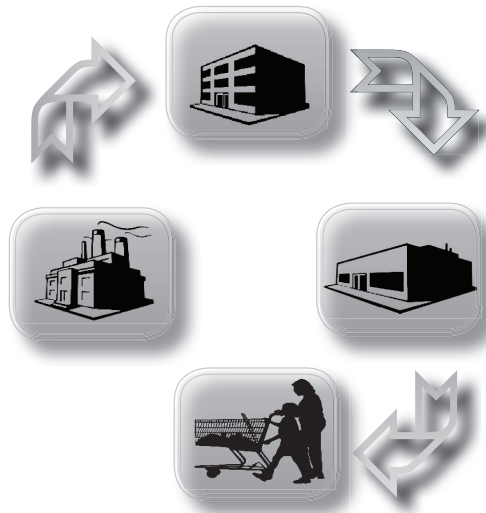
- Suppliers can benefit from joint business planning with distributors to make the most of distributor marketing and merchandising resources.
- Distributors should continue to create programs for independent pharmacies to help move products and improve sales.
- Independent pharmacies should take advantage of distributor programs—especially category management, promotional support, and inventory tools—to meet consumer demand within non-prescription categories.

A renewed effort from all stakeholders for the benefit of this once neglected market segment can offer incremental market opportunities to maximize sales.

Research methodology

Portions of this study were compiled through review of healthcare distributor warehouse withdrawal data for the 24-month time period between January 1, 2009 and December 31, 2010. Categories were analyzed individually to determine dollar sales growth. Syndicated data from SymphonyIRI Group for food, drug, and mass outlets was also analyzed to provide a point of contrast with independent pharmacy.

In addition, interviews with representatives from three healthcare distributors were conducted to supplement the quantitative research. Findings from these interviews provide the backbone for the Recommendations for Collaboration section of this study.



The current climate

Independent pharmacy sits at the very heart of retail consumer healthcare and is on the front line of healthcare delivery in the United States. Not only does this market segment account for nearly 40% of all prescriptions dispensed, but consumers consistently rank pharmacists among the most trusted professionals according to an annual Gallup survey. Likewise, *Consumer Reports* magazine recently reported that 90% of survey respondents gave independent drugstores high marks for characteristics such as accessibility, accuracy, and courtesy.

■ ■ ■

In an environment where mass retail dominates on discounts, there are still notable trends in the niche direction, where a neighborhood store can maintain a sense of place and community.

HDMA HBW Forum, June 2011

■ ■ ■

This good news carries significant implications for independent pharmacies because it demonstrates that consumers already are predisposed—by a wide margin—to favor independents with their prescription business. Earning more of their front-end HBW purchases is only a short leap away.

Consumers are eager to save money on healthcare expenses, and self-care is one obvious opportunity abounding with possibilities for an increased role by independent pharmacy. Increasing health insurance premiums and co-payments, curtailing of benefits, and the growing uncertainty surrounding federal healthcare reform legislation leaves consumers in search of options to manage their health issues before they become serious. Where access to physicians and insurance coverage has decreased, access to independent pharmacists and informational resources has increased to fill the gap. More than ten percent of doctor visits could be avoided if patients self-managed their minor ailments in partnership with an independent pharmacist.¹



Future vision

If consumers sought counsel and recommendations from their trusted independent pharmacist, they would be well-prepared to manage more of their own care. Ensuring availability of safe and effective over-the-counter (OTC) products from healthcare distributors and improving the flow of HBW products to the more than 20,000 independent pharmacies in the nation are the first steps to making this vision a reality and everyday occurrence for healthcare delivery in the 21st century.

Opportunities for growth

It can be tempting to overlook front-end sales as insignificant. Non-prescription drugs, health and personal care products, general merchandise, and durable medical equipment sales combine for 2% of annual sales for healthcare distributors. However, this 2% equates to \$5.4 billion.²

At the same time, 93% of adults in the United States prefer to treat minor ailments with OTC medicines before seeking professional care.³ And they can self-treat at a significant savings—the average retail price of an OTC medicine is \$7, while the average cash price of a name-brand prescription is \$96. The average generic prescription cash price is \$28. For millions of Americans, OTC medicines are a trusted and affordable way to get well, stay well, and feel well. Independent pharmacies are perfectly positioned to help them do just that.

High performers in the independent pharmacy front-end

Six categories have been identified as “ones to watch” based on their growth during 2009 and 2010. The table on the next page illustrates how the categories’ growth in independent pharmacy contrasts with the same categories’ growth in food, drug, and mass retailers.

■ ■ ■
 “Distributors close the gap and bring visibility to the underserved independent pharmacies.”

— *Distributor executive*

■ ■ ■



■ ■ ■

The incontinence category is outside of the “traditional” HBW categories, but its growth as part of home health care is extremely significant to independent pharmacies.

■ ■ ■

Category	Percent \$ Sales Increase 2009-2010 FDMX [†]	Percent \$ Sales Increase 2009-2010 Chain Drug [†]	Percent \$ Sales Increase 2009-2010 Ind. Phcy. [‡]
First Aid	+5.29%	+6.31%	+16.45%
Eye/Ear Care	+4.44%	+5.28%	+10.71%
Sun Care	+9.56%	+10.16%	+10.17%
Smoking Deterrents	-0.16%	-2.40%	+8.34%
Incontinence/HHC/Diabetes	N/A*	N/A*	+3.28%
Foot Care	-3.09%	-3.50%	-0.75%

[†] As derived from analysis of SymphonyIRI Group syndicated data for the period January 2009 through December 2010.

[‡] Based on distributor warehouse withdrawal data for the period January 2009 through December 2010.

* Based on SymphonyIRI Group categorization, a one-to-one comparison is not available.

While incontinence is considered part of home health care and outside of the “traditional” HBW categories, it is significant because it serves a growing consumer demographic. If they are not already, independent pharmacies should consider adding to or modifying their home health care department to be ready to compete within one of the fastest growing segments of the retail consumer healthcare industry.

An aging population brings a shift in healthcare needs, and the growth that independent pharmacies are experiencing within the home health care category is substantial: a 3.28% dollar sales increase between 2009 and 2010.



Critical categories to watch

Of the other five categories profiled above, three more than doubled their growth in independent pharmacy versus chain drug: first aid, eye/ear care, and smoking deterrents. These three categories—along with incontinence—are critical for independent pharmacy operators to watch for future growth opportunities. Not only have these categories demonstrated significant increases in sales, but they are also central to consumers’ self-care routines.

- First aid far outpaces category growth during the same time period compared to food, drug, and mass outlets and in drug outlets alone. Its 16.45% increase likely reflects the new emphasis by first aid product manufacturers on selling through to the customers of independent pharmacies. This usually female consumer demographic is often responsible for the care of family members a generation older and a generation younger than herself, so a variety of first aid options and even a few specialty items can make the difference to earning her business.
- Growth in smoking deterrents (+8.34%) reflects the consumer trend in self-care. It also shows a remarkable increase versus the same time frame in chain drug, where the category declined by 2.4%.
- Eye/ear care is another category where self-treatment has become popular. Product launches targeting itchy and dry eyes from allergies or other causes are driving sales growth. According to The 2009 Gallup Study of Dry Eye Sufferers, 20% have not consulted a healthcare professional about their dry eye problem. This is a large segment of consumers likely to seek relief from an OTC treatment, and it’s another category that will continue to grow with the aging population.⁴

■ ■ ■

“Information about new products is quite often behind the large chains—sometimes as much as four to six weeks. This puts the independents at a competitive disadvantage and distributors are continually looking for innovative ways to close the gap.”

— *Distributor executive*

■ ■ ■



Trends poised to inspire growth

It seems that every few years a new set of trends assumes prominence over the retail consumer healthcare market—as in other markets—and the nature of the business changes to adapt to emerging consumer preferences. The first decade of this century is no exception, particularly given the challenging financial conditions of the last three years. Following are three such trends of special significance to independent retail pharmacies.

1. Disease state management. The current and projected rise in instances of conditions such as diabetes and hypertension, and all of their ensuing complications, opens an opportunity for community pharmacies to partner with patients to manage their health for optimal outcomes, including the recommendation of OTC medications. The *2010 NCPA Digest* points out that community pharmacies have been leading the nation's other healthcare resources in providing disease state management for many years. The tremendous strain that chronic conditions are expected to exert on the healthcare system as well as an aging population means that independent pharmacies will have many opportunities to have a positive impact on individual consumers and healthcare delivery in general.

2. “Do it yourself” healthcare. As already mentioned, more and more consumers are seeking information and resources to proactively manage their own health. Two primary motivators are driving the trend: first, a dramatic increase in the amount of reliable health-related information easily accessible to consumers via the Internet. Consumers are no longer strictly limited by what their healthcare professionals tell them, and this encourages a curiosity to delve deeper into the nature of their symptoms and conditions. This freedom can be a double-edged sword, because plenty of readily available information is at best



incomplete and at worst dangerously inaccurate. Pharmacists are positioned to help guide consumers to trustworthy sources of health information and to answer the questions that naturally arise.

Second, cost consciousness clearly motivates many consumers to seek OTC solutions to avoid the cost and inconvenience of a visit to a physician. Because of the variety and quantity of available OTC medications, consumers rely on the pharmacist for recommendations and advice. Independent community pharmacists talk with consumers about non-prescription items an average of 11.6 times per day—outstanding opportunities to discuss non-prescription remedies and build customer loyalty.⁵ Pharmacists can also advise when patients should not rely upon self-care and should seek a physician’s advice.

3. **Web presence.** An increasing number of independent pharmacies are actively researching or launching websites that provide their customers with around-the-clock access to the healthcare solutions they offer. And it affords pharmacies the opportunity to represent a broader group of products—mirroring the distributor’s inventory—than can be carried in their brick and mortar store. While a website may not offer the answer to the patient seeking a quick headache remedy, it can be ideal for those managing a chronic condition or providing care to a loved one.

■ ■ ■

“Over-the-counter medicines empower consumers to practice smart self-care, efficiently and cost-effectively.”

— *Scott Melville, CEO, CHPA*



Recommendations for collaboration

The research conducted to create this study revealed a number of action items that healthcare distributors, independent pharmacies, and product suppliers can undertake to meet the current challenges and embrace opportunities for growth.



“Distributors are the category managers for independent pharmacies and salespeople for the manufacturers.”

— *Distributor executive*



“Smaller manufacturers in particular really need to work with distributors to tap into their marketing programs developed to reach the independents.”

— *Distributor executive*



Healthcare Distributors

- Continue developing programs that demonstrate quantifiable results for suppliers. Vital program elements include helping drive traffic to independent pharmacies and ensuring that the most effective assortment of HBW products is merchandised.
- Focus on SKU rationalization. One distributor executive noted that “maintaining balance between what is right for our independent retailers and what makes sound business sense is delicate, but not impossible.”
- Emphasize to suppliers your unique position as a primary interface to the 20,000+ independent pharmacies. Distributors can help pharmacies by thoroughly explaining their programs and capabilities as well as their market reach to suppliers.

Suppliers

- Get out and talk to distributors. You may be unaware of the breadth of resources among HDMA members. Face-to-face strategy meetings can benefit all parties.
- Offer true differentiation when launching new products. An item introduced as a category expander can flourish, but a “me too” product is more likely to languish.
- Consider sharing marketing plans and strategies with distributors to help align advertising strategies deployed by distributors with available trade allowances and national promotions.
- Become actively engaged with the various CHPA and HDMA programs and events that ensure continued availability of safe,



effective non-prescription medicines, underscore the economic value of OTCs, and explore ways to increase market growth through distribution and retail channels.

Independent Pharmacies

- Actively manage the front-end and maximize its profitability with an appropriate HBW assortment. Where medically appropriate, proactively recommend HBW items that complement dispensed prescription product(s).
- Maintain a solid partnership with your distributor. Support from distributors includes headquarters-type services that equip the pharmacy to compete effectively.
- Enhance the shopping experience for consumers by managing space more effectively, including category adjacencies, traffic engineering, and inventory stocking levels.

The good news is that suppliers already are increasing their coverage and support for healthcare distributors, and program support from distributors has accelerated and strengthened in recent years. With these efforts synchronized and independent pharmacies using the tools available to them to effectively stock, merchandise, and promote category growth, the independent pharmacy marketplace can improve its profitability for the benefit of all.

¹ *Your Health at Hand* CHPA survey

² 2011-2012 HDMA Factbook

³ *Your Health at Hand* CHPA survey

⁴ The 2009 Gallup Study of Dry Eye Sufferers

⁵ 2010 NCPA Digest

■ ■ ■
“It is clear that distributors are not just ‘selling products’ to retailers, but rather they are actively engaged in helping independent pharmacies sell all the way through to the consumer.”

— *Distributor executive*

■ ■ ■



Acknowledgements

HDMA and Hamacher Resource Group wish to thank the following distributor executives who took the time to contribute their thoughts and ideas as part of the research for this briefing. From Smith Drug Company: Rick Simerly, vice president of business development, and Christa Hampton, director of marketing. From Value Drug Company: Greg Drew, president. And from Cardinal Health: Dianne Pfahl, vice president of industry relations. Additionally, thank you to the members of the HDMA HBW Committee for their continued commitment to enhancing the relationship between suppliers and distributors on behalf of independent pharmacies.

About Hamacher Resource Group, Inc. (HRG) www.hamacher.com

Hamacher Resource Group, Inc. is a full-service research, marketing, and technology firm specializing in retail consumer healthcare. Manufacturers, distributors, retailers, technology providers and others rely on HRG's 30-plus years of experience for solutions ranging from strategic planning through implementation. HRG is a WBENC-Certified Women's Business Enterprise headquartered in Waukesha, Wisconsin, just west of Milwaukee.

About the Healthcare Distribution Management Association (HDMA) www.healthcaredistribution.org

HDMA is the national association representing primary healthcare distributors, the vital link in the healthcare system. Each business day, HDMA member companies ensure that nearly nine million prescription medicines and healthcare products are delivered safely and efficiently to nearly 200,000 pharmacies, hospitals, nursing homes, clinics and others nationwide. HDMA and its members work daily to provide value and contain costs, saving the nation's healthcare system an estimated \$42 billion per year.

About the Consumer Healthcare Products Association (CHPA) www.chpa-info.org

CHPA is the 130-year-old trade association representing U.S. manufacturers and distributors of over-the-counter medicines and dietary supplements. CHPA is committed to promoting the increasingly vital role of over-the-counter medicines and dietary supplements in America's healthcare system through science, education, and advocacy. The association provides leadership and guidance on regulatory and scientific issues to Congress; state legislatures; and federal, state, and international government agencies. CHPA shares tools and information with partners across the globe to ensure the safe and responsible use of OTC medicines.

