Emerging markets look better and better

The global economic outlook, OTC market trends, outsourcing, and mergers and acquisitions were some of the topics discussed at the Ceuta International Alliance's recent conference in Barcelona. Deborah Wilkes reports.

With developed markets beset by economic crises that appear to be going from bad to worse, emerging markets seem more and more attractive. There is "resilience" in the East, Purvi Amin, associate director of HSBC's Global Consumer Group, told a recent conference in Barcelona organised by the Ceuta International Alliance, despite problems in the West. "Emerging markets have continued to grow," she observed, "and there has been very little downward revision of growth forecasts."

Can they remain immune?

On the question of whether emerging markets could remain "immune" to the effects of the problems in developed markets, Amin said prospects differed from one country to another. "The giants of the East – China and India – are more likely to be able to weather the storm," she maintained.

Amin pointed out that mutual economic connections between emerging markets, particularly in the form of trade, provided market insulation from problems in developed markets. Recent trade patterns for China and India, she said, showed these countries had significantly expanded trade with Russia, Latin America, South-East Asia and Africa.

HSBC's chief economist Stephen King described the situation as "the new global cooling" with "Western permafrost" and "Eastern promise", explained Amin.

She recalled that last year the economies in developed markets had still been on life support but some green shoots had been visible. "There was hope that policy would work," she said, "and emerging markets were outperforming developed markets."

The reality today, observed Amin, was that policy was not working as expected. This had resulted in a number of difficulties including the "Eurozone problems, Western 'stagflation' and American debt", she said, remarking that developed markets were currently experiencing a "permafrost", defined as "sub-par, yet positive, growth".

Amin told the 120 delegates representing 85 markets that HSBC had recently cut its forecasts for 2012 GDP growth. HSBC's latest forecast for GDP growth worldwide – which was released in September – was 2.8%. This was down from a forecast of 3.4% in June of this year.

HSBC's 2012 GDP growth forecast for developed markets had been cut from 2.3% to 1.6%. By contrast, the GDP growth forecast for emerging markets had remained virtually unchanged, dropping from 6.2% to 6.1%.

Discussing China, Amin said HSBC's 2012 GDP growth forecast for the country had stayed the same at 8.9%. Remarking that China was delivering 50 years of US economic advance every decade, she said consumer spending was "resilient" and there were more than 100,000 infrastructure and public housing construction projects ongoing.

Growth forecast for India

Meanwhile, HSBC's 2012 GDP growth forecast for India had only dropped 10 basis points from 7.5% to 7.4%. Describing India as partially insulated, Amin said the country was delivering "30 years of American economic advance every decade". "Fundamentals remain robust, the economy is domestically-driven and there has been a pick-up in the agriculture sector," she commented.

Summing up the global economy, Amin said policy had been much less successful than expected and growth forecasts had been lowered.

Tough times lay ahead for developed markets. "The West has huge problems," Amin commented. "Even if recession is avoided, the absence of recovery leads to permafrost."

However, emerging markets could carry on growing. "Productivity catch-up was helping these markets," Amin stated. "But growth will only be sustained if they can increase their mutual economic connections."

Looking ahead to 2050, Amin said HSBC forecasted that world output would treble, dri-

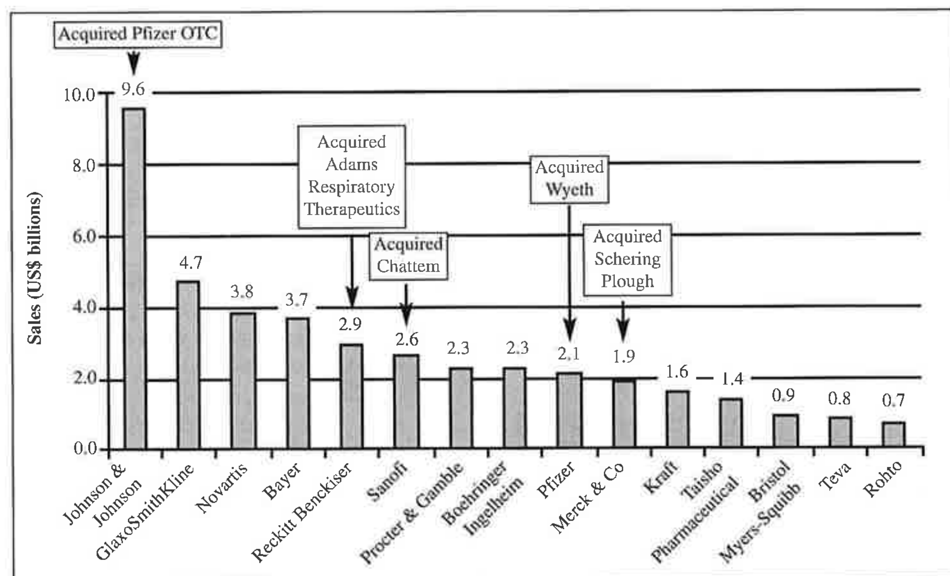
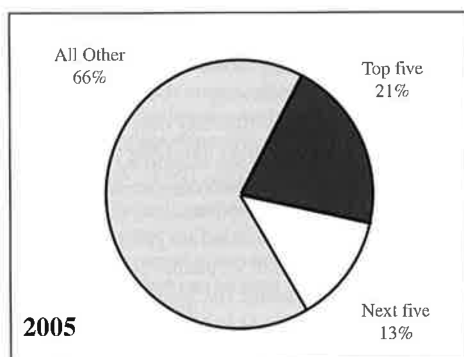
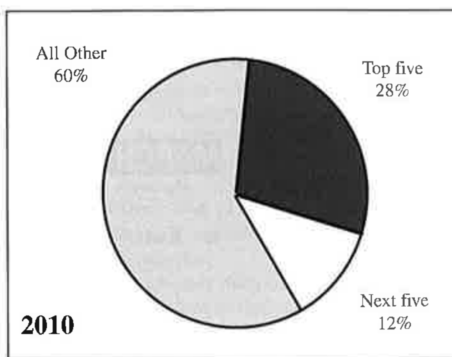


Figure 2: Leading players in the global OTC market in 2010, which was worth around US$90 billion. Figures are at manufacturers' selling prices (Source – Sawaya Segalas/Euromonitor)





GDP will be countries currently described as emerging," she said.

The winners, according to Amin, would include China and India, which would be the largest and third-largest economies in the world respectively by 2050. "The US and the UK would be relatively successful at maintaining their positions due to better demographic outlooks," she said.

The losers, continued Amin, would be rich economies in Europe with small, ageing populations. "Switzerland and the Netherlands slip down the grid significantly," she said. "Sweden, Belgium, Austria, Norway and Denmark drop out altogether."

By 2050, forecasted Amin, emerging markets would overtake developed markets.

Michael Rabin – managing director of Sawaya Segalas, an investment banking firm specialising in consumer health – highlighted the importance of emerging markets in the global OTC market.

Quoting data from Euromonitor, Rabin said retail sales of OTC products had reached approximately US$90 billion (€66 billion) worldwide in 2010, up by 7.0% compared to the previous year. The developed markets of Europe and the US had generated more than 50% of global OTC sales, Rabin pointed out, but sales growth had been driven by emerging markets. "OTC market growth has accelerated meaningfully as demand for, and access to, OTC products has expanded in emerging markets," he observed.

As can be seen from Figure 1, the emerging OTC markets of China, India, Brazil and Russia recorded compound annual growth rates (CAGRs) of 5.8%, 7.1%, 7.3% and 9.1% respectively from 2007 to 2010. This compared with 0.3% for Japan and Spain, 0.7% for the UK, and 1.5% for the US.

Rabin highlighted that most of the major players in the global OTC market – including Boehringer Ingelheim, Johnson & Johnson, Pfizer and Procter & Gamble – had "lagged" the growth of the overall market. This was in part because they were "underpenetrated" in higher-growth emerging markets, Rabin commented.

Many leading OTC players remain "underpenetrated" in the higher-growth emerging markets, says Michael Rabin, managing director of investment banking firm Sawaya Segalas

Consolidation of the global OTC industry had increased, said Rabin, pointing out that there had been a "high" level of mergers and acquisitions over the past 18 months. The proportion of sales generated by the top five players had increased from 21% in 2005 to 28% in 2010, he noted (see Figures 2 and 3).

Remains highly fragmented

Nevertheless, the global OTC industry remained "highly fragmented", said Rabin, in all geographic regions, as well as at a country and category level. In North America, for example, five companies – Johnson & Johnson, Pfizer, Novartis, Procter & Gamble and Merck & Co – had accounted for two-fifths of OTC sales last year, he said, and private-label products for another fifth.

Rabin said Sawaya Segalas expected the pace of merger and acquisition activity to accelerate over the next few years.

Purvi Amin, associate director of HSBC's Global Consumer Group, forecasts that some emerging markets can remain "immune" to the effects of the problems in developed markets

HSBC's Amin said merger and acquisition activity would be driven by companies seeking to capture growth in the emerging markets.

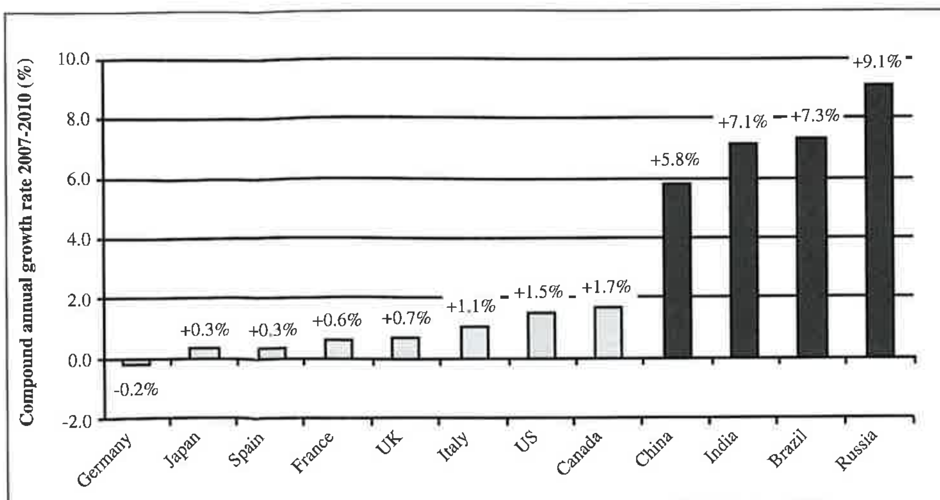
Peter Burrows, director of international business development for the Ceuta International Alliance, observed that new business models were emerging within the global OTC industry. "GlaxoSmithKline and Reckitt Benckiser are focusing on a smaller number of powerbrands in defined categories with global aspirations," he said. "Boehringer Ingelheim, Bayer, Novartis and Sanofi, by contrast, have broader, diverse portfolios with regional and local bias."

"New players are emerging, such as Actavis, Perrigo, Ranbaxy, Teva and Valeant," continued Burrows. "Furthermore, private-equity groups are getting involved through partnerships such as that between Blackstone Group and Prestige Brands Holdings to bid for GlaxoSmithKline's non-core OTC brands."

According to Rabin, the pendulum for large pharmaceutical firms was shifting towards maximising the value of consumer health assets.

A few years ago, said Rabin, there had been a trend for pharmaceutical companies to focus on their core prescription business. The prescription sector of the pharmaceutical market had been growing faster than the OTC sector and companies had strong pipelines of prescription medicines, he explained, adding that generic competition had been minimal. This trend had resulted in Bristol-Myers Squibb, Pfizer and Roche divesting consumer assets to Novartis, Johnson & Johnson and Bayer respectively, he said

More recently, however, there had been a trend for pharmaceutical companies to diversify their businesses with consumer health operations. OTC sales had grown faster than prescription sales and companies had weaker prescription pipelines, pointed out Rabin, adding that companies faced strong generic competi-



he said. This renewed interest in the OTC market, he added, had seen Sanofi make a string of OTC acquisitions including Chattem in the US; while Merck & Co and Pfizer had retained the consumer assets acquired with Schering-Plough and Wyeth respectively.

According to Rabin, global consumer health companies were looking to maximise the value of their consumer assets in a number of ways. Divesting sub-scale and non-core brands was one way, he said, as well as unlocking value through acquisitions, and seeking outsourced solutions.

GlaxoSmithKline was cited by Rabin as an example of a company that was divesting sub-scale and non-core brands. The company announced in April that it planned to divest non-core OTC brands, including the weight-loss medicine Alli, with combined annual sales of around £0.50 billion (€0.60 billion), or about a tenth of the sales generated by the Consumer Healthcare division (**OTC *bulletin***, 29 April 2011, page 1).

Stressing that Consumer Healthcare was a "key growth driver" for GlaxoSmithKline, chief executive officer Andrew Witty said the division had to be focused around "product categories, brands and markets" where it had the most depth and competitive advantage, and which had the best prospects for strong growth. Witty noted that 90% of the division's sales came from its top global brands and its emerging-markets operations.

Nine brands divested by Johnson & Johnson

Johnson & Johnson was another company that had gone down this route. Rabin pointed out that the company had divested nine brands to date, including some very well-known names.

The most recent deal saw Insight Pharmaceuticals purchase the Monistat vaginal thrush treatment in the US and Canada for an undisclosed sum (**OTC *bulletin***, 14 September 2011, page 5). Divesting Monistat came soon after Insight had snapped up Johnson & Johnson's e.p.t pregnancy test brand for an undisclosed sum (**OTC *bulletin***, 17 March 2011, page 3). Johnson & Johnson had sold the Dramamine motion-sickness brand to Prestige Brands Holdings (**OTC *bulletin***, 21 January 2011, page 7), and the St. Joseph low-dose aspirin brand to Ilex Consumer Products (**OTC *bulletin***, 21 January 2011, page 2).

New business models are emerging in the global OTC industry, says Peter Burrows, director of

Meanwhile, regional consolidators – such as Mexico's Genomma Lab, Sweden's Meda, Belgium's Omega Pharma, and US-based Prestige Brands – were unlocking value through acquisitions, said Rabin.

According to Rabin, there was an increased reliance on outsourced solutions in the global OTC market. Sales and marketing outsourcing operations like the Ceuta International Alliance were in the "right place at the right time", he maintained, adding the "wind is at your backs".

GlaxoSmithKline Consumer Healthcare, for example, outsourced 95 brands in more than 65 countries, pointed out Rabin, noting that Advantage Sales and Marketing was the partner in North America while Ceuta was the partner in Europe and the Rest of World. Similarly, Novartis outsourced a number of brands to The Emerson Group in the US.

"Demand for outsourced sales and marketing solutions is likely to explode as the largest consumer health companies reconfigure their portfolios to maximise growth, reduce their embedded cost structures and pursue merger and acquisition growth strategies in emerging markets," commented Rabin, adding that "in industries with well-developed outsourcing relationships, the largest multinational companies gravitate to larger multinational partners".

Burrows echoed Rabin's view that consolidation by the leading manufacturers was creating "giant global players with large and complex portfolios". "The challenge for these players," he said, was to find ways "to maximise the potential of the total brand portfolio". This involved optimising the potential of established or non-core brands, maintaining focus on defined core brands or territories, cost-effectively accessing speciality trade channels, reaching 'white space' markets, and managing conflicting brands in a category, he pointed out.

He added that smaller innovation companies needed a cost-effective way to launch products globally. This was reflected in the centrepiece of the alliance's annual conference: the showcase session, where companies pitched new product opportunities to the alliance partners. These included the ActiPatch electronic pulse

Joachim Neukam, vice-president of sales at GlaxoSmithKline Consumer Healthcare Europe, said the company outsourced non-core brands to obtain the focus needed to optimise the performance of those brands

Silderm anti-stretchmark therapy from Silderm, the TheraTears dry-eye remedy from Akorn, and the Woohoo! intimate lubricant from Essential Health.

Burrows also noted private-equity groups and mid-sized companies required the services of a global network of proven brand-building partners. He drew attention to the fact that the Ceuta International Alliance, which now covered 88 markets around the world, had been named as a potential service provider in the document circulated to potential bidders for GlaxoSmithKline's non-core brands.

"Outsourcing has become a strategic need for leading global organisations and smaller innovation companies alike," Burrows insisted.

Joachim Neukam – vice-president of sales with GlaxoSmithKline Consumer Healthcare Europe, which works with Ceuta on some OTC brands – explained that the company outsourced non-core brands to obtain the focus needed to optimise the performance of those brands. Outsourcing could also "improve trade channel reach and geographic footprint in areas where GlaxoSmithKline chooses not to focus", Neukam added.

A solid reputation in the industry

Commenting on GlaxoSmithKline's outsourcing requirements, Neukam said a partner should have full coverage across all trade channels, a successful salesforce with a proven track record, a solid reputation within the industry, no conflicting competitor brands, existing key-customer relationships, good working relationships and a flexible contract.

Neukam also stressed that partners must abide by GlaxoSmithKline's values. These involved "consumer and patient focus", "transparency" and "respect and integrity", he said, adding the firm's goal was to "operate within