

# PROVEN OTC BRAND GROWTH STRATEGIES



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## Preface

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Just as we were about to publish this paper outlining successful growth strategies identified in OTCs and supplements, the COVID-19 pandemic hit hard in the United States. The novel virus disrupted traditional viral incidence patterns and resulted in consumer purchasing behavior like nothing ever seen before in the self-care CPG space.

Case in point: Growth averaged 16% for the consumer healthcare market early in 2020, due to strong demand for OTC pain relievers, cough and cold medications, and supplements. Barring a severe resurgence of COVID-19 in the 2020-2021 cough, cold and flu season, though, we expect most of the market will return to average growth rates of 2%-4% in 2021 and beyond. Furthermore, given the apparent pantry loading, it is possible that sales may actually be lower than normal during Q4 2020 and Q1 2021 due to a pantry drawdown of supplies purchased during the Spring 2020 pandemic period.

All this said, the COVID-19 pandemic will likely both temporarily and permanently change certain healthcare behaviors of consumers, and those changes will likely impact the growth of various products. However, we believe the five pre-pandemic approaches to growth outlined in this paper will still apply to our marketplace.

We hope that you find this paper useful and thought-provoking as you plan for growth in your organizations. We also hope that this paper provides a momentary, educational, and productive distraction from the headlines of the day.

Wishing you and your families safe harbor from COVID-19.

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## Introduction

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Prior to COVID-19, overall growth of the self-care industry has been slow and hovered around 2%-4%. The industry has consolidated significantly so that the largest players now market huge, mature brand portfolios of products across nearly every category. Private-label competition has held price increases to a minimum, and many consumers—millennials, in particular—rely on whole foods, functional foods and beverages, and exercise as non-drug alternatives to staying healthy and, therefore, need less medication. Many consumers are moving away from treating symptoms and are more focused on prevention and wellness. All of these factors have left experienced OTC marketers struggling to deliver dollar gains required by management and investors.

However, despite the lagging growth of OTCs in general (seen prior to the extreme stimulus from COVID-19), there are pockets of opportunity where certain categories and brands have experienced much higher-than-average industry growth. For example, the sleep aids category has grown at particularly high rates as well as topical analgesics and nutritional supplements.

The purpose of this paper is to examine the common traits that rapidly growing OTC companies and/or brands have in common. For this analysis, we have included nonprescription drugs in digestive/GI; internal analgesics; respiratory; medicated topical products; sleep aids; feminine care; sun care; smoking cessation aids; oral care products; and vitamins, minerals, and nutritional supplements.

## Category and company performance

The overall OTC market is valued at \$49.9 million in retail dollars for the 52 weeks ending 12/29/19, up 3.2% in dollar sales from the same period in 2018. Most categories show 2%-4% growth. Consumer demand, coupled with innovation and marketing, has driven strong gains in certain categories, particularly sleep and external analgesics. See Table 1.

**Table 1: Pre-Pandemic OTC Category Performance, 2018-2019, Ranked by % Growth**

Company	2019 retail sales, \$ billion-a	% change vs. YAG
Sleeping aids	1.0	16.0
Topical analgesics	0.9	11.8
Antiperspirant/deodorant	3.3	6.9
Respiratory	9.3	4.1
Miscellaneous health remedies-b	5.5	3.8
First aid treatments	1.9	3.6
<b>Total OTC and supplements</b>	<b>49.9</b>	<b>3.2</b>
Vitamins/nutritionals	11.7	3.2
Sun care	1.3	3.1
Digestive/GI	4.7	2.9
Smoking cessation aids	1.0	2.6
Oral care (toothpaste/mouthwash/teeth whitening)	4.8	2.5
Eye care/contact lens solutions	1.8	2.2
Lip care/medicated cold sore medications	0.9	1.7
Feminine care	3.9	1.2
Internal analgesics	3.9	-
Foot care-medicated	0.2	0.2
Acne treatments	0.6	(1.5)
Hair regrowth treatments	0.1	(3.0)

a- Based on IRI U.S. multi-outlet sales data, 52 weeks ending 12/29/19.

b- Includes Epsom salts, motion sickness and anti-emetic tablets and liquids, caffeine tablets/liquids, adult incontinence, hair growth products, salt tablets, thumb sucking remedies, foot care, lice treatments, boric acid, bedwetting remedies, humidifiers/vaporizers/air purifiers, eye/lens care tablets and accessories, drinking water germicidal tablets, and electric heating pads.

From a company performance lens, the most aggressive growth rate achievement is clearly from smaller, often more nimble companies, highlighted in Table 2.

**Table 2: Select Rapid Growth Companies, 2018-2019, Ranked by % Change**

Company	Key Brands	2019 retail sales, \$ million-a	% change vs. YAG
Armstrong Pharmaceuticals	Primatene	24.9	18,295.8
Vital Proteins	Vital Proteins Collagen	21.8	588.6
Avadim	Theraworx	51.8	172.7
Galderma Labs	Proactiv, Differin	54.8	103.6
Windmill Health Products	Windmill	32.9	92.7
Pharmacare	Sambucol	60.6	76.6
Garden of Life	Garden of Life	63.3	60.3
Olly	Olly	158.2	58.6
Heatmax	Heatmax	43.1	56.8
Piping Rock Health Products	Nature's Truth	74.8	48.9
Abbott Nutrition	Ensure, Zone Perfect	53.9	43.6
Smartypants	Smartypants	28.5	33.3
Natrol	Natrol	127.5	30.3
Quten Research Institute	Qunol	71.9	22.1
Quincy Biosciences	Prevagen	129.0	19.2
Boiron, Inc.	Boiron	82.6	11.1
Performance Health	Biofreeze	121.5	10.3
Carma Laboratories	Carmex	84.3	8.4
Hisamitsu Pharmaceutical	Salonpas	123.8	4.7

a- Based on IRI U.S. Multi-outlet sales data for the U.S. OTC and supplement universe, 52 weeks ending 12/29/19 unless otherwise noted

Note: Companies shown have retail sales in 2019 of at least \$20 million and have grown at higher rates than the overall industry.

Not to be left behind, several major OTC firms have also delivered better-than-category growth, often via acquisition of faster-growing upstarts, but also organically. Even if they aren't growing at high double-digit rates, some large players are nevertheless driving real dollar gains for the industry. For example, with growth last year of 6.3% for Johnson & Johnson in the OTC space, the company added more than \$194 million to the market. Procter & Gamble has done an excellent job of growing several of its lines, including Pepto-Bismol and Vicks/Quil, through innovation, price increases, and outstanding marketing/promotion. With 10.4% growth, Procter & Gamble added more than \$159 million to the market last year. See Table 3.

**Table 3: Major OTC Company Performance, 2018-2019, Ranked by % Change**

Company	Key Brand(s)	2019 retail sales, \$ million-a	% change vs. YAG
Unilever	Olly, Dove, Degree, Axe	224.8	36.9
Procter & Gamble	Vicks, Pepto-Bismol, Metamucil, Align, New Chapter	1,691.0	10.4
Bausch Consumer Health	Bausch & Lomb, Preservision	661.8	9.4
Johnson & Johnson	Tylenol, Zarbee's, Neutrogena, Zyrtec, Imodium	3,253.0	6.3
Church & Dwight	Orajel, Vitafusion, Simply Saline, Lil' Critters	496.3	3.9

## Recent growth approaches

We have identified five approaches that rapidly growing brands or companies in the consumer self-care space recently and increasingly espouse:

- Natural positioning
- Deliberately build or acquire growth
- Focus on flagship brand or therapeutic area
- Innovation
- Connecting with consumers

## Natural Positioning

A strategy for growth that is quickly apparent is the strength of brands that are positioned as “natural.”

A recent Kline survey found that half of consumers use more natural products now than one year ago, and nearly two-thirds said they buy and use natural OTCs more now than they did five years ago. The natural concept has traction across various product categories in the beauty, personal care, and home care markets. Consumers increasingly opt for products that are natural or, at least, perceived to be natural due to brands’ claims of the inclusion of naturally derived ingredients or exclusion of “bad” or harmful ingredients. Natural OTC products are no longer niche—that is, found only in natural and specialty stores. These brands have mainstreamed, and the majority of sales are now through drug stores, mass merchandisers, and online. In these mass channels, natural OTC brands are merchandised alongside traditional, non-natural brands.

Rapidly growing consumer healthcare brands that are positioned as clean and simple include Zarbee's at +39%, Sambucol (Pharmacare) at +77%, Natrol at +30%, Nature's Truth (Piping Rock Products) at +49%, and Garden of Life (Nestlé) at +60%. Natural and herbal ingredients in self-care are expected to continue to be in high demand by consumers, especially with respect to immunity-enhancing benefits. Conversely, we expect an opposite shift in home care post-pandemic product demand toward the traditionally stronger, more chemical-based products with alcohol, bleach, or hydrogen peroxide as ingredients to disinfect and sanitize surfaces.



**Piping Rock Health Products Nature's Truth Line on Shelf**



**Garden of Life promoted by actress Alicia Silverstone**

## Deliberately build or acquire growth

Deliberately building growth is achieved by a step-wise, walk-before-you-run approach. We observed several brands “soft launch” online first and build a foundation of sales, then branch into brick-and-mortar—and even once in B&M, roll out sequentially through some of the larger national retailers. Examples of winners using this approach include:

- Windmill Health Products’ Windmill supplement line, up 92.7%
- OLLY vitamins and supplements line, up 58.6%
- Smartypants vitamins and supplements, up 33.3%


Acquiring growth is an increasingly common tactic employed by larger portfolio companies. Zarbee’s was attractive to Johnson & Johnson because of its fast growth and because Zarbee’s filled two crucial consumer demands that were not met by existing brands:

1. Effective cough and cold products for pediatric use
2. Parents’ desire to use clean, simple, and natural products for their children

Similarly, Unilever acquired the OLLY line, which saw strong growth as a result of de-mystifying the supplements market with clear front panels and labeling. This upstart firm pursued slow, methodical growth of the OLLY line with online-only sales at first and then a highly targeted brick-and-mortar rollout, first only available at Target, then select CVS stores, and so on.







Another interesting aspect of “acquiring growth potential” is seen in new companies that have been formed via the acquisition of brands shed from larger companies. Assuming the brand equity is still strong and the products still in demand, the approach of renewing right-sized marketing and sales support to once underfunded brands has resulted in valuable growth. Examples of this include **Focus Consumer Healthcare**, created in 2015, and managed by former Chattem executives. It markets Herpecin-L medicated cold sore product, Garlique garlic supplement, and Prem-syn PMS diuretic, acquired from Chattem/Sanofi. Sales for the company were up 21.5% in 2019. In March 2015, Infirst Healthcare acquired rights to market Johnson & Johnson’s Mylanta and Mylicon Drops brands of gastrointestinal remedies in the United States. The company’s mission is “known drugs— made better.” It pledges to create better healthcare solutions for consumers by bringing innovation to existing medicines. Four years later, on the heels of reformulation and product refreshes, total sales were up 10.0% in 2019.

**Foundation Consumer Healthcare** now owns several market-leading brands including Plan B One-Step emergency contraceptive, Theravent snoring relief nose strips, Campho-Phenique cold sore remedy, St. Joseph’s low-dose aspirin, Bronkaid asthma relief, and Neo-Synephrine nasal decongestant. Foundation Consumer Health, made up of a savvy management team with experience in the development, marketing, and commercialization of nonprescription medicines, delivered sales gains of 7.4% in 2019. At publication time, Foundation CHC had also added a collection of brands acquired in July 2020 from GSK and formerly from Pfizer Consumer Healthcare, including Children’s Dimetapp®, Anbesol®, Alavert®, Dristan®, Primatene® Tablets and FiberCon®.

## Focus on flagship brands or therapeutic area

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Sluggish performance often occurs for large OTC players with broad product portfolios, where resources are allocated to the largest franchises, while some brands suffer from limited marketing support. There are several companies that have realized strong growth by having a focused portfolio that concentrates on a flagship brand and a deep commitment and expertise in a particular therapeutic area. Examples include:

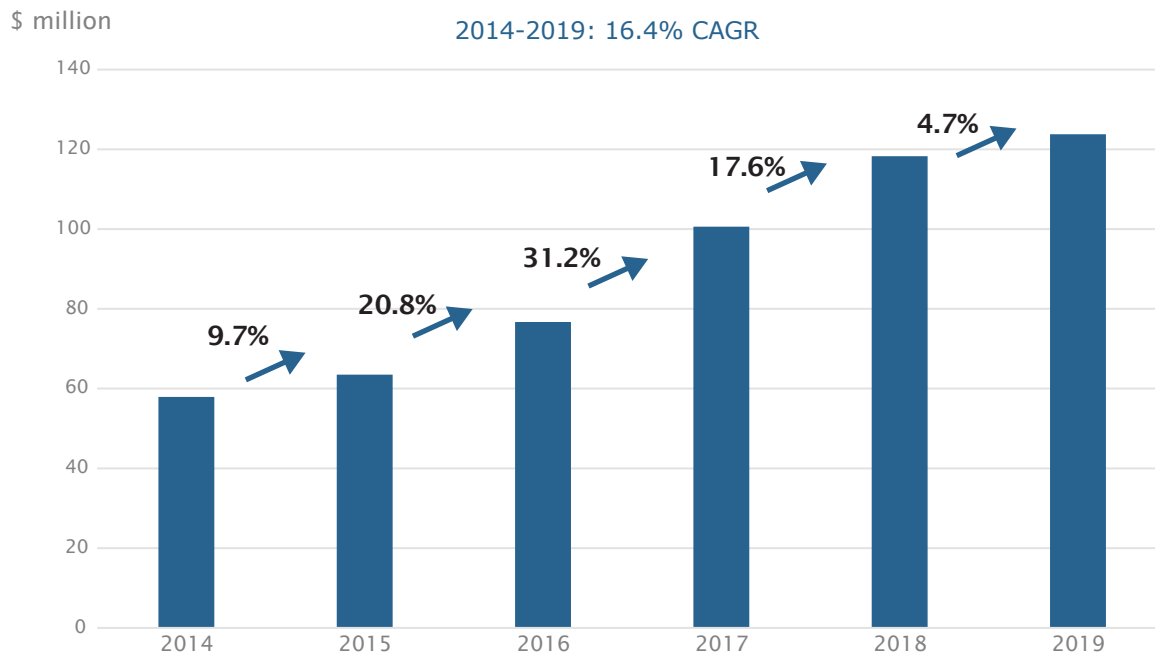
- Avadim’s Theraworx topical analgesics, up 172.7%
- Pharmacare’s Sambucol natural elderberry cold remedy, up 76.6%
- Quincy Biosciences, Prevagen brain health supplement, up 19.2%
- Performance Health’s Biofreeze topical analgesics, up 10.3%
- Carma Labs’ Carmex oral care, up 8.4%
- Hisamitsu Pharmaceutical’s Salonpas topical analgesics, up 4.7%

It is important to note that growth via focus can also be realized in large companies where brands are managed with more autonomy by a team that best understands the brand, its retail partners, its competitors, and its consumers. In cases like the NyQuil/DayQuil/ZzzQuil line from Procter & Gamble, this franchise is managed in a decentralized manner. As a result, in part, the brand innovations, line extensions, marketing messages, advertising, retail shelf space, and brand promotions have been very successful and have helped the company expand sales of its consumer healthcare unit, despite sluggish performance from some of its other brands in this industry. A similar approach has proven successful for the Pepto-Bismol and Metamucil digestive health franchises, also owned by Procter & Gamble but marketed by dedicated, knowledgeable teams given the runway and latitude to succeed.



Focus can pay dividends over time as well. Salonpas for topical pain relief by Hisamitsu has also experienced strong growth well above market averages and has been able to uniquely sustain high growth over the past five years. As shown below, the brand has grown from \$58 million to \$124 million, up by a compound annual growth rate of 16.4% over this five-year period. From 2016 to 2017, the brand grew 31.2%, driven by line extensions containing 4.0% lidocaine. While the brand’s growth was more moderate in 2019, it has still shown a very strong growth trajectory over the recent past.

### SALONPAS RETAIL SALES, 2014-2019, \$ MILLION



Based on IRI MULO data, calendar year ending 12/29/2019

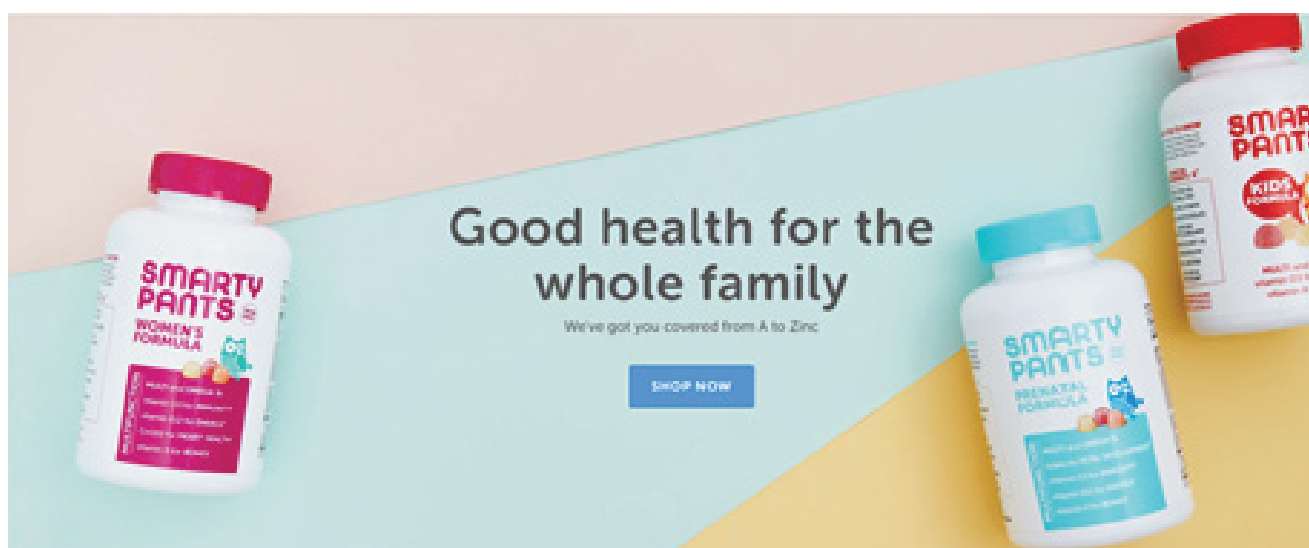


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## Innovation

When looking at the fastest-growing companies and brands, innovation clearly drove growth and was achieved in different ways. Innovating to improve on downsides of products currently available is one approach—for example, launching a different flavor or dose form like gummies. For certain, gummies were a welcome improvement for consumers who have had trouble swallowing large tablets. However, the most notable approach we observed recently was the creation of products which address high consumer interest need states. Launches that focused on brain health, immunity, heart health, sleep, weight management, menopause, or improved hair/skin/nails have posted enviable growth. Below are several examples:

- Vital Proteins collagen supplements for hair/skin/nails, up 588.6%
- Quten's Qunol for heart health and inflammation, up 22.1%
- Quincy Biosciences' Prevagen, brain health supplement, up 20.8%



## Connecting with consumers

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Increasingly, we are seeing successful marketers grow their businesses based on creating an emotional connection between their brands or products with consumers. Another form of consumer connection is seen in cultivating and driving differentiated and powerful recommendations through health care providers, bloggers, and other influencers.

### **Emotional connections with consumers**

Historically, advertising for OTC medicines is matter-of-fact and/or “problem/solution”-oriented. That approach serves the industry and many of its manufacturers rather well but is not terribly differentiated. We’ve seen more growth stem from the few marketers that have cracked the code to incorporating an emotional connection with the consumer into their copy. Excedrin® from GlaxoSmithKline (GSK) illustrated this beautifully with its Migraine Simulator to create the “migraine experience.” This kind of empathetic copy has great appeal to a consumer and makes him/her feel like the Excedrin manufacturer, GSK, “gets me,” as well as demonstrates strong efficacy to the migraine sufferer. Bayer has done similar work with higher-order benefit and emotional advertising for Bayer Low Dose Aspirin. Johnson & Johnson appeals emotionally to consumers and patients through its “How We Family” digital approach. Its recent tagline, too, tugs at emotional heartstrings: “For What Matters Most.”

### **Marketing brands to healthcare professionals (HCPs)**

Performance Health has built a strong brand with its menthol-based Biofreeze topical analgesic, based on recommendations by physical therapists and other healthcare practitioners. Sales were up 11.9% in 2019. Healthcare professional recommendations tend to carry weight, drive trial and repeat purchases, and create brand loyalty. Other marketers using the power of healthcare professionals’ recommendations include Johnson & Johnson with its Tylenol analgesic line, up 11.4% in 2019; Mucinex upper respiratory brand from Reckitt Benckiser, up 1.3%; and the eye care supplement Preservision from Bausch Consumer Health, up 6.4% in 2019.

This time-proven tactic may not produce results in the short term and requires ongoing investment. But it lays the foundation for deep, long-lasting, more impenetrable equity. For OTC medicines and consumer healthcare products, though, it is a key tool to generate sustained growth.

## Rx-to-OTC Switch

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Most of this paper covers the pockets of growth observed in the data over the last year or so and specifically how self-care product companies are presently growing. There is, however, another historically proven way to generate often monumental growth which deserves mention: Rx-to-OTC switch. For instance, the industry experienced a substantial boost in growth to reach about 4.5% in 2015, when a confluence of switches occurred: Nexium® and Nasacort® in 2014, which continued to sell robustly into the following year, and Flonase® in 2015.

True, switch programs are exceedingly costly and take many years to complete, with no guarantee of success. The upside, however, is generally worth the investment and risk. Switched products contribute substantially to the roster of OTC brands which have reached \$100 million or more

in retail sales. Further, some of these brands continue on strong growth trajectories many years post-switch, including Plan B® emergency contraceptive, Miralax® laxative, Imodium® antidiarrheal preparation, and others listed below:

<b>Rx-to-OTC Switch Brands that Posted Growth in 2019</b>	<b>Retail sales, \$ million, 2019</b>	<b>Retail sales,\$ million, 2018</b>	<b>% Change vs YAG</b>
Lumify	77.3	24.9	210.8
Differin Acne Treatments	49.1	39.8	23.4
Pepcid	129.5	106.5	21.6
Tagamet HB 200	10.3	8.6	19.5
Plan B	253.1	228.4	10.8
Miralax	238.8	220.3	8.4
Zaditor	39.0	36.0	8.3
Motrin	214.1	200.7	6.7
Lotrimin (including Ultra)	122.9	117.3	4.8
Xyzal	88.8	84.8	4.6
Imodium	151.1	145.3	4.0
Nicorette	321.1	311.4	3.1
Zyrtec	484.4	470.5	3.0
Claritin	515.9	502.9	2.6
Mucinex Total line	880.2	869.2	1.3

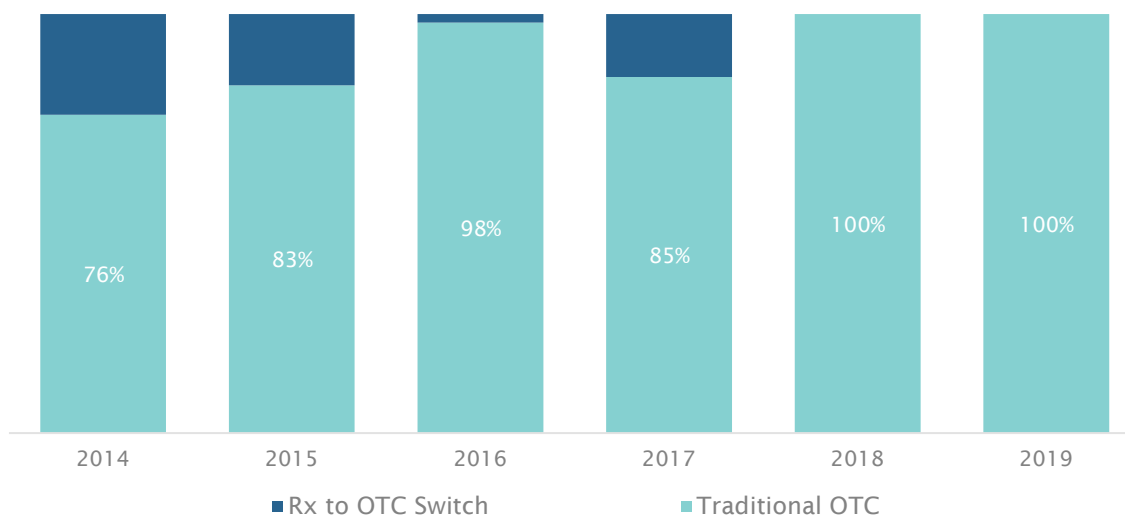
Unfortunately, during 2018 and 2019, there were no switches, as illustrated in the chart below. However, that pattern of drought quickly changed in February 2020 when the U.S. FDA approved three new Rx-to-OTC switch brands:

- Voltaren Arthritis Pain® non-steroidal anti-inflammatory (NSAID) topical analgesic by GSK
- Pataday Twice Daily Relief® allergy eye drops by Alcon
- Pataday Once Daily Relief® allergy eye drops by Alcon
- Pataday Once Daily Relief Extra Strength allergy eye drops by Alcon (approved in July 2020)

Additionally, Sanofi is working on switch applications for Tamiflu® influenza treatment and Cialis® erectile dysfunction medication. Other products and categories where we anticipate switches include Flomax® for BPH, Nasonex® allergy medication, oral contraceptives, migraine, erectile dysfunction, overactive bladder, sleep medications, and smoking cessation (Chantix®).

While there has been a lull of Rx-to-OTC switch activity over the past two years, the brands brought to market through switches are expected to increase in 2020 and beyond, and these new brands have the potential to drive real growth for the industry by creating new categories and brands for consumers.

## PERCENT OF SWITCH SALES OF TOTAL OTC



Source: IRI Multi-outlet data for OTCs U.S. 2014-2019

## Conclusions

In this pre-pandemic analysis of the OTC and supplement industry, which we believe represents normal market conditions, we uncovered various approaches to growth. While there is no one way to achieve growth, these strategies rose to the top of our analysis:

- Natural positioning
- Deliberately build or acquire growth
- Focus on flagship brand or therapeutic area
- Innovation
- Connecting with consumers

While all of these growth levers have proven to have merit as outlined, there are a few that are likely to benefit moreso coming out of the pandemic into the new normal. We hypothesize that more consumers will leverage products with immunity benefits as part of a year-round self-care regimen, rather than just during the cough-cold-flu season. Since prevention is normally achieved with lifestyle and nutrition changes, we believe that naturally positioned products and supplements to help strengthen immunity, covered in bullets one and four above, align well with what consumers will be looking for in self-care products in the near future.

## About the IRI/Kline alliance

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Information Resources, Inc. (IRI), the global leader in innovative solutions and services for consumer, retail and over-the-counter healthcare companies, and Kline & Company, a global market research and management consulting firm, have established an exclusive alliance to service the worldwide, over-the-counter drug and overall consumer healthcare industries. This powerful alliance will provide a higher level of data accuracy and an unparalleled, global range of thought leadership on stimulating topics in the consumer healthcare space.

As part of this collaborative relationship, IRI will contribute its granular, widely recognized, point-of-sale (POS) market data, related insights, and thought leadership. Meanwhile, Kline will provide its unmatched historical database, global network, and 360-degree view of the complex OTC drug market, including its comprehensive channel coverage and vast expertise in the area of Rx-to-OTC switches.

The collaborative thought leadership will manifest through white papers like this one on such topics as Rx-to-OTC switch, merger and acquisition activity, and new product innovation, as well as trends and issues in international and emerging markets within the OTC drug industry.

### About IRI

IRI is a leader in delivering powerful market and shopper information, predictive analysis, and the foresight that leads to action. IRI goes beyond the data to ignite extraordinary growth for clients in the CPG, retail, and especially in the OTC healthcare industries by pinpointing what matters and illuminating how it can impact their businesses. Experience the power of IRI's mantra "Growth Delivered" at [IRIworldwide.com](http://IRIworldwide.com).

### About Kline & Company

Kline is a worldwide consulting and research firm dedicated to providing the kind of insight and knowledge that helps companies find a clear path to success. The firm has served the management consulting and market research needs of organizations in the agrochemicals, chemicals, materials, energy, life sciences, and consumer products industries for more than 60 years.

For more information, visit [www.KlineGroup.com](http://www.KlineGroup.com).

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