

# OTC-Outlook 2024

## INDUSTRY TRENDS AND DYNAMICS IN GERMANY

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The German OTC industry is currently undergoing significant changes. We present a list of key dynamics and management issues that we believe will be central in the coming year, based on insights from our strategic work with clients and in-depth research.

### #01 OTC MARKET Maintaining Robust Consumer Demand in the Face of Inflation

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- Despite a decrease in buying power, consumer spending on OTC products remained stable, with the market growing by 5% in 2023
- Consumers are generally willing to accept price increases from OTC manufacturers due to
  - overall moderate price sensitivity, supported by recommendations from pharmacists and doctors
  - external factors, such as a flu wave, which create an acute need for relief
- For the period year 2024, the overall growth of the OTC sector is expected to continue. Key drivers include:
  - the ongoing trend towards self-medication
  - price-conscious and low-income consumer segments will continue to purchase OTC products, turning increasingly to online pharmacies with high discounts

### #02 OTC CATEGORIES Navigating Portfolio Management Between Rapid Growth and Stagnation

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- All cough and cold categories drove the market in 2023, with increases ranging from 11% to 22% compared to 2022
- Due to the continuation of flu epidemics in the aftermath of COVID-19, acute treatments for cold symptoms will remain essential in driving the OTC sector
- The segment of probiotics, particularly those related to intestinal health, is expected to continue expanding due to clinical research, high marketing spending, and increasing consumer interest
- The categories of preventive care, such as micronutrients and food supplements, which drove market growth during the COVID period, showed only a 2% increase in pharmacy sales in 2023. This trend is expected to continue, particularly as direct-to-consumer business models for food supplements continue to grow outside of the pharmacy
- Effective management of the OTC portfolio is crucial for achieving above-average growth, whether through the creation of own brands or via acquisitions

### #03 CHANNEL SHIFT Ongoing Move towards Online

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- Stationary pharmacies remain the primary channel for OTC products
- However, the share of OTC consumer spending at online pharmacies is increasing (after a dip in Q1 22) and reaches app. 28% (manufacturer selling prices) by the end of '23
- The shift towards online pharmacies will continue:
  - price-conscious consumer segments will further switch to high-rebate online pharmacies
  - the roll-out of eScripts will attract new patients and their corresponding OTC purchases to mail order pharmacies
  - the decreasing number of stationary pharmacies in rural areas will over time make it more attractive for consumers and patients to order online

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## #04 ONLINE PHARMACY LANDSCAPE Fight for Profit, eScript Competition and New Market Entrants

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- The business model of “OTC-only” online pharmacies will remain non-profitable due to fierce price competition
- To win profitable patients - especially those with chronic diseases – a successful roll-out of the eScript is crucial
- In 2024, the marketing battle among online pharmacies will intensify significantly, making access to financial funding more crucial than ever for success
- Strong competition to attract new patients and consumers will drive the shift to online pharmacies
- New players such as drugstores, food retailers or discounters as new and financially strong market entrants, and their customer base are likely to prepare to join the online pharmacy scene in 2024
- Once the eScripts momentum is strong enough, Amazon is likely to enter the market as a full-fledged online pharmacy

## #05 STATIONARY PHARMACIES A Creeping Disruption

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- Brick-and-mortar pharmacy consolidation will accelerate due to the low profitability of small pharmacies
- The concentration process among pharmacies will continue, shifting the volume of the OTC market ...
  - to fewer, more successful pharmacies
  - into the hands of fewer, more successful pharmacists
- The spread in quality and in quantity will increase between ...
  - pharmacists who own micro-chains and have access to sufficient financial and human resources
  - ... and individual pharmacists with low profitability

## #06 PRICING FOR PROFIT Key for OTC Manufacturers

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- Price discovery: defining optimal price points in times of stagnant purchasing power requires a holistic understanding of consumers' and shoppers' willingness to pay
- Developing and consistently communicating the brand's USPs (both functional and emotional) is critical to unlocking the full revenue potential
- Gross-to-net management and trade terms need to be adapted to the dynamics of the pharmacy landscape and portfolio priorities
- Cross-functional pricing will be increasingly important: involvement of teams from commercial, marketing, sales, medical and innovation

## #07 INVESTMENT OUTLOOK OTC Remains Attractive

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- Companies' market values and financial multiples have declined in 2023, mainly due to rising interest rates
- Overall, the OTC market still appears to be strong, with continued interest in self-care
- Self-medication will continue to attract strong interest from both strategic and private equity investors