

Retail pharmaceutical industry and its challenges



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In times of global economic recession, retailers will need to be more vigilant in meeting consumer's demands to remain viable in the ever more competitive market. Retail pharmacy in Malaysia are faced with unique set of challenges deriving from historical past and cultural practices to consumer's lifestyle changes. Therefore there is a need for retail pharmacy operators to re-evaluate existing marketing plans by means of understanding current market condition and observing future trend. Then recalibrate their marketing plans and strategies to reposition themselves securely in the market.

1. 1 Objective

The report aims to provide an overview retail pharmacy industry and evaluate factors that propel and restrain the market, government policies, sales trends, potential growth and market outlook. Challenges related to the pharmaceutical retail sector will be outlined and assessed, and insights into marketing plans being deployed to tap into available market opportunities in Malaysia will also be discussed.

1. 2 Overview : Retailing in Malaysia

Malaysia retailing environment has undergone a continuous and marked change over the years. The nation has been classified by the World Bank as a upper-middle income country with middle-income household making up more than 50% in 2007. Between 2004 and 2005, according to the Department of Statistics Malaysia, on an average, the urban household spent 1. 8 times more than its rural counterparts that is about USD 735 (MYR2, 285) monthly and USD 428 (MYR1, 301) monthly respectively. By 2015, according to UN data, the urban population is forecasted to account for

approximately 76% of the total population (Euromonitor 2010). Retail sales will likely benefit from this.

According to Q4 BMI Malaysia Retail Report, it projected that retail sales will increase from USD 43.65 billion (MYR 153.76 billion) in 2010 to USD 71.44 billion (MYR 251.63 billion) by the end of the forecast period. The key factors supporting this forecast is due to low unemployment rate, rising disposable incomes and a strong tourism industry.

BMI forecasts Over-the-counter (OTC) pharmaceutical sales to grow from USD 404million in 2010 to USD557million which translates to 38% increase therefore elicit a positive effect on retail pharmacy.

1. 2. 1 Retail Pharmacy in Malaysia

Malaysia total healthcare expenditure in 2009 exceeded USD 7 billion – Figure 1.0, and is projected to surpass USD 10 billion by 2020. Malaysia ranks fifth among the Asian nations in terms of healthcare expenditure and is projected to grow approximately 13% yearly (Frost & Sullivan 2008).

Retail pharmacy sector contributes 17% of the total expenditure only due to restrictions pertaining to government policies, profession workforce, and population perception.

The retail pharmacy sector can be described using organization size and product/service mix criteria. Sole units are comprised primarily of independent pharmacies, usually owned by pharmacists. Multiple-unit pharmacy organizations, or chains, can be divided into small chain and large chain (e. g. 30 or more units).

Besides organization size, the retail pharmacy sector can also be characterized by the product/service mix of the organization. Some traditional categories include, supermarket (e. g. AEON), and, beauty and healthcare stores (e. g. Guardian, Watsons).

Pure drug store is virtually non-existent in the Malaysian retail pharmacy sector because pharmaceutical products can be sold and dispensed by medical practitioners as well pharmacists. Consequently, this policy does not encouraged the setting up of pure drug store in Malaysia. Therefore, current retail pharmacies stores usually offer both pharmaceutical and non-pharmaceutical product/services to maintain viable in the market.

The major players in the Malaysian retail pharmacy scene are large multinational corporations such as GCH Retail (M) Sdn Bhd and Watsons Personal Care Store whereas local companies include Caring Pharmacy and Trustz Pharmacy, and a plethora of small independently operated pharmacies - Figure 2. 0.

In 2009, the multinationals, GCH's Guardian and Watsons collectively dominated 54% of the total market share whilst 46% was divided among local retail pharmacies as shown above (Euromonitor 2010).

Generally experienced in dealing with large industries, these multinational corporations compared to the domestic counterparts, have the experties in handling processing, packaging, logistics, inventory management etc. In addition, they have the advantages of economies of scale, retailing of in-house brand, increase in market profit and share, and wider discount parameter for retail healthcare products.

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2. 0 Current Market Status

2. 1 External and Internal Factors Influencing Retailer's Marketing Strategies

The spillover from the subprime mortgage crisis has badly affected the global economies and Malaysia's economy has not been spared too. In 2009, retailing current value growth (CVG) showed a decreased compared to 2008 but still at a positive pace (Euromonitor 2010). In 2010, real GDP growth is expected at 5. 7% supported by stronger exports. Increased spending by private consumers as a result of improving labour market conditions will soon strengthen domestic demand (Euromonitor 2010). GDP forecast was reevaluated in May 2009 from 4% to 5% (Euromonitor 2010). Though consumer confidence dwindled, spending on health care continues to be a priority within the consumers' household as seen in Figure 3. 0. Consumers are still willing to spend a little bit more during promotional period or turned to cheaper alternatives such as mid-priced/economical in-house brands or generic medications.

Ongoing urbanization trend, higher education levels and better living standards have generated greater interest among consumers regarding self-medication. This further strengthened the importance of retail pharmacy stores as consumers are able to acquire OTC healthcare, nutritional products and prescription drugs from them.

Overall trend of the retail pharmacy sector is gearing towards the sales of generics and OTCs. Profit derives from generics is generally higher compared to branded/innovator products (Shafie & Hassali 2008). However, sales of

non-prescription products such as OTCs, TCMs, vitamins and supplements are still the main contributor to the retail pharmacy's revenue at 79%.

Having said so, retailers still need to employ different marketing strategies to distinguish themselves from existing competitors and attempt to reposition themselves as market leaders – some successful while some struggled. Strategies pertaining to each of the different type of organizations will be further discussed as follow:

2. 2 Strategies Employed by Multinational Corporation

The multinationals such as Guardian and Watsons have taken a broad spectrum approach by attempting to diversify from traditional dispensing services common to the concept of a pharmacy, into a wider market segments such as general health and beauty care.

The retailers responded by engaging in regular promotions and extended sales period to encourage spending and offering a combination of both pharmaceutical services with beauty care.

Rapid expansion strategies undertaken by leading chained retailers resulted in a substantial escalation in the chained store numbers in the nation. 2009 saw a slight improvement in the average selling space per outlet of beauty and health specialist retailers especially in larger shopping malls than standalone establishments. Survey has shown that these are the places where the crowd/consumers prefer. Variety in choices/shops and competitive price products are some of the factors that attracts them.

Most beauty and health specialist retailers launch their retail chains in Klang Valley. This is largely due to greater purchasing power among urban consumers.

Nonetheless, beauty and health specialist retailers are also expanding outside Klang Valley in order to serve the rising population and growing purchasing power of consumers in East Malaysia and secondary states. Launching of budget in-house brand is to cover a wider range of consumer segment.

2. 2. 1 Guardian : Target Market, Product & Services, and Promotion

GCH Retail (M) Sdn Bhd is a wholly-owned subsidiary of a Hong Kong based Dairy Farm International Holdings Ltd. It is 78% owned by the Jardine Matheson Group, which is listed on the FTSE Stock Exchange and also listed on the Singapore Straits and Bermuda Stock Exchanges (Euromonitor 2010).

In Malaysia, the company is involved in the operation of Guardian pharmacy, Cold Storage supermarket and Giant hypermarket outlets. In 2009, as a result of its aggressive expansion, 20 new Guardian outlets were added, and promotions including daily specials has boosted the company's pharmaceutical market share to 35% - Figure 2. 0, occupying the largest portion of the retail pharmacy market segment.

Guardian retailing format is gradually becoming popular in Malaysia. For instance, Guardian spearheaded the concept of modern retail pharmacy by providing professional consultation and service by registered pharmacists, plus holistic health and personal care solution. In response to the Malaysian

government's support initiatives designed to spur small and medium sized enterprises (SMEs) in Malaysia, most of Guardian in-house brands are source and manufactured locally. Therefore, it is able to offer quality products at very affordable price targeting at all consumer segments and is expected to continue to source and develop wider products range.

Guardian is aggressive in promoting its in-house brand products by advertising and promotions. For instance, Guardian dedicated half a page or full-page advertisements in their in-store brochures or leaflets for their in-house brand products. GCH Retail's share of in-house brand products has been growing steadily largely due to developing brand recognition as well as the wider range of items available.

External and Internal Analysis (Guardian)

External

Internal

Threats

Economic slowdown

Decentralized marketing function: inconsistent brand image

Weaknesses

Retracted consumer spending

Increased rivalry between competitors

Opportunities

Import/Export: Malaysian Ringgit vs Hong Kong Dollar

Good management: able to respond to market change

Strength

Change in consumer's spending pattern

Both external and internal factors how the company decides to operate. The external factors will be same for all market players.

2. 2. 2 Watsons : Target Market, Product & Services, and Promotion

Watsons Personal Care Stores (WPCS), being the largest beauty and health retail chain in Asia, is a subsidiary of the AS Watson Group based in Hong Kong and wholly owned by Hutchison Whampoa Ltd. WPCS has been in Malaysia since 1994 and is considered one of the most accomplished personal care chain stores (Euromonitor 2010). Following the successful merger and acquisition of Apex Pharmacy Sdn Bhd in Jun 2005, WPCS has 211 outlets nationwide.

In 2009 due to its extensive stores expansion and merger , its pharmaceutical value share managed to increase to 19% - Figure 2. 0 of the entire pharmaceutical retailing in Malaysia. WPCS still remains the largest community pharmacy retail chain in Malaysia. To support and reinforce its image positioning Watsons employs promotional pricing, selling list prices then running price-off sales periodically, continuous marketing efforts and promotions such as television advertisements, complimentary beauty and health information to consumers, and storewide 20% discount campaign.

Moreover, WPCS products are competitively priced and carry quality in-house brand products which are usually cheaper by 20% to 25% below manufacturers' brand in the same product range. Its in-house brand lines consist of a large proportion of skin-care products, hair care, OTC healthcare products, toiletries, bottled mineral water, electrical items designed to meet the needs of the mass consumers. To further promote its in-house brands, it has dedicated more shelf space in-store for them. Coupled with growing brand recognition and wider range of products to cater for all segments of consumers, this marketing trend may continue in future.

External and Internal Analysis (Watsons)

External

Internal

Threats

Economic slowdown

Over expansion resulting in dissipated consumer services

Weaknesses

Retracted consumer spending

Increased rivalry between competitors

Opportunities

Import/Export: Malaysian Ringgit vs Hong Kong Dollar

Extensive outlet coverage nationwide

Strength

Change in consumer's spending pattern

2. 3 Strategies Employed by Small Retail Pharmacy

Marketing model of smaller retail pharmacies focus on establishing good rapport with its customer base by providing individually customized pharmaceutical services for their clients according to their needs and wants, Furthermore, they also provide extended after working hour services for the convenience of their customers, to access to pharmaceutical items and advice. Loyalty marketing is also introduced to maintain or expand their customer base in light of even more competitive environment. This model is gaining popularity in Malaysia and is already established in Europe, Australia and Canada. Specialized services exclusive to pharmacy such as pre-packed dosettes medications (to ensure better compliance to medicine), insulin dose adjustments for uncontrolled diabetes management and methadone replacement therapy for heroin dependent patient, targeting a unique consumer segment is gradually incorporated into their marketing plans.

2. 3. 1 Caring : Target Market, Product & Services, and Promotion

Caring Pharmacy Sdn Bhd is a group of pharmacies under one banner collectively shares the same supply and inventory management similar to that of chain stores, however each outlets are independently owned and operated by pharmacists.

Caring Group currently have 46 registered pharmacists operating 40 outlets in Klang valley. Therefore giving the Group the highest number of pharmacist to outlet ratio among retail pharmacy operators in Malaysia.

With market share of 12% in 2009 - Figure 2. 0, Caring is fast emerging as one of the most established local community retail pharmacy. Providing extended hour services from the early hours up to midnight proved to be a potent marketing strategy in establishing its market share as it provides time flexibility to consumers. Caring offers professional consultation by registered pharmacists on uncomplicated ailments and medication management solutions such as pre-packed medications for consumer's convenience.

The group has been actively promoting its pharmacist consultation service. For instance, public awareness talks by pharmacists on health topics such as hypertension, diabetes, weight-management etc. are frequently organized. Launched in 2006, the first pharmacy reward program as a points accumulation and gift redemption card with Malaysia's premier multi-party loyalty program - BonusLink, enabled Caring to establish closer contact with their regular clients.

External and Internal Analysis (Caring)

External

Internal

Threats

Economic slowdown

Too focused on domestic/localization growth

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Weaknesses

Retracted consumer spending

Increased rivalry between competitors

Opportunities

Change in consumer's spending pattern

Good corporate core value: pharmacist service for all consumer segments

Strength

3. 0 Marketing Strategies

3. 0 Strategic Recommendation For the Retail Pharmacy Industry

Global economy remained sluggish in 2009, likewise in Malaysia. Even though consumer spending has retracted in Malaysia, where healthcare is concerned, consumers are still spending. Retail pharmacy registered an increment in sales of 0. 2% for 2009 against 2008 – Figure 3. 0.

3. 1 Marketing Mix Strategy

Target consumers

Promotion mix

Sales promotion

Advertising

Sales force

Public relations

Direct & online marketing

Offer mix

Product

Services

Prices

Adapted from Marketing: An Introduction from an Asian Perspective (Kotler et al. 2006)

3. 2 Target Consumers : Population Demographic Outlook and Lifestyle Trend

According to United Nations Department of Economic and Social Affairs, in 2007 Malaysia's population was just over 27 million and by 2015 it will be more than 30. 7 million. In addition, nearly 60% of Malaysian is below the age of 30 in 2007 (Euromonitor 2010).

Needs and wants of consumers changes with age. Marketers must use different marketing approaches for different age and life-cycle groups. The mature segment of the population in Malaysia, are usually relatively established in terms of financial, family and home and more aware of their health status. Marketers needs to woo this segment consumer by employing positive images and appeals. This segment will be the key buyers of medical and health-related products and services, including pharmaceuticals and OTC drugs, vitamins and dietary supplements, health drinks and medical equipment.

While there will be new emphasis on products for mature consumers, younger consumers will still remain a potent force since they made up half the population in Malaysia by 2015. They are more savvy, health conscious and more willing to try new products thus exercising significant purchasing power and driving continuing demand for the wide range of youth oriented products. Hence, this will spur demand for core healthcare products and influence sales in tangential sectors such as food and beverages, and healthcare services.

3. 3 Offer Mix : Product Portfolio Adjustment and Pricing Tactic

3. 3. 1 Product Portfolio Adjustment

Consumers remained largely loyal to established brands mainly because these brands are trusted names that consumers used to purchase or are just comfortable with its effectiveness. Coupled with strict registration requirements in Malaysia for all medicines, either branded or generics, in-house brand is unlikely to perform well in certain healthcare lines such as oral analgesics, cough, cold and allergy but may do well in other health product category. For example, in-house brand such as wound care, vitamin and supplements are projected to grow due to regional disease outbreak and economic slowdown.

As living costs, including healthcare costs increases, consumers will be more adventurous to try out economical in-house brand products and self-medicate. Using the pull and push marketing strategy, potential consumers will come to understand the helpfulness of vitamins and dietary supplements as preventative measures against environment, diet, importance of taking

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balance nutrition and age-related ailments such as joint and back pain, immune systems, osteoporosis etc.

Personal selling and sales promotion will be expected to heightened awareness of in-house brand products. Marketers need to expand their consumer healthcare product ranges in order to maintain competitive in the market. Figure 4. 0 shows that in-house brand product line will continue to grow. Therefore, marketers should focus on marketing in-house brand products such as topical analgesics, antipruritics, other wound treatments, vitamins and dietary supplements, that enjoy strong demand.

3. 3. 2 Pricing Tactic

Consumers will be shopping around for the best deals. It is not necessary for retailers to cut list prices, but may offer more short termed price promotions, lower quantity threshold discounts, provide credit to long-standing customers, and more aggressively price smaller pack sizes. In tough times, price cuts attract more consumer support than promotions such as mail in offers and sweepstakes.

3. 4 Promotion Mix : Conventional Advertising and Online Marketing

3. 4. 1 Conventional Advertising

Despite the growth of electronic communications, printed newsletter and television still play an important role in Malaysians' daily life and their pursuit of information and entertainment. As shown in Figure 5. 0, printed adspend dominated 54% followed by television adspend at 37% of the total adspend respectively for the year 2009. Major newspapers include three

English-language dailies, two Malay-language dailies, five Chinese-language dailies, and two Tamil-language dailies. The Malaysian has a wide range of magazines covering lifestyle, fashion, business, and special interest topics such as fishing, motoring, health and wellness and childcare. Magazines in Malaysia are usually published on a fortnight or monthly basis and are available via subscription, at retail outlets, convenience shops and small grocery stores. Although there seems to be a slight plateau - Figure 6. 0, conventional printed media will still be the medium of choice currently to disseminate promotional information for pharmacy retailers.

3. 4. 2 Online Marketing

The internet has had a significant impact on Malaysia over the past several years. The number of internet users grew from nearly five million users in 2000 to more than 12 million users in 2007, reflecting growth of 144%. Just as significantly, the household penetration rate of personal computers in Malaysia increased from 13. 5% in 1995 to 34. 7% in 2007. Tethered with such growth, online adspend recorded 72% spike growth from 2007-2009, and is expected to continue capturing readership share at the expense of printed media, in-line with household penetration rate of internet enabled computers increases in Malaysia.

Mobile advertising will be in vogue as internet handheld devices gains market penetration, particularly among the younger population. Advertising platforms such as Apple's iAd is a prime example of cutting-edge mobile advertising where advertisements are not just informative but interactive as well. Advertisements of this kind, can be updated real time by retailers with short-term sales promotion similar to Malaysia Airline's lunch-hour flight

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deals or provide interactive online shopping experience, will revolutionize conventional concept of promotional advertising.

Pharmacy retailers can tap into this market and formulate marketing plans unique to loyal mobile shoppers. Conventional in-store consumers are bombarded with too much product information creating confusion thus delaying purchases. Retailers and manufacturers should collaborate to satisfy consumer's needs such as using attractive colors and creating simplistic product packaging to facilitate consumer's search for healthcare products.

Hence, online advertising and internet retailing is expected to increase. This will have an impact on how retailers attempt to reach Malaysian consumers and, in a less significant but growing way, on how Malaysians shop.

4. 0 Conclusion

Consumers in Malaysia are changing their healthcare shopping behavior in various ways. While many opted for other more economical retailers, there are some who remained loyal to their preferred retailers. They are more comfortable in seeking out deals and using coupons, and will purchase both in-house brands or branded products whichever provides the best value. Definition of value is also changing. Previously, value is often perceived as quality and options, but now this is synonymous with price, value will mean that consumers get what they want at the best possible price. Pharmacy retailers can capitalize on consumer's needs by providing increased personalized marketing and shopping experience. Consumers are also seen

shifting towards meaningful and unique shopping experience, particularly in purchasing healthcare items.

4. 1 Consumer In Charge

Consumers know what they want and many will go the distance in search of the best offers; some consumers, due to their lifestyle fluidity simply require products that satisfy their needs. By giving consumers multiple product choices at different price and benefit levels, brands especially in-house brand, can be capitalized by using different marketing strategies to make them to stand out from the crowd. Mobile shopping, will be the next frontier for retailers to venture into as on-the-go consumers will emphasize on shopping convenience and speed of transactions.

4. 2 Retailers Diversity and Rebrand to Stay Relevant

Pharmacy retailers diversifying into in-house product line need to factor in consumer's shopping preference on established branded healthcare products when formulating in-house product marketing plans. Many consumers maintained loyalty to established brands due to familiarity to a product or confident with its effectiveness. New and improve in-house product lines with convenience in mind such as topical analgesics and sachet digestive remedies, will appeal to consumers particularly the younger customers. Retailers may need to revamp certain product lines with new design, improve in-house brand offers and promote them with a compelling ad-campaign, to appeal to target consumers.

4.3 Future of Retail Pharmacy in Malaysia

Retail pharmacy landscape is shifting largely attributed to economic changes, the growth of online retailing and more recently mobile commerce. With increasing use of smart handheld devices in Malaysia, mobile advertising and commerce is projected to grow substantially. Retailers will have to employ a multi-channel marketing approach. Online retailing will provide a platform for retailers to disseminate unique and targeted product offers for consumers to research, plan their shopping trips and ultimately attract consumers into stores. Consumers will also look for premium service coupled with simplified shopping experience in terms of product availability and ease of locating the products. Now more than ever, consumers are becoming more sophisticated and informed in making choices. They desire to know the origin of the product, what they are made of and how their lives can be improved with them. In general, future consumer wants a simplified, personalized and meaningful shopping experience with a focus on value. In summation, regardless of the organization size and retail focus, marketers must have the foresight to recognize change and take advantage of it by shifting its resources in line with market trends.