

2011

PHARMACY STATE OF THE INDUSTRY REPORT

nielsen
.....

Weighing up tomorrow's consumer



Kosta Conomos
Executive Director
Retailer Services Pacific,
Nielsen

Today's consumer landscape continues to provide unprecedented challenges for manufacturers and retailers alike. Tough macro-economic conditions caused by the recent flood of natural disasters, escalating petrol prices and increasing utility costs are all dampening consumer sentiment, leading Aussies to tighten their already taught belts and purchase cheaper grocery options through private label, which now accounts for a 24.7 per cent share of packaged grocery.

The latest results from Nielsen's Global Online Consumer Survey for quarter one, 2011, show that Australian online consumer confidence is weakening, with our Confidence Index slipping two index points to 110, equating to two consecutive quarters of confidence decline (refer to Chart 1). However, of the 51 countries surveyed globally, Australia was the fourth most confident nation (tied with the Philippines and Switzerland) behind India with a consumer confidence index of 131, Saudi Arabia, 118 and Indonesia, 116.

Looking at the business environment, the results of Nielsen's latest Retail Barometer Report, which surveys around 100 of Australia's leading FMCG manufacturers on business conditions and major

concerns, reveal that business confidence is mixed – manufacturer optimism has declined versus retailer optimism, and quarter one confidence continues to wane in light of the natural disasters, which is weighing down on consumer and manufacturer confidence alike (refer to Chart 2).

So what's behind Australia's consecutive two-quarterly decline in consumer confidence? Well, it's a bit of a mixed bag: the consumer price index is creeping up to 3.3 per cent; personal savings rates have increased to 10 per cent, the highest they've been since the 1980s; there is uncertainty around interest rate rises, with some analysts forecasting a least one rate rise before the end of the year; fresh produce prices have skyrocketed following the natural disasters; and a 12-month flood levy tax will be imposed by the Federal Government from July 1, not to mention the proposed carbon tax which would cost the average household an extra circa \$500 a year if passed.

On the plus side, and rather surprisingly, unemployment is currently sitting at 4.9 per cent, which is close to the economy's full employment rate of 4.75 per cent.

As seen in the results of Nielsen's Global Online Consumer Survey, Australians are increasingly apprehensive about the rise in the cost of living, with increasing food prices responsible for the greatest percentage point increase (five points) as one of the two areas for major concern over the next six months.

The number one concern for Aussies is still the rising costs of utilities at 37 per cent, which it has been for the past six months (refer to Chart 3).

From a global perspective, the rise in food prices is now what worries global consumers the most. The economy, the second biggest concern for online consumers, dropped seven percentage points to 11 per cent in

the first quarter of 2011. Fuel prices also increased significantly as a major concern for consumers, escalating six percentage points to eight per cent. Rising utility bills remained a top concern among seven per cent of global online respondents.

Evidently, rising fuel and food prices are continuing to take their toll on consumers around the world as more and more households commit a larger proportion of their limited income to these necessities.

As spare cash continues to dwindle, consumers have taken action to save on household expenses that they can control, by reducing expenditure on non-essential items and activities, such as spending less on new clothes, out-of-home entertainment, and gas and electricity.

Switching to cheaper grocery brands and cutting down on takeaway meals are other cost-saving strategies that consumers are employing, and these tactics are likely to continue well into the year.

Tomorrow's consumer is, indeed, an increasingly diversified one: Australia's population is increasing by one just under every two minutes (one minute and 37 seconds) – that's 328,055* new consumers each year!

Generations are being born that have no allegiance to the brands of today, and the advent of social media has changed the way we market, making it vital to communicate in a targeted way to this new breed of switched-on consumer.

Rising savings rates are creating a more discerning consumer and shopper missions are evolving rapidly, meaning that innovation in product development, placement and marketing is critical in responding to the consumer of tomorrow's divergent needs.

(*Source: ABS population counter – includes international migration, new births and deaths) ■



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Swisse Professional Age Protect – potent source of antioxidants to protect against free radical damage

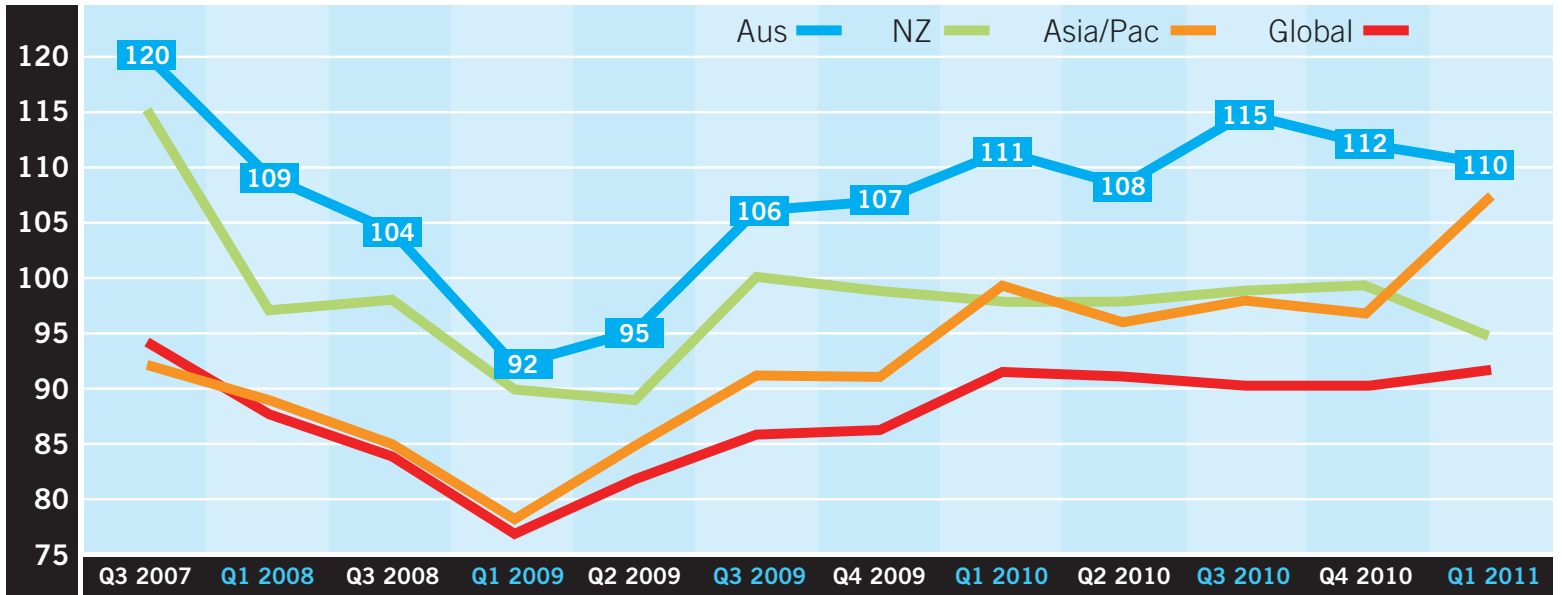
Introducing Swisse Professional – an innovative range exclusive to pharmacies and health food stores! To be a part of this exciting launch, contact your Swisse Territory Manager or freecall **1800 794 773 swisse.com**

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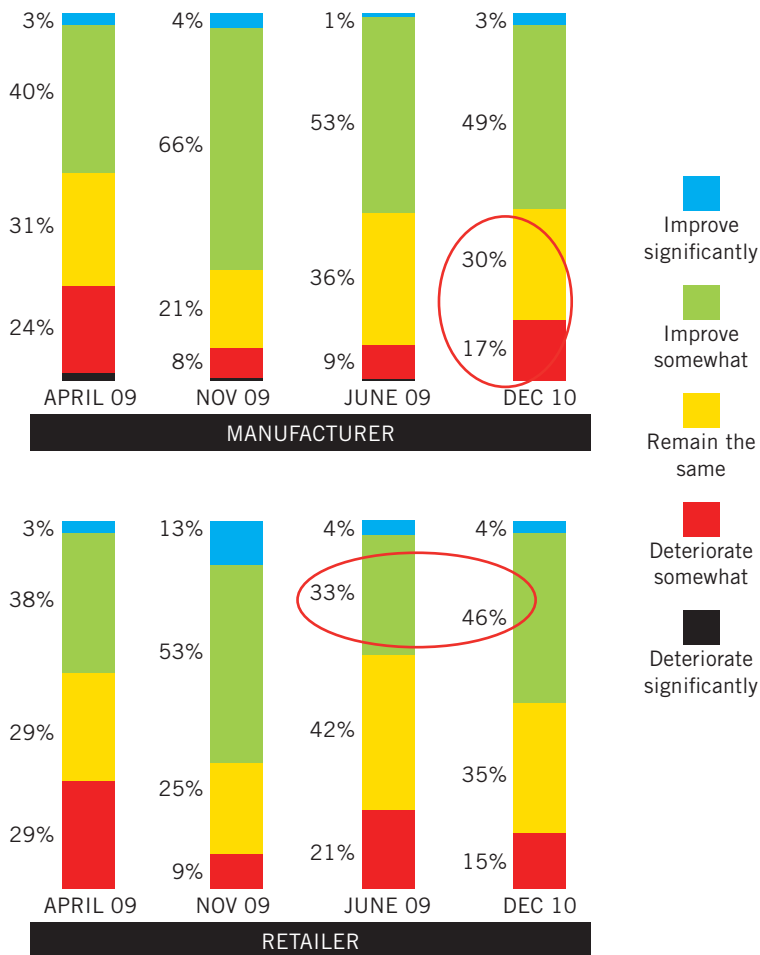


■ Chart 1: Trended Consumer Confidence Index.



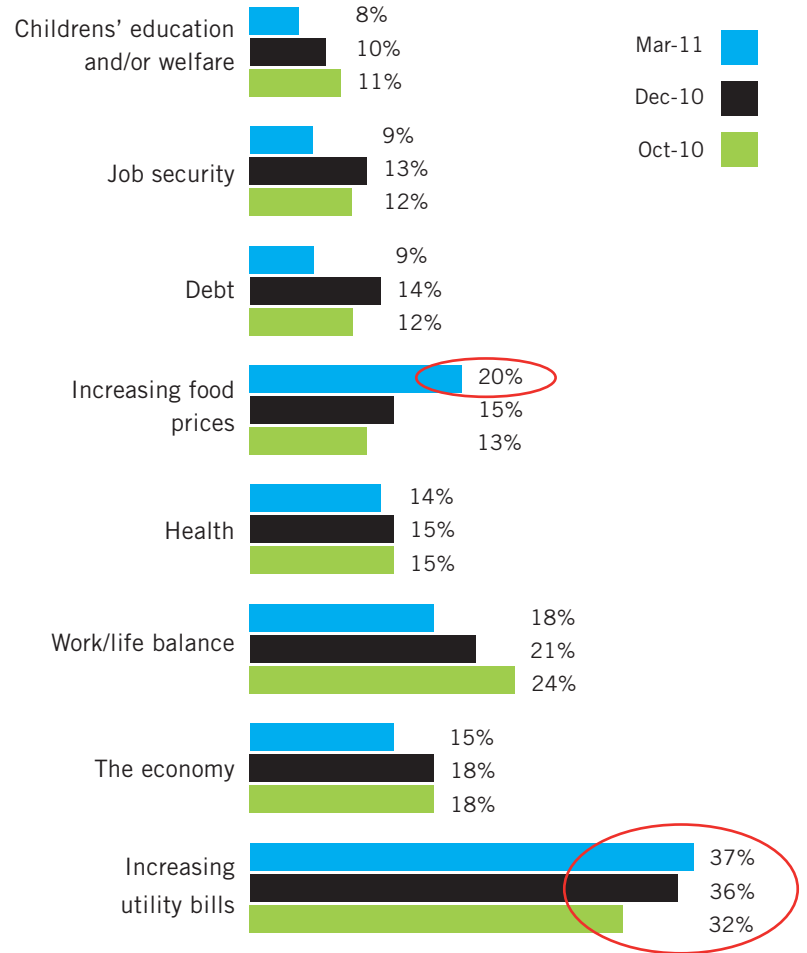
Source: Nielsen Global Online Consumer Survey, April 2011.

■ 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? (manufacturer response).



Source: Nielsen Retail Barometer, December 2011.

■ Chart 3: What are your two biggest concerns over the next six months?



Source: Nielsen Global Online Consumer Survey, April 2011.



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Swisse Professional Candida Care – tri-synergistic herbal and nutrient formula to help manage candida and thrush
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Category overview

Total Pharmacy front of shop (OTC) value and unit sales have seen solid growth over the year for the MAT to 13/03/2011. Driven by growth from the two leading categories, vitamins and supplements, and cosmetics, overall trade performance continues to be buoyed by these bigger categories. Of the top 15 biggest categories, 11 recorded annual growth (refer to Chart 4).

On an annual basis performance, the trade appears healthy, with sales growth over the latest quarter to 13/03/2011 accelerating to 9.1 per cent compared to the same time frame a year ago.

Some of the smaller categories that have also enjoyed a solid sale increase over the past year include anti-inflammatories and rheumatics, throat preparations, urinary, household and wound care.

Vitamins and supplements maintain its category-leading value position, with 13.9 per cent of OTC pharmacy value sales. This category also recorded a 5.9 per cent growth in value compared to last year. Cosmetics, with 10 per cent share of total OTC pharmacy value, increased by 8.8 per cent over the latest MAT to 13/03/2011.

Analgesics continue to be the largest category in terms of units, growing unit sales by 2.4 per cent over the past year compared to the previous year.

As trust, service and advice are the cornerstones of pharmacies, these stores could increasingly use the unfamiliar and complex nature of health-related categories to drive consumer trust and loyalty, which would hopefully lead to increased store revenue.

Community pharmacies may not necessarily win out on price, but customers who frequent these pharmacies will understand value as a function of service received, as well as range and price.

The very nature of pharmacies is to guide and provide informed advice, inciting trial. This advice and guidance means the shopper may come back to you for repeat purchase for non-prescription goods.

Encouragingly, the space pharmacies own is one that no competitor can own – pharmacies provide influential service, trusted advice and offer a unique range of health and wellbeing items.

The greatest opportunity for pharmacies is not to try to compete on price but to leverage their services, advice and in-store experience. ■

■ Chart 4: Pharmacy trade performance by top 15 categories for MAT to 13/03/2011 - National.

MAT to 13/03/2011	VAL RANK (MAT)	Val % Growth YA	Unit % Growth YA
Vitamins & supplements	1	5.9	4.4
Cosmetics	2	8.8	8.0
Analgesics	3	0.8	2.4
Cosmetic skin care	4	-0.8	1.2
Coughs/cold/sinus & flu	5	-0.1	0.4
Other Pharmacy	6	7.8	-2.3
Therapeutic skin care	7	2.1	1.3
Gastro-intestinal	8	1.5	1.0
Allergy & hayfever	9	3.6	4.3
Baby	10	-2.0	-5.1
Hair care	11	3.1	2.9
Weight management	12	1.6	-2.9
Foot Care	13	2.8	1.3
Wound care	14	4.1	0.3
Smoking cessation	15	-1.3	0.2

Source: Nielsen ScanTrack Pharmacy

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Swisse Professional Cinnamon – supports glucose response and aids digestion

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Ad Spend Review – How two key Pharmacy categories performed strongly in the past 12 months ...



Peter Cornelius
Managing Director
Australia Media,
Nielsen

Toiletries & Cosmetics

Throughout 2010 and into the first quarter of 2011, this major advertising category recorded strong and consistent growth to finish with an estimated expenditure in main media of \$254 million expenditure: a robust nine per cent increase year on year.

Reflecting the growth in activity, only two of the top nine sectors recorded declines in advertising support year on year, with the only substantial drop being for Sanitary Protection advertising (-19 per cent YOY).

Overall growth was driven by top ranking Skin Care advertising which saw impressive 19 per cent growth to dominate with 37 per cent share of all activity, representing double the investment of second ranked Cosmetics/Make-up (eight per cent YOY). Although Fragrances saw a minimal two per cent cutback year on year, activity was strong across Personal Care sectors including Deodorants/Body Sprays (six per cent), while there was also a strong resurgence in product range and Corporate Image campaigns from key Toiletries & Cosmetics (10 per cent YOY).

Representing more than half of all advertising activity in the Toiletries & Cosmetics ad category, were the top 10 advertisers, with eight recording strong to extremely robust increases year on year.

Top-ranked Unilever (two per cent) finished just ahead of L'Oréal Australia, which saw a 14 per cent reduction in activity to slide from Top Advertiser position year on year. However, among the impressive double digit advertising increases were Coty Australia (36 per cent), with strong support for new products Calvin Klein Beauty Fragrance-Female (\$1million), Rommel Match Perfection Foundation (\$1 million), Rommel Colour Show



Off Lipstick (\$700,000), Abeyance Heat Fragrance-Female (700,000) and Rommel 123 Looks Mascara (\$600,000).

Reckitt Benckiser was another to beef up their presence in consumer media (30 per cent YOY) entering the Top 10 advertisers rankings with activity across a range of products, including the \$2.6 million launch for Ditto Antibacterial No-Touch Hand Wash System and major support for Ditto Antibacterial Liquid Hand Wash

(100 per cent YOY). They also invested heavily with \$2.4 million in support of two new Vet products, Supreme Essence Hair Removal Cream and Supreme Essence Wax Strips.

Pharmaceuticals spending

There has been a noticeable increase in advertising activity in the first quarter of 2011, for this 16th ranked main media category, which recorded a substantial \$241 million expenditure

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Swisse Professional Cocoa Extract – potent source of antioxidants to support cardiovascular health

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Ad Spend Review – How two key Pharmacy categories performed strongly in the past 12 months ...

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over the past 12 months, representing a lift of 12 per cent year on year.

Behind this growth year on year were six of the biggest advertising categories, increasing activity substantially. The star performer across main media has been top ranking Vitamins & Minerals, with a substantial 22 per cent increase YOY to \$82 million, which represented more than a third of all advertising activity in the Pharmaceutical category.

The Top categories within Pharmaceuticals were brimming with other extremely robust boosts in product advertising activity year on year, across Musculoskeletal System (72 per cent), Alimentary System (32 per cent) and Nutrition (85 per cent).

Against this growth trend, the most noticeable declines in ad spending year on year were for Corporate campaigns (-24 per cent), Anti-Smoking (-15 per cent) and Allergy & Immune Systems (-45 per cent).

The top Pharmacy advertisers showed similar growth trends ...

The overall growth trend was reflected among the Top 10 advertisers, which combined spent more than half of all advertising activity for the Pharmacy category in main media. Overall, six of these advertisers increased activity year on year, led by top-ranked GlaxoSmithKline, after substantial cutbacks across 2010.

There were three companies recording major double-digit

increases, led by third ranked Health World (53 per cent) with major activity to promote their Ethical Nutrients Inner Health Plus, and seventh ranked Novartis (65 per cent) to aggressively support their range of Voltaren Analgesia products.

Wyeth continued its ongoing trend in cutbacks year on year (-23 per cent) with reduced support for their Advil Liquid Capsules and no support during 2010 for Recharge B Group Vitamins, 2010.

The return to positive advertising growth across 2010 continued into this year, albeit at a slower pace. Recent media reports indicate some patchy results across some media as 2010 is unfolding, possibly due in part to the devastating floods and cyclone damage across the eastern seaboard, escalating food and energy costs, and concerns over the impact of the Government's proposed carbon trading levy.

However, the economy remains extremely solid, unemployment and interest rates remain low, so the overall outlook does give reason for optimism across the Pharmacy retail sector. ■

“The star performer across main media has been top ranking Vitamins & Minerals, with a substantial 22 per cent increase YOY to \$82 million.”

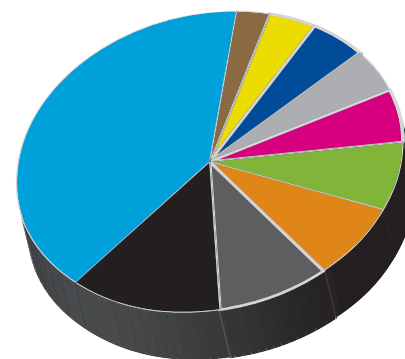
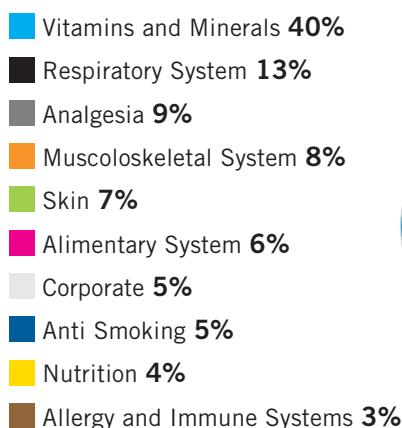
Pharmaceuticals Top 10 Advertising Categories	Apr 2010 Mar 2011	% Diff YOY
Vitamins & Minerals	82.3	22%
Respiratory System	26.6	7%
Analgesia	18.3	-5%
Musculoskeletal System	16.9	72%
Skin	15.2	1%
Alimentary System	13.4	32%
Corporate	11.4	-24%
Anti Smoking	10.3	-15%
Nutrition	8.5	85%
Allergy & Immune Systems	5.3	-45%
Other	32.5	n/a
Total est. Categories spend	240.7	12%

Source: Nielsen - estimated spend (\$M)

Pharmaceuticals Top 10 Advertisers	Apr 2010 Mar 2011	% Diff YOY
GlaxoSmithKline Australia	24.8	5%
Reckitt Benckiser P/L	14.1	-8%
Health World Ltd	13.1	53%
Sanofi-Aventis Consumer Health Care	12.8	4%
Johnson & Johnson	12.0	-7%
Wyeth Australia P/L	11.3	-23%
Novartis Australia	11.0	65%
Swisse Health Products	10.3	46%
Schering Plough P/L	6.7	-13%
Pharm-A-Care Laboratories	6.6	16%

Source: Nielsen - estimated spend (\$M)

Share of Media spend for Pharmaceutical Categories 2010 to March 2011.



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Swisse Professional Green Tea Extract – potent source of antioxidants to support healthy metabolism

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The expanding role of online media to help inform decisions and equip consumers with knowledge

Insights based on the recently published Nielsen Australian Online Consumer Report 2010-2011.



Melanie Ingrey
Research Director – Online
Nielsen Asia Pacific

Australians' use of the internet has reached a level of maturity whereby the majority of Australians now call on it as a method of communication, information, news, transactions and, indeed, a medium to help inform their decisions as consumers and to have interactions with organisations and brands.

For Health marketers it is important to note that a significant three in four online Australians aged 16 or above now use the internet to actively expand their knowledge of health and medical-related topics: an increase in participation of 20 percentage points through 2010 (refer to Chart 5).

More than one in 10 tap into these online resources on at least a weekly

basis, with the most regular users being the youth segment (16 to 34 year olds) indicating that this is a market segment holding a strong opportunity for online engagement around health and medical content.

There has also been a continued rise in Australians' use of social media through social networking sites like Facebook and Twitter, video sites such as YouTube, online forums and review websites.

Social media has truly been a revolution for online Australians and, importantly for marketers, it has revolutionised the methods by which consumers can connect with brands, connect with other consumers to discuss brands, and source other consumers' opinions about brands and products.

“Social media has truly been a revolution for online Australians and, importantly for marketers.”

Social media provides health and medical marketers with more customer touchpoints, more methods of content and communication distribution, and more information about customers and their preferences.

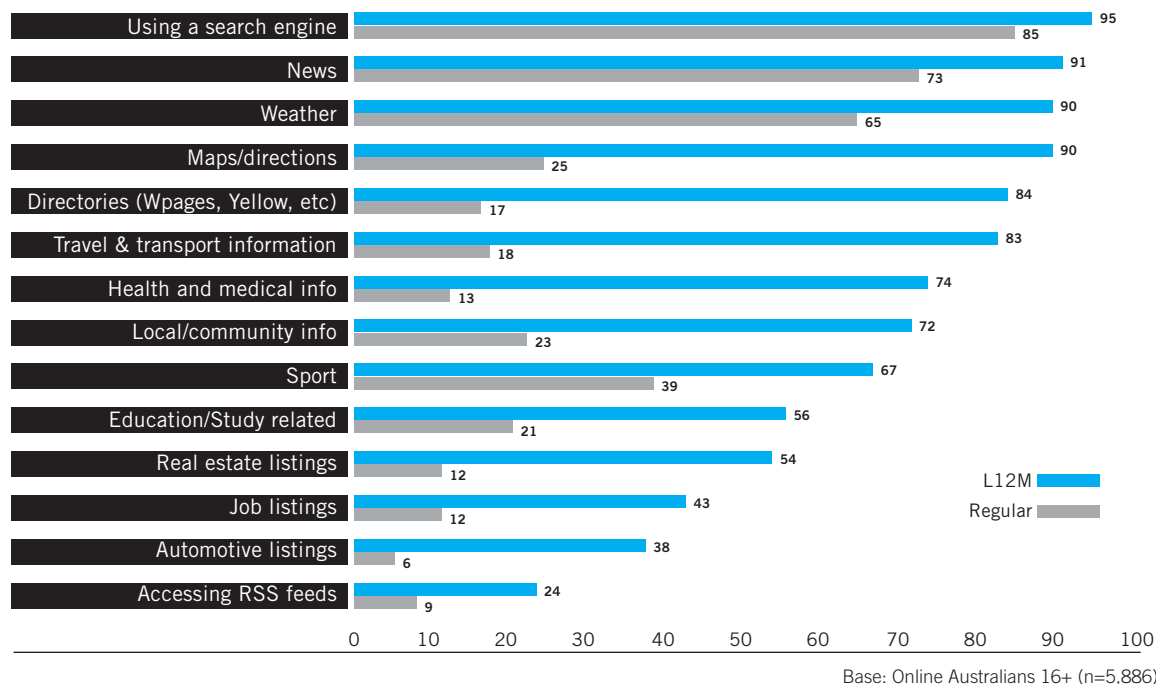
While it has not yet revolutionised all marketing sectors, social media in its many forms has certainly forced an evolution in marketing practice. Consider how marketers can better engage with consumers when:

- Now 41 per cent of all online Australians connect with brands and organisations via social media
- 73 per cent of online Australians are now tapping into other consumers' opinions found on social media
- Confidence in publishing their own opinions online is growing and is now at 43 per cent, up from 31 per cent at the end of 2009.

Interestingly, while there is a continued upward trend in Australian consumers' willingness to engage with brands and organisations using social media, the greater proportion of people are making positive public comments about a product, brand or organisation, in comparison to those making negative remarks (36 per cent versus 21 per cent).

There are strong levels of

Chart 5: Information-seeking online activities – last 12 months versus regular (weekly or more often) usage.



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Swisse Professional High Concentrate Omega-3 – high DHA for brain performance

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The expanding role of online media to help inform decisions and equip consumers with knowledge

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conversation around health/beauty-related topics in social media. Among consumers who read other people's comments or reviews online, one quarter did so about health/beauty – an increase from one fifth in 2009.

Just more than one in 10 participating consumers actively write comments about health or beauty and the same proportion watch online videos to help inform their health/beauty product decisions.

Online social discussion of brands

Online social discussion of key pharmaceutical brands is dominated, in terms of brand mentions, by a small set of brands. Huggies and Panadol are overwhelmingly the most referenced brands in Australian forums and blogs.

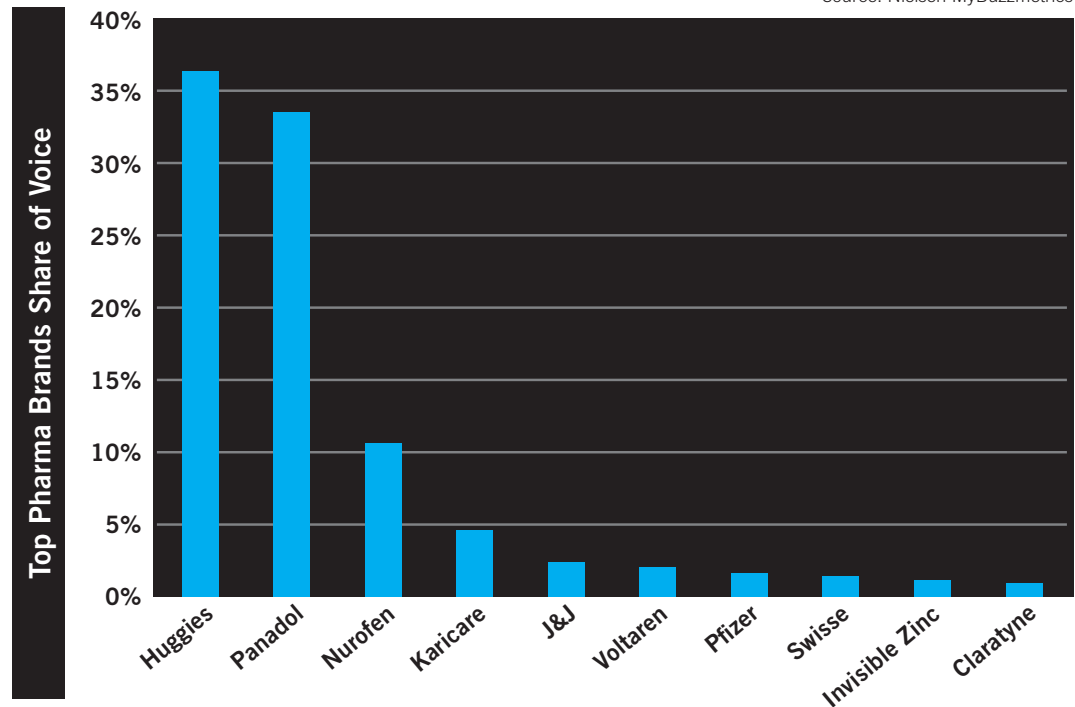
Kimberly-Clark has taken the path of hosting parent-focused branded communities at huggies.com.au, which generates just over half of all discussions for this brand in the social space. GlaxoSmithKline, makers of Panadol, on the other hand, benefit from organic online discussion tied to consumer awareness of their strong brand name, however, still very much driven by the parenting category.

Across all pharmaceutical brands, the importance of the parenting forums is clear: the forums of Huggies, Essential Baby and Bub Hub account for 78 per cent of all discussion of pharmaceutical brands investigated.

Even brands outside of parenting concerns, such as Claratyne and Voltaren, enjoy significant share of voice for their brands on these forums, reflecting the multi-dimensional nature of social interaction and brand discussion that occur in these categories. ■

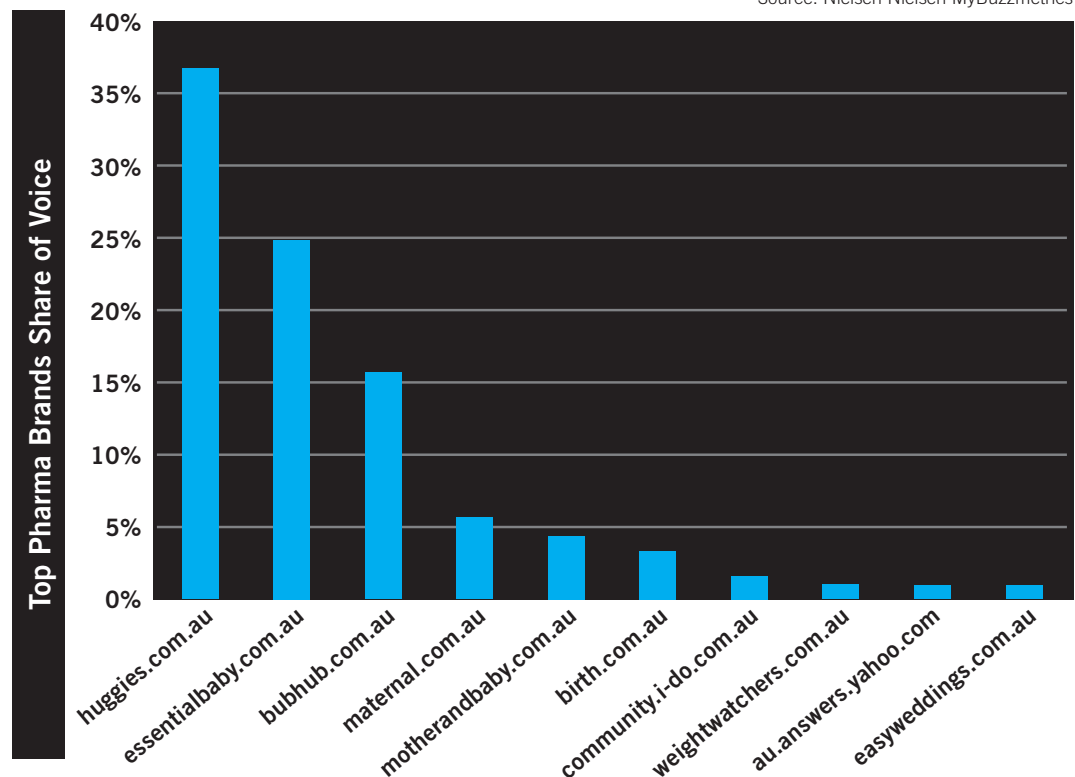
Pharma Brands Share of Voice Online in 12 months to May 5 2011.

Source: Nielsen MyBuzzmetrics



Top Locations of Discussion – Pharmaceutical Category.

Source: Nielsen Nielsen MyBuzzmetrics



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Swisse Professional Men's and Women's Ultivite-B – supports energy production, nervous tension and stress relief
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