

INDUSTRY DYNAMICS IN GERMANY

OTC OUTLOOK 2023

The OTC sector is facing turbulent times. SEMPORA compiled critical dynamics and management topics for the upcoming year based on our strategy work for clients, our proprietary studies and industry insights.

1**OTC remains an attractive growth investment sector**

- Company and portfolio valuations/multiples have decreased in 2022 as a consequence of rising interest rates
- However, the overall growth perspective of the OTC market sector is underpinned by an ongoing consumer trend toward self-care beyond COVID
- Investor interest in self-medication will remain high on both sides, strategic investors and Private Equity

2**Inflation impacts OTC consumer behavior: brand choice, channel preference and purchase intensity**

- As purchasing power is eroding, increasingly price-sensitive consumer segments are likely to react:
 - Generics will profit as a viable brand choice alternative
 - Shoppers will reduce purchase intensity and buying frequency in perceived "non-critical" categories
 - Price-sensitive but brand-loyal consumers will shift planned purchases to the online pharmacy channel that offers higher rebates compared to brick & mortar pharmacies
- Volatile business conditions and high levels of uncertainty require in-depth and timely insights and, consequently, investments in business intelligence

3**Caught between cost pressure and shrinking purchasing power: Smart Pricing as top management priority:**

- Creating functional and emotional brand benefits will be key to safeguard consumer preferences
- Advanced pricing methodologies are required to identify winning pricing strategies
- All executional pricing aspects need to be aligned: price point management, gross-to-net (trade terms) and promotional pricing
- Smart pricing will more than ever become a cross-functional task, including commercial / marketing / sales and medical / innovation departments

4**OTC category shifts in a post-pandemic setting**

- Categories for acute treatment (e.g. cold & cough, pain) will gain importance in consumer OTC spend
- Preventive care remains on a higher level compared to pre-COVID as the general tendency to spend on health-related needs rises
- Curative categories and Categories for well-being with prolonged treatment and therefore high share-of-consumer wallet likely to be under pressure as consumers tend to seek opportunities to save

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Online pharmacy channel resumes growth momentum ... and faces structural changes

- The turnover of online pharmacy channel is likely to re-gain market shares after sideways development in 2022
- Online pharmacies will profit from the general increase in consumers' price sensitivity
- The introduction of ePrescription still represents a promising scenario; however, repeated delays of roll-out pose a substantial threat to profit perspectives, mid-term growth scenarios, and investor confidence
- Further consolidation and possible shake-outs in the online pharmacy landscape appear likely as a consequence of prolonged next-to-zero or negative profitability
- Amazon's market entry as a full-fledged Mail Order Pharmacy (e.g. via acquisition) remains an evident scenario with the potential to change sector structure over the following years via a dominant customer base, immense buying power, and an aggressive price dogma

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The consolidation process in the stationary pharmacy landscape will continue

- Erosion of the total number of brick & mortar pharmacies will continue
- Entrepreneurial pharmacists owning micro chains of up to four outlets will maintain growth rates significantly beyond market
- OTC players need to adapt their sales excellence approach accordingly to meet the requirements of this pharmacist segment regarding promotional concepts, commercial terms, and digital support
- Cost-efficient, non-face-to-face touchpoints will gain in importance, especially regarding long-tail pharmacies

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In the spotlight: marketing & sales efficiency crucial to safeguard the bottom line

- Typically, promotional investment of consumer healthcare companies accounts for 20 – 40% of net revenues
- In times of supply chain problems, rising competition, more price-sensitive consumers as well as more demanding retailers, the profits of OTC companies will get under pressure
- In attempts to improve the bottom line performance, commercial budgets (ads, shopper marketing, sales force, trade allowances, ...) have to be the subject of systematic budget reviews
- A thorough analysis and re-evaluation of the current promotional budget and its allocation to channels, touchpoints, target groups and instruments will be crucial
- Smart and efficient marketing and sales measures require clear insights into the brand mechanism and purchase drivers in the light of changing market conditions