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Supplements More 'Mainstream' Than Alternative In Consumer Health Market

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Executive Summary

Sales of dietary supplements promoted as non-drug alternative remedies and stocked nearby OTC in stores grew almost 12% in 2017, says Kline analyst Laura Mahecha. Retailers began co-stocking the about five years ago but in many cases the supplements currently have primary placement on shelves.

Dietary supplements once positioned as alternative remedies for common ailments had \$2.3bn sales in the US in 2017, becoming “mainstream” consumer health products increasingly stocked near OTC drugs in stores, says Kline & Co. analyst Laura Mahecha.

Consumers seeking alternative remedies are flocking to the category Kline describes as drug-free analgesics, cough/cold/immunity formulas, sleep aids, topical products and nutritional items that can support health,

prevent illness or treat symptoms, Mahecha said in an interview.



DIETARY SUPPLEMENTS HIGHLIGHTED AS NATURAL ALTERNATIVES FOR OTC DRUGS AND STOCKED NEARBY IN STORES INCLUDE PFIZER'S EMERGEN-C LINE, ABOVE, AND J&J'S ZARBEE'S NATURALS, BELOW.

Product examples include Johnson & Johnson's recently acquired *Zarbee's Naturals* brand, which encompasses products promoted as fighting colds, relieving cough and supporting the immune system and containing natural ingredients such as elderberry, honey and zinc. (Also see "J&J's Supplement Step With Zarbees Helps Drive A Leap For Consumer Health Growth" - Pink Sheet, 17 Oct, 2018.) Also included are Pfizer Inc.'s *Emergen-C* with high levels of vitamin C to help relieve symptoms of respiratory illness; and **Nature's Bounty Co.**'s namesake brand *Sleep Gummies* with melatonin.

Retailers often place the items on shelves next to or near OTC drugs, so they are either bought to supplement the drug items or in some cases, replace them as natural options.

Mahecha said retailers began stocking the items with OTC drugs about five years ago but in many cases the products currently have primary placement on shelves as the segment has taken off, growing at a CAGR of 20% for 2015-2017.

"These brands are still much smaller overall than the [major] OTC brands like in the cough/cold and pain relief segment," she said. "But they're definitely growing at a much faster pace. In some cases, triple digits," she added.



Comparatively, US manufacturers' total sales of OTC drugs in 2017 inched up 2.1% to \$21.2bn, according to Kline's recently released "Non-Prescription Drugs USA" report. (Also see "Cough/Cold, Analgesic Patch Sales Ease Pain Of Private Label Growth In OTCs" - Pink Sheet, 5 Oct, 2018.)

Sales growth of natural-positioned supplements marketed to compete with OTC drugs won't continue increasing, though. Kline forecasts the segment's growth through 2022 at 7%. "It's not flattening out but not growing at the fast rate it has been, primarily because the products are pretty much mainstream now, whereas five years ago many of them were new," Mahecha said.

OTC/Supplement Cross-Promos?

Natural-positioned supplements are likely to have "some residual effects" on sales of OTC drug products, which have had sales growth between 1% and 3% since the retailers began stocking alternative remedies nearby, Mahecha said.

She doubts, however, whether the products are cutting into OTC drug sales in a significant way partly because Kline consumer research shows many consumers use the supplement products in combination with the OTC drug. "Most of these natural products are used on a regimen or daily basis to keep you healthy," she said.

Supplement companies targeting this sector largely are careful in avoiding crossing FDA's line for treatment claims that OTC drugs can make, Mahecha said. "The natural products tend to make more nebulous claims like 'supports healthy immune system' rather than 'treats sore throat, cough and cold symptoms.'"

She said consumers may start to see cross-promotions of OTC drug brands with natural supplements, especially as OTC drug marketers acquire natural brands to stay competitive as consumers increasingly turn to non-drug options for their ailments.

For example, J&J, which markets OTC drug brand *Tylenol* and is making Zarbees Naturals part of its OTC drug business, could cross-promote its existing and future products “There could be some pairing of those products with Johnson’s baby products, for example, or Tylenol cold,” Mahecha said.

Similarly, Pfizer could co-market its OTC drug brands *Advil* and *Robitussin* with its natural supplement Emergen-C brand and Reckitt Benckiser Group PLC could run promotions for *Mucinex* cough/cold and decongestant products in tandem with its *Airborne Immune* or *Schiff* joint health supplements.

However, an FDA proposed rule published in 2015 would prevent manufacturers from coo-packaging those products and could impact cross-promotions of OTC drugs and supplements. The “Fixed-Combination and Co-Packaged Drugs: Applications for Approval and Combinations of Active Ingredients Under Consideration for Inclusion in an Over-the-Counter Monograph” proposed rule would extend FDA regulations on Rx fixed-combination drugs to products with prescription and nonprescription ingredients, co-packaged drugs and combinations of active ingredients under consideration for inclusion in an OTC monograph. The proposal states FDA will determine on a case-by-case basis whether co-packaged nonprescription drugs and vitamin, mineral or supplement products already available in the US are in violation of agency policy. (Also see "Supplement, Drug Co-Packaging Potential Could Be Clipped In FDA Proposed Rule" - Rose Sheet, 23 Aug, 2017.)