

2011

PHARMACY STATE OF THE INDUSTRY REPORT

nielsen
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Macro-economic overview

Australia's resilience in the midst of global economic uncertainty is envied by many of the world's developed nations. Nonetheless, today's retail landscape continues to provide unprecedented challenges for manufacturers and retailers alike, and Australian consumers are increasingly apprehensive about the impact of the world financial situation on their own economy and personal finances.

Tough macro-economic conditions are dampening consumer sentiment, leading Aussies to tighten their already taught belts and opt for cheaper grocery options through private label, which now accounts for a 25 per cent value share of packaged grocery – a gain of one per cent versus the same period last year.

With consumer confidence sliding in the most recent quarter to an index of 97, dropping below the neutral 100 mark for the first time since early 2009, shoppers are changing the way they spend their money, what they spend it on and where they make their purchases.

The legacy of the global financial



crisis has provided many lessons for Australian consumers, and the change in consumer shopping behaviour is shaping a rapidly evolving retail landscape.

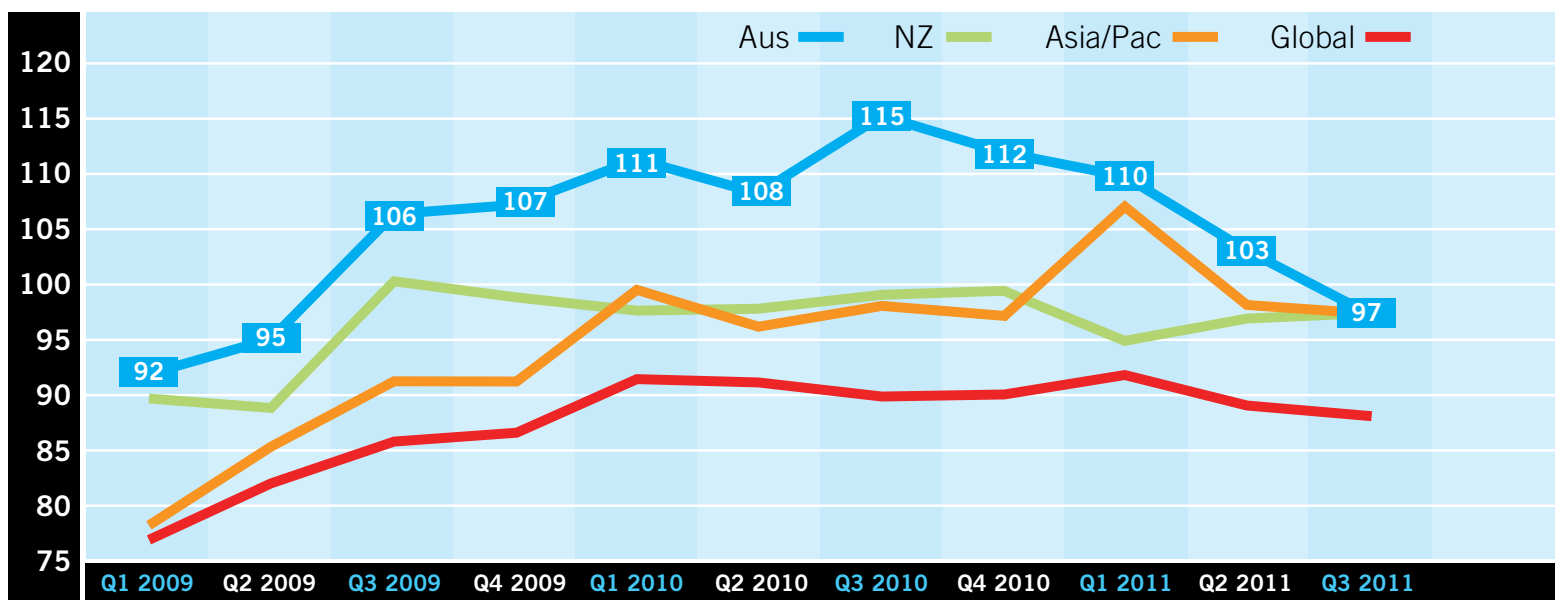
Nielsen's latest consumer confidence results are fascinating because they show that Australia's index is now in line with that of Asia Pacific's (97) and New Zealand's (98), but it is still nine points above the global average index of 88 (chart 1). With Australian consumer confidence now in steady

decline for the fourth successive quarter, Aussies are now more pessimistic than ever about the health of their country's economy.

Australia is one of the few countries that emerged from the 2008-2009 recession relatively unscathed. With a booming resources sector we might expect Australians to be confident in comparison to other nations. But there are a number of factors darkening Australians' outlook.

The third quarter was one of volatility

Chart 1: Nielsen Consumer Confidence Index Trended.



Source: Nielsen Global Online Consumer Survey, Q3, 2011 (August 31– to September 16).

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Proven results, proven sales – Swisse Men's & Women's Ultivite

Unique, clinically tested formulas made with premium quality vitamins, minerals, antioxidants and herbs – with proven results.



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“The legacy of the global financial crisis has provided many lessons for Australian consumers.”

and stockmarket uncertainty as global financial markets plunged on the back of the US credit downgrade and fears over the worsening European sovereign debt crisis. Unfortunately, Australia has not been immune to what's been happening in the rest of the world.

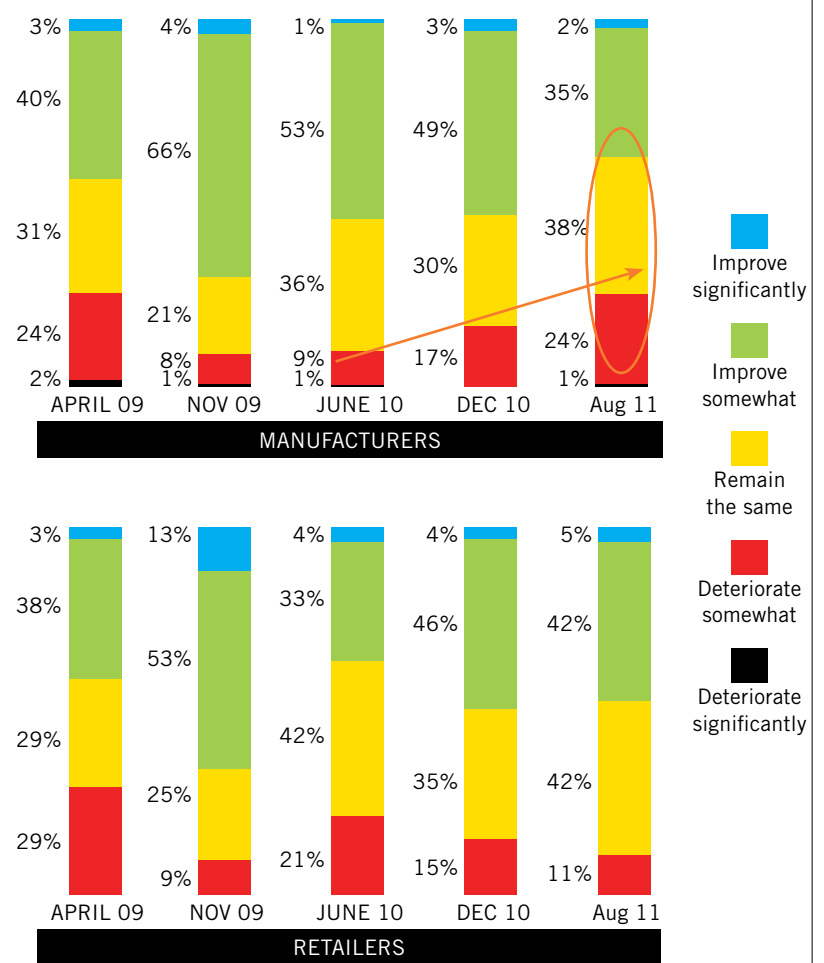
Some analysts predict unemployment will continue to rise, and it has done so—the latest unemployment figure for October has Australia's jobless rate sitting at 5.3 per cent, an increase of 0.4 per cent since June. In June, inflation went up 0.3 per cent to 3.6 per cent, causing the prices of basic necessities to increase. However, this recently dropped 0.1 percentage points to 3.5 per cent for the quarter to September.

This unexpected drop in inflation was one of the reasons the Reserve Bank moved to cut interest rates on the day of the Melbourne Cup by 0.25 basis points, bringing relief to householders' stretched budgets.

From a business environment perspective, the results of Nielsen's latest Retail Barometer Report, which surveys more than 100 of Australia's leading FMCG manufacturers and retailers on business conditions and major concerns, reveal that business confidence is mixed – manufacturers are becoming increasingly pessimistic about business conditions over the next year or two, whereas retailers remain slightly more optimistic (chart 2).

As we move into the final months of the year, the much-anticipated recent rate cut – the first cut in more than two-and-a-half years – should bolster the economy and boost consumer spending in the run up to Christmas, which will be very welcome news for Australian retailers who, up until now, had been forecasting a soft end to what's already been a difficult trading year. ■

■ Chart 2: Over the next one to two years, do you believe that business conditions in your industry are more likely to improve or deteriorate?



Source: Nielsen Retail Barometer, August, 2011.



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Less stress, more profit –
Swisse Men's & Women's Teenage Ultivite

Assists with enhancing mental alertness, concentration and short-term memory; while balancing moods, reducing stress and promoting stamina.



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Pharmacy category overview

Total Pharmacy front-of-shop (OTC) value sales have seen solid growth over the year, with OTC sales up 5.7 per cent for the MAT to 25/09/2011 versus previous year.

Driven by growth from the three leading categories – vitamins and supplements, cosmetics, and analgesics – overall trade performance continues to be buoyed by these larger categories. Of the top 10 biggest categories, eight recorded annual growth (chart 3).

Some of the smaller categories to have also enjoyed solid sales increases over the past year include weight management – recording the highest percentage growth of 14.9 per cent – allergy and hayfever (11.6 per cent) and toilet soap (6.3 per cent) (chart 4).

Vitamins and supplements continue to maintain their leading category value share position, with 19.1 per cent of OTC Pharmacy value sales. This category also recorded a 9.9 per cent growth in value compared to last year.

Cosmetics, with a 13.4 per cent share of total OTC Pharmacy value, recorded 11.5 per cent value growth compared to the prior year. Of the larger categories, analgesics saw the lowest category value growth at 3.2 per cent compared to last year. ■

“Total Pharmacy front-of-shop (OTC) value sales have seen solid growth over the year.”

Chart 3: Pharmacy trade performance by top 10 categories for MAT to 25/09/11 – National.

MAT to 25/09/2011	Value % share of business	Value % growth versus previous year
Total OTC Pharmacy	100.0	5.7
Vitamins & supplements	19.1	9.9
Cosmetics	13.4	11.5
Analgesics	11.1	3.2
Coughs/cold/sinus & flu	7.1	6.1
Cosmetic skin care	7.1	-1.0
Therapeutic skin care	5.4	3.8
Allergy & hayfever	4.6	11.6
Gastro-intestinal	3.9	1.4
Weight management	3.7	14.9
Baby	3.6	-8.4

Source: Nielsen ScanTrack Pharmacy

Chart 4: Fastest growing Pharmacy OTC categories for MAT to 25/09/2011 - National

Based on categories with more than one per cent share of Total OTC Pharmacy

MAT to 25/09/2011	Value % growth vs previous year
Weight management	14.9
Allergy and hayfever	11.6
Cosmetics	11.5
Vitamins and supplements	9.9
Toilet soap	6.3
Coughs/cold/sinus and flu	6.1
Hair care	4.6
Throat preparations	4.5
Wound care	4.5
Oral hygiene	4.3

Source: Nielsen ScanTrack Pharmacy

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Proven results, more profit – Swisse Men's & Women's Ultivite 50+

Clinically proven to help maintain energy levels, support healthy brain and memory function and can assist in maintaining a healthy cardiovascular and nervous system.



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2012 and beyond: what lies ahead for Pharmacy?

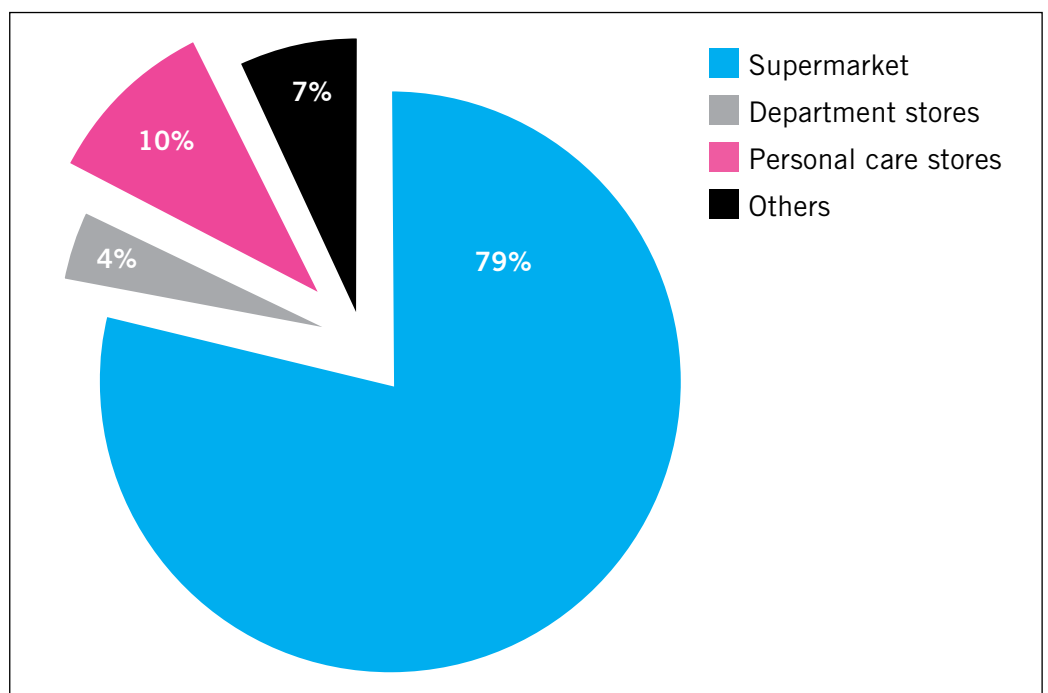
The Pharmacy channel has historically been responsible for providing support to people who are unwell. In conjunction with the local doctor, they have been a part of our lives, our community and an important part of our health and wellbeing.

In addition to providing OTC medications and trusted advice, pharmacies today are selling everything from clothing to perfume as they search for new ways to delight consumers and help people feel better.

Whether this shift was retailer- or consumer-led, the growth in sales in non-core categories has become an important part of many a Pharmacy group's strategy. As competition in existing traditional categories becomes greater, Pharmacy retailers continue to look to diversify their offering and tailor it to their customers.

At the same time Pharmacy retailers are expanding their offer, supermarkets are beginning to encroach on Pharmacy and beauty stores' space with increased focus on personal care as a means to grow their share of wallet.

Chart 5: Nielsen Shopper Trends 2011.
The place you most often purchase personal care.



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Premium quality ingredients, healthy sales – Swisse Men's & Women's Ultivite 65+

Helps maintain energy levels, protect against free radicals, support healthy brain and memory function and can assist in maintaining a healthy cardiovascular and nervous system.



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2012 and beyond: what lies ahead for Pharmacy?

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Coles Beauty Bombshells has seen a high visibility, promotionally driven campaign to wrest spend away from department and specialty beauty stores. These shoppers are already in-store but have historically been disinterested in these segments beyond family shampoo and conditioners, deodorants and oral care.

The goal has been to grow acceptance of the offer in this space. This was evident by the program of store refits conducted at the time, and the increased ranging of premium brands. The development of pseudo brands to increase profitability has also been seen in Coles.

Value for money

Consumers' expectations are now more than ever around value. 'Product in stock', 'value for money' and 'low prices' are the key drivers of equity for a Pharmacy retailer – beyond 'awareness and consideration'.

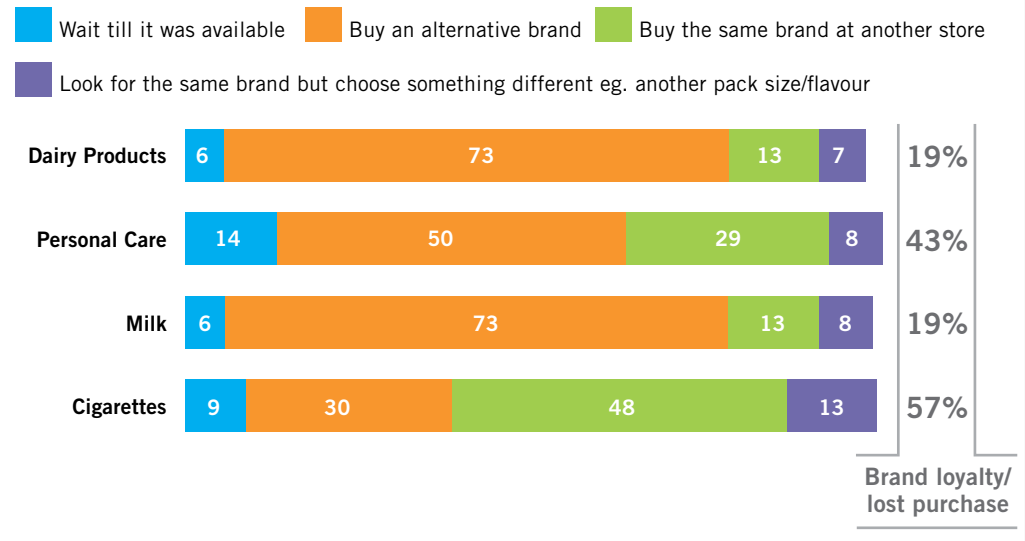
All retailers are striving to communicate this message via continuous direct mail, newsprint advertising on everyday products and, more recently, reduced price prescriptions. This obviously also extends to the extensive use of fluorescent pricing tickets in some stores.

Brands

For health and beauty brands, the need for trust has never been greater. Communication of features and benefits are everywhere, but

Chart 6: Nielsen Shopper Trends 2011.

If you were buying <Product category> from your usual store and it's not available, would you...



many consumers don't believe the hype. When they do find a product that works they are unlikely to switch.

For Beauty products, brands are paramount. In fact, personal care shoppers are as loyal to the brand as they are to the retailer. An out-of-stock item could cost a retailer more than 40 per cent of buyers who would either switch store or wait until it was available. This scenario allows for other stores and other channels to come into the consideration set of the brand shopper.

For consumers in the current economic climate, however, it has to be quality at the right price. This need-space has allowed supermarkets to expand ranging and increase promotions, and for online distribution of personal care products to see a huge growth in sales and popularity.

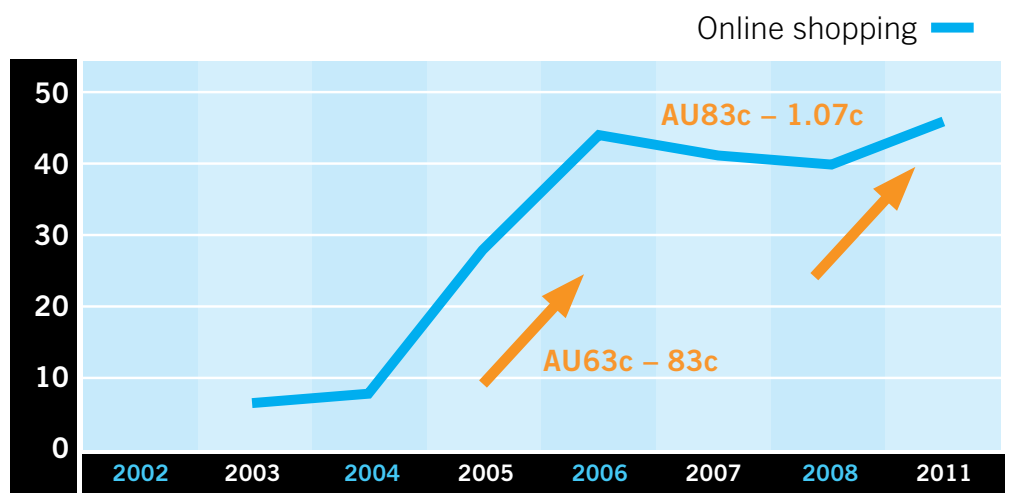
Online spending

According to a recent Price Waterhouse Coopers report (in conjunction with Frost & Sullivan), online spending by Australian consumers will reach \$21.7 billion within the next four years based on a compound annual growth rate of 12.6 per cent.

With the greater levels of acceptance for online and reduced barriers to purchase, trust in the online retail channel is increasing exponentially. Customers are able to easily compare prices and be introduced to new innovation from overseas earlier via this medium.

The rise of online shopping will continue at an even greater pace as more manufacturers look to diversify their distribution and shoppers seek greater value and convenience. Pharmacy needs to ensure that its shoppers are engaged with them in a multichannel environment. There might be a little pain now but, if they get it right, there will be a lot of gain later. ■

Chart 7: Nielsen Shopper Trends 2011. Online shopping usage and the rising Aussie dollar



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For healthy kids and growing sales – Swisse Children's Ultivite

Containing a comprehensive range of 21 vitamins and minerals, Swisse Children's Ultivite helps support a healthy diet with nutrients that assist their health and wellbeing.



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Ad spend review:

how two key categories for Pharmacy retailers were supported in the past 12 months to September, 2011



Peter Cornelius
Managing Director
Australia Media,
Nielsen

Compared to the strong advertising rebound during most of 2010, advertising activity in the 12 months to September, 2011, slowed considerably across most advertising categories.

However, for the Pharmacy retail sector, there was encouraging promotional activity from manufacturers as we noted advertising growth for pharmaceuticals and a minimal decrease across toiletries and cosmetics.

Pharmaceuticals category ad spending surges 14 per cent

This 13th ranked advertising category recorded a healthy 14 per cent year-on-year increase in media spending for the 12 months to September, 2011, with six of the top 10 sectors recording strong growth, including four posting robust double-digit results.

These were led by the dominant vitamins and minerals sector, which represented more than a third of all pharmaceutical ad spending with an impressive 37 per cent increase year-on-year. Other notable increases were for the musculoskeletal system (39 per cent) and the alimentary system (22 per cent).

The highest overall percentage increase in activity, though, was by the nutrition sector (112 per cent to \$10.8 million). This was due mainly to substantial increases this year by sanofi-aventis, Swisse Health World, Bayer and Nutricia Australia.

Among the Top 10 advertisers, who represented half of all pharmaceutical advertising, eight recorded substantial

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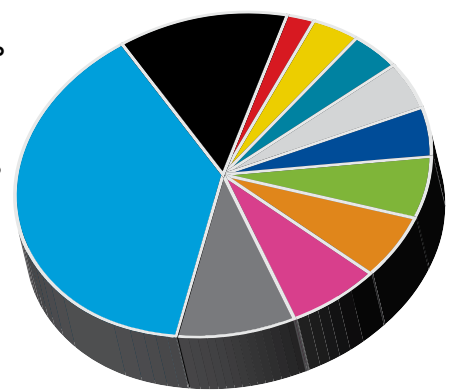
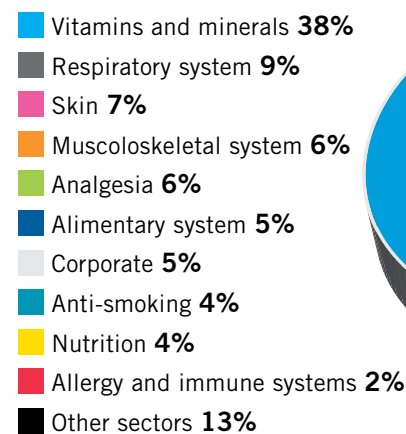
Top pharmaceutical categories by share of main media spend (\$M)	Oct 2010 to Sep 2011	% Diff YOY
Total category est. spend	251.7	14%
Vitamins and minerals	94.8	37%
Respiratory system	22.7	-17%
Skin	16.5	7%
Musculoskeletal system	16.1	39%
Analgesia	15.3	-22%
Alimentary system	13.3	22%
Corporate	12.9	-10%
Anti-smoking	10.8	8%
Nutrition	10.8	112%
Allergy and immune systems	6.1	-32%
Other sectors	32.4	15%

Source: Nielsen

Top pharmaceutical advertisers in main media spend (\$M)	Oct 2010 to Sep 2011	% Diff YOY
GlaxoSmithKline Australia	21.0	-2%
Reckitt Benckiser	17.6	20%
Sanofi-Aventis Consumer Healthcare	16.2	42%
Swisse Health Products	14.4	71%
Health World Ltd	13.7	27%
Johnson & Johnson	13.6	13%
PharmaCare Laboratories	11.9	59%
Wyeth Australia	10.1	-13%
Nutricia Australia	7.5	213%
Bayer Australia	7.3	70%

Source: Nielsen

Share of media spend by pharmaceutical categories



Source: Nielsen Oct 2010 to Sep 2011



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Showing no tolerance to low sales – Swisse Men's & Women's Gluten Free Ultivite

All the benefits of a multivitamin, specifically designed for those with Gluten intolerance; while also providing a rich source of zinc to help digestive tract inflammation.



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Ad spend review

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double-digit increases, while there were just two posting cutbacks year-on-year. The biggest spend increases were for third ranked sanofi-aventis Consumer Health Care (42 per cent), with heavy support for their Natures Own Balance + Glow and Balance + women's multivitamins and corporate sponsorship.

Also Swisse Health (71 per cent), with major support year-on-year for their Ultivite Formula product range and Nutricia Australia (213 per cent) heavily supporting their Aptamil Gold+ Formula and Karicarz Infant Formula products.

Against this overall growth trend, Wyeth Australia recorded a 13 per cent advertising cutback year-on-year across several of its products, with no support for Advil Liquid Capsules and reduced activity for their Centrum Multivitamin Tablets range and Dimetapp Day & Night Liquid Capsules.

Toiletries and cosmetics finish with a minimal decrease

After finishing with an impressive 14 per cent increase during the calendar year in 2010, this 15th-ranked category underwent a downturn in overall advertising activity across the 12-month period to September, 2011, to finish with an estimated \$251.4 million ad spend and just one per cent decline year-on-year.

Although the top ranked skin care sector (representing more than a third of all advertising in toiletries and cosmetics) saw a healthy six per cent increase year-on-year, decreases were

recorded across six other top-spending sectors, including substantial double-digit cutbacks in activity across Fragrance (-15 per cent), Sanitary Protection (-20 per cent), and Personal Washes/Bath Additives (-21 per cent).

Among the top 10 advertisers, who represented more than half of all media spending in this category, there were five who recorded cutbacks compared to the corresponding 12 months to September, 2010.

The four top ranked advertisers all recorded substantial cutbacks in advertising activity year-on-year, led by L'Oréal Australia (12 per cent), who finished just ahead of Unilever, which saw a significant 27 per cent reduction in activity year-on-year.

There was also a notable slide, particularly in the first half of 2011, by Johnson & Johnson, who cut back by 30 per cent (-\$2 million), in part due to no support for Carefree Acti-Fresh Liners and a significant decrease in overall spend year-on-year for Aveeno products and ranges.

However, among the impressive double-digit advertising increases were Guthy Renker (61 per cent), who stormed into the top 10 by doubling their activity in the first half of this year to bring them into the number five position.

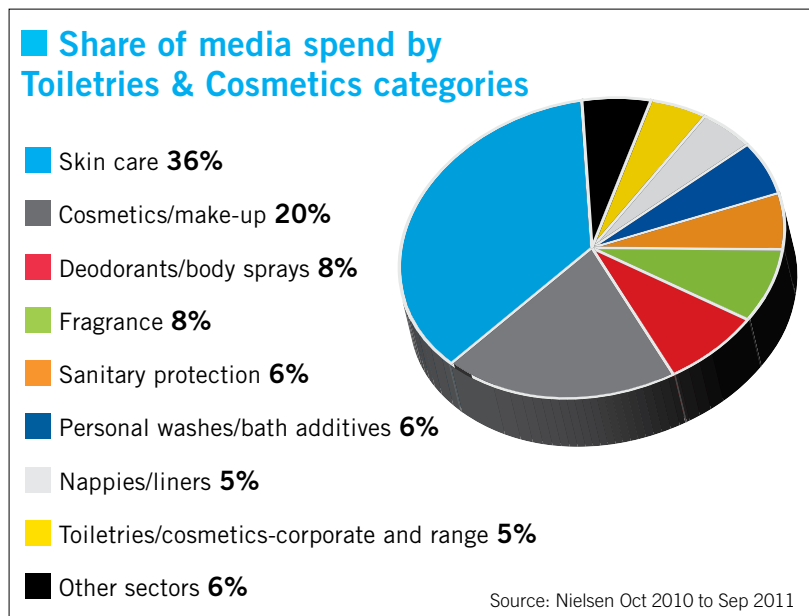
Also very active in 2011 was Coty Australia (a 12 per cent increase), with strong support for new products Calvin Klein Beauty Fragrance-Female, Rimmel Match Perfection Foundation, Rimmel Colour Show Off Lipstick, Beyonce Heat Fragrance-Female and Rimmel 123 Looks Mascara. ■

Top toiletries & cosmetics categories by share of main media spend (\$M)	Oct 2010 to Sep 2011	% Diff YOY
Total category est. spend	251.4	-1%
Skin care	88.0	5%
Cosmetics/make-up	49.7	9%
Deodorants/body sprays	20.5	-2%
Fragrance	18.8	-15%
Sanitary protection	15.0	-20%
Personal washes/bath additives	14.2	-21%
Nappies/liners	12.1	-12%
Toiletries/cosmetics-corporate & range	11.4	-13%
Other sectors	15.3	25%

Source: Nielsen

Top toiletries & cosmetics advertisers in main media spend (\$M)	Oct 2010 to Sep 2011	% Diff YOY
L'Oreal Australia	26.3	-12%
Unilever Australia	22.0	-27%
Kimberly-Clark	14.4	-6%
Procter & Gamble	12.8	-8%
Guthy Renker Australia	10.9	61%
Coty Australia	10.7	12%
Reckitt Benckiser	10.3	37%
Beiersdorf Australia	9.8	18%
Johnson & Johnson	9.3	-32%
Gillette (Australia)	8.4	3%

Source: Nielsen



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Premium quality ingredients to grow sales organically – Swisse Superfood Ultivite

Vitality supercharger! Over 70 certified organic and food-sourced ingredients including vitamins, minerals, antioxidants, probiotics and amino acids, to promote wellbeing and maintain energy levels.



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