How bright are the prospects for self-medication in France?

by Jean-Michel Peny

Compared with the rest of Europe, the French self-medication market has proved rather disappointing. It declined by 1% on average each year from 1995 to 1998, while the European market grew by 2%. Yet, despite this poor performance, many industry specialists still predict that the situation is going to improve.

A rigorous analysis of the self-medication market reveals serious flaws in this optimistic view. In fact, as the prospects for greater profitability in the self-medication segment look unlikely to improve significantly in the next five years (see Figure 1 below).

So why are industry specialists convinced that the market is about to take off?

There is a tendency among these specialists to place undue emphasis on regulatory and policy changes both within France and the European Union which they believe will benefit the self-medication market. For example, the EU review of the legal and regulatory framework for non-prescription products[1] has resulted in initiatives which should favour harmonisation throughout Europe. This, they argue, will encourage France to adopt a more relaxed attitude to switching products, as the UK and Germany, for example.

The mutual recognition procedure, based on a definition of non-prescription products (Council Directive 92/26/EEC), is also seen as beneficial to the self-medication market. Since 1998, in addition to the national authorisation procedure, non-prescription products can be registered through the decentralised or mutual recognition procedure, so they can be sold in more than one EU country.

However, this procedure does not work satisfactorily in practice and will not have as significant an effect on the self-medication market as many believe. In terms of healthcare – especially pharmaceuticals – EU countries are still eager to retain their independence. This was illustrated recently by the refusal of France, Spain and Portugal to accept the European Commission's proposal to allow pharmaceutical companies to use the prescription brand name for a switched product when the prescription version is still available and reimbursed.

Positive attitude

Admittedly, since 1996, the French Drug Agency, recently renamed the Agence Française de Sécurité Sanitaire des Produits de Santé, has adopted a more positive attitude towards self-medication. Fifteen active ingredients have been approved for switching to non-prescription status since 1996, compared with only three between 1990 and 1995. Furthermore, it is now possible to advertise the switched products to the general public, which was not the case before 1996.

This change of attitude has come about because the French authorities have seen the switches of prescription or semi-ethical products to over-the-counter (OTC) products as an opportunity to reduce public healthcare costs. Unlike the situation in the 1980s and early 1990s, the government is no longer willing to withdraw entire therapeutic classes from reimbursement lists – a move which led to companies repositioning their products as OTCs. Such measures proved unpopular, politically risky and did not demonstrate tangible economic benefits.

Four years after the 'imposed' switch of the anti-asthenics, sales had been reduced by 50% in value terms and by 75% in volume[2]. This situation arose from a 'prescription transfer' to reimbursable anti-depressant drugs, such as selective serotonin re-uptake inhibitors, including fluoxetine or paroxetine[3]. For these

The French self-medication market

The French self-medication market includes all registered drugs that can be purchased without a prescription.

It is divided into OTC products, which are not reimbursable, and semi-ethicals which are, providing they are prescribed. The global OTC market achieved €1.1 billion in 1998, corresponding to a decrease of 3.5% in value terms compared with 1997. OTC products accounted for 76% of the total self-medication market in 1998, with sales of €0.9 billion, while non-prescription semi-ethicals achieved €0.2 billion. The OTC segment decreased by 4.1% while semi-ethical sales went down by 1.7% compared with 1997.

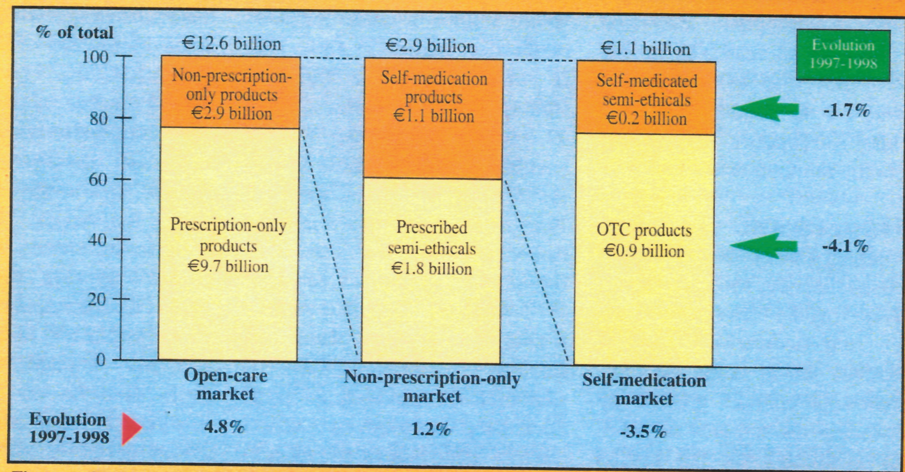

Figure 1: Structure of the French self-medication market in 1998. Sources: Pharmagers; MMF-IMS; ISO Health Care Group

Photograph by Dr P Marazzi/Science Photo Library

Strong consumer demand for a cold sore treatment that could be obtained without a prescription contributed to the success of Activir when it was launched in France.

reasons, it is very unlikely that the reassessment of the therapeutic classes currently carried out by the Transparency Committee of the French Drug Agency will lead to any drugs being withdrawn from the reimbursement list. However, modifications of the level of co-payment and price reductions cannot be ruled out.

The French government prefers to negotiate with pharmaceutical companies individually for the removal of reimbursement for specific products. Recently, the Drug Pricing Committee has signed several deals with companies that allow price increases on reimbursable prescription products in exchange for another product's switch from semi-ethical to OTC status.

In order to encourage pharmaceutical companies to voluntarily switch semi-ethical products, the government may propose measures to facilitate the transition. Thus, a company may be allowed to increase its prices and/or advertise to the general public for six months to a year before its product is removed from the reimbursement list.

Winners and losers

Industry specialists agree that switches are the most important driver for the development of the self-medication market. Switches have certainly contributed to market growth by increasing the number of products available, but the results have been disappointing overall.

In the case of complete switches from semi-ethical to OTC status, the opportunity for raising prices and advertising directly to the public does not always outweigh consumers' reluctance to purchase medicines without reimbursement. In the case of the anti-asthenics switches, the overall effect was a decrease in self-medication sales. However, there are rare exceptions, such as Hextril (hexetidine) from Warner Lambert, which increased its sales by 56% – from €7.6 million in 1995 to €11.9 million in 1996 – following its successful switch.

Recent switches

A review of recent switches from prescription-only to OTC status does show positive results on self-medication sales. However, there is considerable variation between products. Pharmacia & Upjohn's Nicorette gum 2mg, for example, brought €6.25 million sales to the self-medication market in 1997, that is twice as much as the pre-switch sales a year earlier.

Another success is Warner Lambert's OTC version of aciclovir under the brand name of Activir. In 1997, one year after this new brand was launched, the product achieved sales of €7.6 million. This good performance results from three key factors:

•An intensive television and press advertising campaign to establish the new brand Activir and its indication (cold sores) in the mind of pharmacists and consumers.

•A competitive pack price of €6.5 – 42% lower than the equivalent 2g pack of Zovirax marketed at €11.2 by Glaxo Wellcome.

•A consumer need for a cold sore treatment that could be obtained without a prescription.

However, not all switches have been runaway successes. The 1996 switch of H_2-antagonists, such as cimetidine (Stomedine) and famotidine (Pepcidac), only generated peak sales of €1.4 million and €1.7 million respectively in 1997. The main reasons for these poor results were:

•The negative opinion of physicians who were concerned that regular self-medication for heartburn or stomach pains could hide more severe conditions, such as ulcers or cancers.

•The lack of support from pharmacists, who felt they had not been properly consulted and informed before the general public advertising campaign was launched.

•The strong competition from well-known antacids like the OTC Rennie from Roche Nicholas or the semi-ethical Maalox from Aventis. These companies protected their market positions by reinforcing their advertising and promotional investments, respectively.

Industry specialists have high hopes of the separate commission for OTC products, which has just been set up by the Advertising Control Commission, following pressure from the French OTC manufacturers' association, the AFIPA (formerly AFSGP). The process to obtain authorisation for an advertisement to be published or broadcast in France is the longest in Europe – ahead of Italy's ten weeks. The separate commission should help to cut France's average 18-week lead time, but the impact on market development will be negligible.

OTC manufacturers also claim that the co-existence of low-priced semi-ethicals and OTCs in the same therapeutic areas creates price distortion, which prevents the latter's development. The AFIPA wants to maintain reimbursement for semi-ethicals only for certain indications or for low-income consumers. This proposal has little chance of being accepted in the short term – the government is opposed to extensive delistings. And even, if the government did adopt this approach, such an initiative will not be advantageous to OTC brands in the longer term. Once switched, the semi-ethicals will be able to advertise and leverage their medical heritage.

Broadly speaking, these political and regulatory changes are positive, but their impact on the self-medication market as a whole, and more specifically on the OTC segment, have not been tangible and are unlikely to affect the market significantly over the next four to five years.

Barriers to growth

There are also several non-regulatory barriers to significant growth in the self-medication market. The most important is consumer behaviour. French people are used to visiting their physician and getting a reimbursable drug prescribed, even for minor ailments. As 85% of the French population subscribes to Sickness Funds, as well as a complementary health insurance, most people are fully reimbursed for the consultation fee and the cost of the prescribed drug.

Moreover, there is a strong public perception that OTCs are less effective and too expensive compared with the reimbursable equivalent. This poor image originated from the government itself. In the past, it justified the removal of reimbursement for certain therapeutic classes on the grounds that these drugs were not effective enough.

Price is another obstacle with consumers. OTC products cost, on average, 20% to 30% more than the semi-ethical equivalent. Until recently, the price of products switched to OTC used to increase by 50% or more within a year, as happened with anti-asthenics, but now the increase is closer to 20%.

Consumers treat self-medication products like any other consumer goods. Inevitably they are increasingly looking to health-promoting products, such as nutraceuticals, and making comparisons.

Nutraceuticals are an important threat to the self-medication market. These borderline products are not registered and cannot claim any therapeutic benefits, but they are generally viewed as effective health-promoting products. Unlike drugs, they can be distributed outside the pharmacy, in health stores (parapharmacies), health food stores and supermarkets. As a consequence, sales of nutraceuticals have grown by 3% a year between 1995 and 1998 while sales of self-medication drugs have decreased by 1%.

Community pharmacists represent the second most important hurdle to the development of the self-medication market. Many pharmacists do not feel sufficiently well-informed and trained to advise consumers about self-medication products, and this has not helped their motivation to sell OTC products. Not surprisingly, they have not been very effective in merchandising them. Prices have also been unrealistically high for creating volume sales. In France, pharmacists are free to decide what they charge for the OTC products they sell and many have chosen to continue with high mark-ups that deter potential customers.

Changing view

However, pharmacists are increasing realising that OTCs could offer them a significant source of growth and profits, provided they develop this activity. So this barrier to grow in self-medication may begin to be broken down.

Physicians are the third important component in the self-medication equation. Most are neutral; they neither encourage nor discourage patients to self-medicate. Any potential incentive to prescribe non-reimbursed products was lost when the budget cap imposed on physicians' reimbursed prescriptions was invalidated by the Constitutional Council in December 1998.

Therefore, it is unlikely that physicians will become a direct, active sales generator for the OTC segment. However, in a recent survey carried out by ISO Health Care Group, consumers said that the two major factors that influence their purchase of self-medication products are the pharmacist's advice (55% of answers) and a former prescription of semi-ethicals by a physician (33% of answers).

Prospects

In the light of all these factors what prospects are there for the development of the self-medication market?

It seems likely that it will remain flat at least until 2003. A growth of 1% is expected in the OTC segment while the self-medicated semi-ethicals should decrease by 4% in value. These differing trends are mainly due to internal transfers of sales resulting from semi-ethicals to OTC switches and price cuts imposed by French authorities on certain semi-ethical classes. An example of this is the average 10% price cut for 110 phlebotonics in September 1999.

OTC manufacturers are having to cut prices, strengthen brand awareness through advertising and introduce innovations

But what about profitability? The average earnings before interests and taxes (EBIT) of companies in this market is estimated to be 12% compared with 25% for prescription-only business. The OTC segment of the self-medication market is closer to 10%, while the self-medicated semi-ethical segment has a profitability profile similar to prescription products.

Net profitability analysis reveals many pure OTC players are making a loss. Further government price cuts on certain semi-ethical classes together with increasing pressure from pharmacists to increase their discounts are likely to make the French self-medication market even less profitable.

Community pharmacies themselves continue to face falling profits, since the government introduced a sliding scale margin system for reimbursable drugs in the early 1990s. Their average gross margin decreased from 28.9% in 1992 to 25.6% in 1998. To compensate for this, pharmacists are seeking to maximise their profits on free margin products, such as OTCs and healthcare goods, so-called 'parapharmacy' products.

OTC products account for 6% of their total sales but 11% of their total profits. To get their products on pharmacy shelves, sales representatives have to concede discounts as high as 50% for the so-called 'produits conseils' (mainly purchased through pharmacists' advice). For the so-called 'produits grand public' (advertised to the general public), discounts range from 20% to 25%.

In very competitive classes, such as cough and cold remedies, and analgesics, discounts may reach 60% or more. In addition to discounts, it is common to give free goods or accept longer payment terms – six to 12 months in special cases – and 'sale or return' – for example, for seasonal products.

To increase their negotiating power with OTC manufacturers, more and more pharmacists are joining purchasing groups. In 1998, pharmacists' purchasing groups accounted for 40% of the total number of the 22,600 pharmacies. These groups are still fragmented – only four of them have more than 1000 members.

Their selection of OTC products is based mainly on product brand awareness, commercial conditions and the quality of the relationships with pharmaceutical companies. To be listed by these groups, an average fee of 5% to 8% on sales needs to be paid. OTC companies can rarely claim to have entered in a win-win deal with these purchasing groups. A recent study[4] has shown that 90% of grouped pharmacists buy outside the purchasing list of their group. Consequently, several leading OTC companies have decided not to work with pharmacy purchasing groups.

Since 1998, pure OTC players are not only competing with low-priced semi-ethicals. The development of the generics market[5], offering products on average 30% cheaper than original brands, has created a price differential with OTC equivalents as high as 50% to 60%. This is particularly true for cough and cold and analgesics classes.

As customers are becoming more price-sensitive, OTC manufacturers have no choice but to cut prices, strengthen brand awareness by increasing advertising investment and/or introduce innovations. All these factors will reduce profitability.

Strategic options

To sustain profitable OTC activity in France, pharmaceutical companies ideally need sales of over €23 million and two or three strong household brands of at least €6 million to €7 million sales each. Preferably, remaining sales should be generated by a small number of household brands as well as 'produits conseils'. In this business environment, companies have no choice but to cut their operating costs and improve efficiency to maintain profitability.

Companies which do not reach this critical mass should seriously reconsider their rationale for remaining in this market. Even though there is a slight increase in market value forecast,

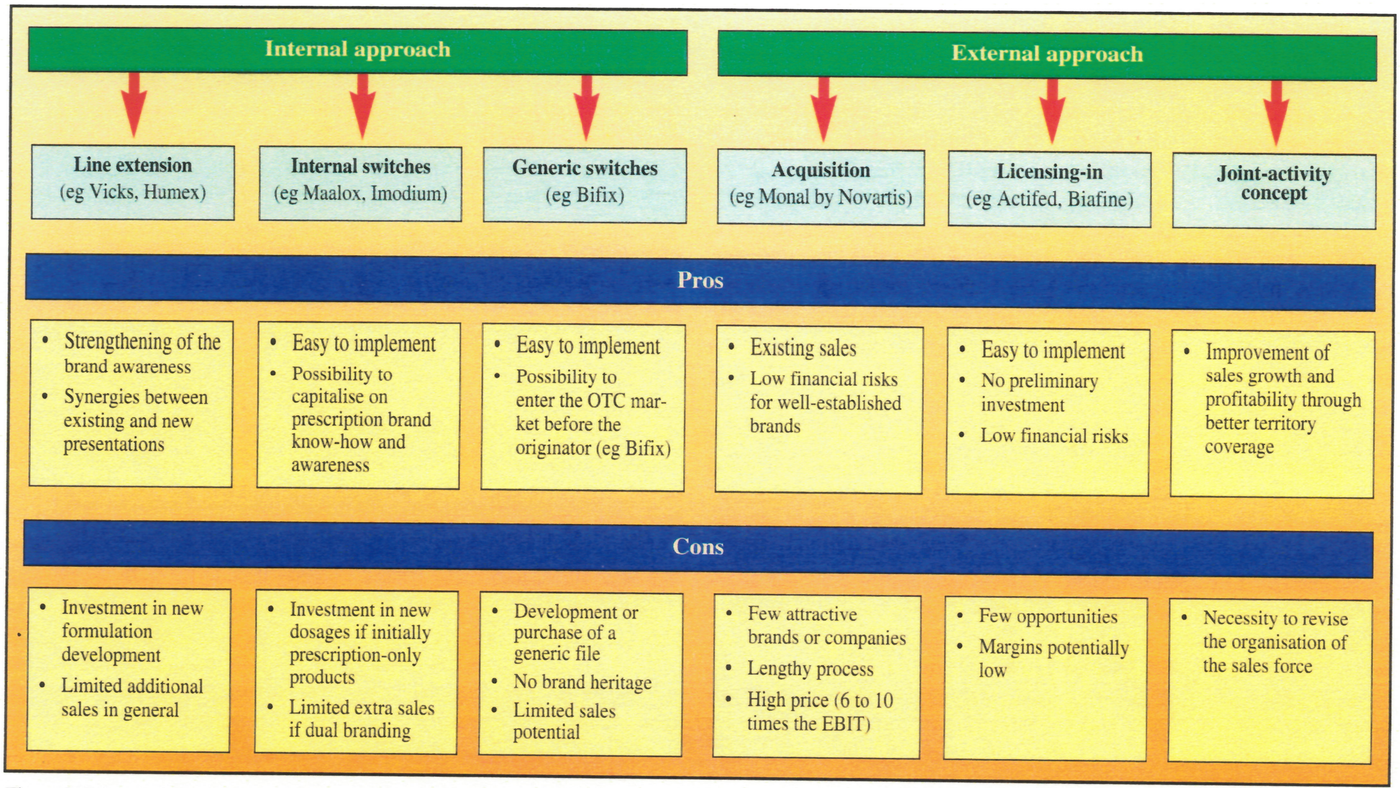

Figure 2: Strategic options for sales growth. Source: ISO Health Care Group

it will be largely offset by the growing pressure on margins applied by pharmacists and the increasing costs of advertising.

Moreover, there is no guarantee of success for companies with a good candidate to switch in the pipeline. Even for Hextril, one of the most successful switches, it is estimated that five years will be required to restore satisfactory profit margins. To generate €7.5 million annual sales or more on the OTC market, consumer advertising investment – in the range of €1.8 to 2.3 million per annum – is required.

Taking these factors into account, R&D-based companies with no strategic reasons to maintain French OTC activities should seriously consider quitting the market and focus their efforts on the more profitable and dynamic prescription business.

Promoting growth

The presence of switchable semi-ethical products in their portfolio should not prevent them from making this strategic move. They will always have the opportunity to license out switched brands to a third party. For example, Glaxo Wellcome did this successfully for Zovirax in conjunction with Warner Lambert.

Those companies that do decide to remain in the French OTC market should strive for sales growth. Drivers for growth in this market are either internal or external (see Figure 2):

•Organic growth can be generated by line extensions, switches of patented products or generics. Roche Nicholas followed this last approach in 1998 with its launch of 0.5% hydrocortisone and 200mg nifuroxazide. Unusually, Roche Nicholas switched nifuroxazide before Sanofi-Synthélabo, the patent holder of the prescription-only version.

•External growth can be achieved through product or company acquisitions. Good opportunities are extremely rare and therefore highly valued. Recent deals have been negotiated in the range of six to ten times the EBIT, depending on the estimated potential for performance improvement.

But there are other ways to maximise a company's stake in the OTC market. An alternative for external growth is licensing-in agreements for OTC products, such as Glaxo Wellcome's Actifed by Warner Lambert, or by creating a joint-activity partnership. This approach consists of combining the product portfolio of two small OTC companies to build a larger and more attractive portfolio for pharmacists.

The sales forces of each partner joins forces to create a big enough team to effectively cover the pharmacist base, each representative having his or her own territory and promoting the combined portfolio. The joint-activity concept enables sales growth and profitability through improved sales force efficiency and effectiveness.

Those companies that decide to pursue their activities in the self-medication market should not build their strategic plans on the basis that the situation is going to improve. They should be prepared to face an even tougher competitive environment. But there are options for companies that decide to opt out of this difficult market.

R&D-based companies may find purchasers of their OTC brands among the world leaders, including Johnson & Johnson, American Home Products, Warner Lambert and SmithKline Beecham. Another option is to consider selling out to a 'fast-moving consumer goods' player, such as Procter & Gamble and Unilever. These companies may be interested in developing their presence in a market where growth and profitability indicators are closer to – or even higher than – their own core business. SM

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