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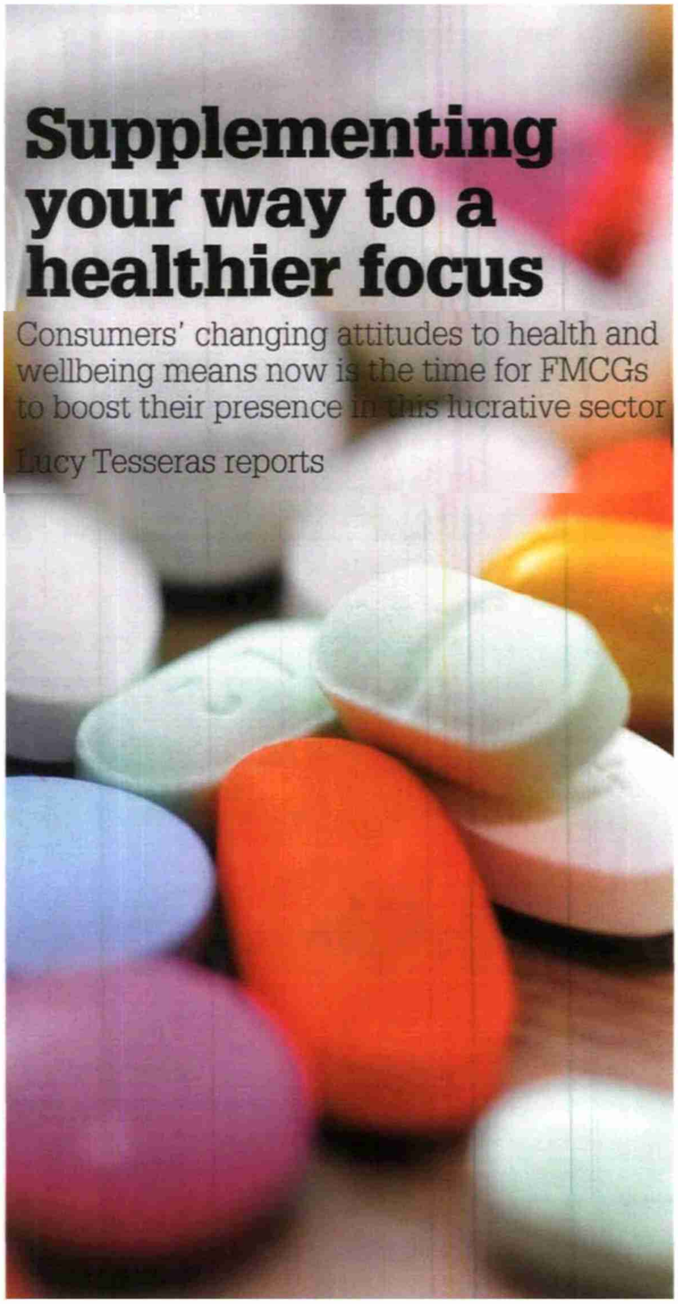
Supplementing your way to a healthier focus

Consumers' changing attitudes to health and wellbeing means now is the time for FMCGs to boost their presence in this lucrative sector

Lucy Tesseras reports



Consumer goods giant Reckitt Benckiser this week launched ads repositioning Nurofen as a 'lifestyle' brand rather than focusing on pain. The campaign – one of RB's biggest – signals a wider trend in FMCG companies moving into the lucrative health and wellbeing market – and they are aiming to steal market share from their pharmaceutical counterparts.

RB bought US-based vitamin and nutritional supplement firm Schiff Nutrition for $42 (£26) a share in November 2012, valuing it at $1.4bn and seeing off the $34 a share bid by pharmaceutical firm Bayer HealthCare.

RB category marketing director for health and personal care Mark Pearson says this is a reaction to consumer demand. "Public attitudes are changing fast and they no longer see over-the-counter products as distress remedies to treat a problem but rather are looking to find products that maintain their wellness and help them avoid problems in the first place."

RB, which owns health brands such as E45, Scholl and Strepsils, claims it is well positioned to expand its foothold in the wellness sector.

"We believe strongly that the wellness sector really is the future for over-the-counter healthcare and personal care products in the UK," says Pearson.

Bayer had hoped to strengthen its own consumer care business by buying Schiff but RB chief executive Rakesh Kapoor bid 23.5 per cent more for the company than Bayer. He said the deal also offered a "powerful entryway into the large and rapidly growing $30bn global vitamins, minerals and supplements market".

Coca-Cola moves

The company is not alone in its expansion strategy. Coca-Cola agreed a partnership with French pharmaceutical giant Sanofi at the end of last year to launch a line of drinks under the

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Oenobiol name. The products, which claim to have wellbeing and beauty benefits, are at present part of a small-scale pilot limited to a number of pharmacies in France.

Similarly, Procter & Gamble set up a partnership with Teva Pharmaceutical Industries enabling both businesses to share capabilities under the PGT Healthcare name.

Meanwhile, GlaxoSmithKline, which makes prescription medicines but also has a consumer division with a portfolio including Panadol, Sensodyne and Horlicks, is mooting the sell-off of Ribena and Lucozade. However, chief executive Sir Andrew Witty told this week's Sunday Telegraph that he sees a joint future for both the pharma and consumer divisions.

And Nestlé Health Sciences, a wholly-owned subsidiary of confectionery giant Nestlé, has established a 50/50 joint venture with Chinese pharmaceutical and healthcare group Chi-Med. Nutrition Science Partners (NSP) has been set up to research, develop and manufacture botanical plant-based nutritional and medicinal products.

"What attracts pharmaceutical companies to this market is the predictability of revenues over the long term, and what attracts consumer companies is the potential for high margins and high premium products," says Michael Thomas, partner at management consultant AT Kearney and one of the authors of the Winning the Battle for Consumer Healthcare: Mobilizing for Action report.

Alongside the flurry of acquisitions and alliances, Thomas says there is a "landgrab for skills" as both capabilities are needed to succeed. "At the moment, neither industry has cracked it. Pharma companies are recruiting FMCG marketers and many FMCG companies are recruiting medical science or regulatory affairs experts, which pharmaceutical companies do very well." (See box.)

Dipa Patel, senior brand manager at nutritional healthcare company Vitabiotics, says that an ageing population means the market for vitamins and supplements will grow.

"While some vitamins, minerals and supplements products are targeted at younger consumers, interest is driven more by the UK's ageing population, a longer life expectancy and the fact people are becoming more health-conscious. Use of these products tends to increase with age, and is generally higher among women," she says.

Ageing boom

By 2035, the over-65s will account for 23 per cent of the population, while the proportion of the population aged between 16 and 64 is due to fall from 65 per cent to 59 per cent, according to UK National Statistics.

In light of this, Thomas suggests companies looking to enter the market to "act quickly", particularly as potential cuts to state-funded healthcare will accelerate the growth of the market.

"Most patients treated in the UK and Europe don't pay for healthcare," he says. "The reality is that is simply not going to be the case in the future. We're seeing growing demand that will not be fulfilled by an increase in health budget, and that creates an interesting new market."

He adds that while food-based FMCG players have started to focus on health more, "what we haven't seen is them take it a step further and produce, for example, enhanced food products specifically for those over the age of 80 – that is a new market waiting to be explored".

Product innovation will be a key driver as the market expands. RB calculates that around a third of its net revenue comes from products introduced in the past three years, encouraging the company to continue in this direction.

The company has plans to extend its reach with new products in a number of categories including topical pain relief from its Nurofen brand and sexual wellbeing through Durex.

RB has also identified potential market growth

"The future of the consumer health market is very strong with great potential to grow"

Mark Pearson, Reckitt Benckiser

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in the footcare sector as consumers increasingly "treat their feet with specialist products as part of an ongoing care regime rather than waiting for an annoyance to become a real issue," says Pearson. RB plans to launch a product under the Scholl name to satisfy this demand in spring.

The company also sees potential growth within the eye care category through its Optrex brand, as many consumers look after the delicate area around the eye but often ignore the eye itself. Optrex launched ActiMist for tired eyes in 2009 and has further innovation coming up.

Pearson adds: "The future for the consumer health market is very strong with great potential for growth both in established and new areas as we all take our health more seriously. The future for brands that can respond quickly to a fast-changing market is phenomenal."

For players within the vitamins, minerals and supplements sector there is also room for growth, particularly in extending relationships with existing customers, says Vitabiotics' Patel.

The company recently added two brand extensions to its Pregnacare range – Pregnacare New Mum and Pregnacare Max. Patel says: "In the months following the stresses of pregnancy and childbirth, many women are anxious to restore the health of their skin and hair. Pregnacare New Mum is the UK's first multivitamin to help support this while also helping to maintain energy."

Whether it is a case of setting up strategic partnerships, entering the market through bolt-on acquisitions or expanding product ranges, the consumer health market is set to grow, so now is the time for both FMCG and pharmaceutical companies to explore the possibilities. ●

Vitabiotics has added to its Pregnacare range

Reckitt Benckiser is to increase its product range in a number of categories including sexual wellbeing

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Pharma vs FMCG
The size of the prize

Although the consumer healthcare market is growing, it is doing so more slowly than expected, according to the Winning the Battle for Consumer Healthcare: Mobilizing for Action report by management consultancy AT Kearney. It found that although consumer health markets across the globe are growing at an average of 5.7 per cent, they are struggling to keep up with overall GDP growth.

The lack of growth in Western Europe is particularly surprising, according to Michael Thomas, a partner at AT Kearney. This may change, however, considering the fact that health needs increase with age and 35 per cent of so-called "grey wealth" will be held in the region over the next decade. That's more than twice the amount in Brazil, Russia, India and China put together, so represents a big opportunity.

Dipa Patel, senior brand manager at nutritional healthcare company Vitabiotics, highlights figures from UK National Statistics that show the average life expectancy has increased significantly over the past 30 years from 70.8 and 76.8 years for men and women in 1981 to 77.7 and 81.9 years in 2008.

But the market offers huge opportunities, with the global vitamins, minerals and supplements sector alone worth $30bn, making pharmaceutical company Schiff an attractive acquisition for Reckitt Benckiser last November.

However, businesses must consider their structure carefully when looking to buy into pharma companies, according to AT Kearney's report. It suggests that there are two major organisational decisions: the degree to which the business should be decentralised or globally driven; and whether the consumer health business should be run independently of the main business.

Another major concern is getting the right capabilities to service this kind of business. "No one has cracked it yet," says Thomas, suggesting that products should be innovative, with good evidence of working and distributed to a large number of consumers.

Clearly, both industries are in a good position to make a play because although pharmaceutical firms have the medical know-how and can deliver innovative products with proven capability, FMCG companies have strong brand portfolios, effective marketing strategies and extensive reach.

Those that successfully occupy the space in the future, however, will be an amalgam of the two, the report predicts, and able to deliver clinically proven products while attracting mass market audiences through clever marketing.

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