Ed Rowland: 2019 review

To borrow from Dickens, the 2019 N American consumer healthcare world can be summed up as the best of times, the worst of times ... How consumer healthcare products are sold, new products and services launched (or not), continued consolidation consummated, regulatory reform achieved, new challenges emerged and old tragedies continued were all part of 2019's story. The days of a successful consumer healthcare year hinging on a "healthy" cough & cold season and important switch(es) are a distant memory. In the first of a two-part series Ed Rowland reviews 2019.

The 2019 retail ecosystem continued on a familiar path: bricks & mortar retail had channel winners and losers while e-commerce and private label continued their march forward. Technology bumped up against privacy.

Amazon continues to cast a shadow over all traditional retail. Taking a broader look at which sectors Amazon initially entered, the incursions started with higher price point categories like fashion and office supplies. Consumer healthcare SKUs in the $17-25 price point range are being challenged and are "in scope" for Amazon either as private label or targeted for tougher negotiations. Industry broker giant, the Emerson Group, now counts Amazon as its third largest shipment recipient, trailing only Walmart and CVS. A pilot with the smaller grocery chain Giant Eagle will allow Rx refills by just telling Alexa it is time to reorder meds.

Meanwhile, store private label challenged established brands. One executive put it bluntly: "The chain makes a 65% margin on their private label and about 50% margin on my branded product." Interestingly manufacturers formerly focused solely on producing private label have gradually moved into the branded arena leveraging their low-cost manufacturing. Perrigo acquired the rights to Prevacid and is even proving to be a talented marketer winning the "Best OTC Corporate Social Responsibility Campaign" award at the recent CHPA Marketing Awards.

Walmart, meanwhile, has counterpunched Amazon. The company's rapid rise in grocery was, in part, fuelled by click / collect. Unlike Amazon, Walmart has an extensive network of its own established pick-up locations with trained personnel in stores. But it is the redeployment of store space with Walmart Health that takes in-store services to the next level. Launched in Dallas, Georgia in September, the 10,000 sq. ft. Walmart Health Centers combine primary and urgent care, labs, x-ray and diagnostics, counselling, dental, optical and hearing services all in one facility with expert partner providers. These differ from earlier smaller Walmart Care Clinics in size (1,500 sq. ft.) and scope.

Ed Rowland is a valued Network Partner of the Nicholas Hall Group of Companies. As the principal of Rowland Global LLC (rowland-global.com) he believes in the promise of global business and supports companies in their strategy, tactics and execution of international growth initiatives.

The US drug chain world has consolidated into two giants, one medium sized and several smaller regional players. The two big chains – CVS and WBA – are having varied success and both are closing stores and / or slowing down store openings. Over the summer, both chains announced closings: WBA will close about 200 locations while CVS will shutter 46 stores and slow 2019 planned growth. Instead of opening a "normal" 300 stores this year, the plan was slowed down to 100. Only 50 are planned for 2020. In a November SEC filing, CVS announced plans to close another 22 stores in Q1 2020. Both are reacting to a decline in drug chain store foot traffic. At the end of 2018, CVS had 9,846 locations while in August 2019 WBA had 9,277 units as it announced the 200 store closings.

CVS has staked out a few positions. It is not a retailer but a healthcare provider through the Aetna acquisition and in-store healthcare delivery via MinuteClinics "offering over 125 medical services". For basic frontline healthcare one observer called the CVS Clinics "Jiffy Lubes" for personal health. There are over 1,100 clinics and more planned. In addition, CVS will also invest in HealthHUBs targeting 1,500 by YE 2021. These are described as "expanded MinuteClinic services and pharmacy support, with more health and wellness products than ever before."

In addition, through a 2019 alliance, CVS will also add "hundreds" of SmileDirectClubs for dental services. WBA, perhaps taking stock of its rapid vertical and horizontal expansions with AmerisourceBergen and Rite Aid stores, is still seeking a clearer path forward. One medium-sized brand owner felt that WBA was "struggling and throwing stuff against the wall". Another industry executive observed that: "CVS was having better success redefining itself with a tight well executed strategy while WBA is still selling tobacco". However, another executive cautioned: "Never and I mean never count out Stefano Pessina and what he might do next." To be sure, WBA is making some strategic moves along the same lines as CVS. WBA signed a multi-year deal with UnitedHealthcare to open 14 UnitedHealthcare Medicare services centres tasked with explaining the intricacies of the Federal Medicare rules. The centres, within Walgreens stores, will open in January 2020 in Las Vegas, Phoenix, Cleveland, Denver and Memphis.

After numerous M&A travails, Rite Aid is regaining its footing. At the end of 2016 there were 4,561 RAD units – now there are about 2,466. The 2018 divestiture of 1,900 locations (of which 600 closed) to WBA pared it down to the US' lone mid-market chain. In order to understand how large the chain chasm is, the next two largest regional US drug chains, Kinney Drug and Bartell Drug, each number 100 stores or less. Fred's, which liquidated in September, had at one point 568 units, but had declined to about 80 stores at the end.

The US grocery scene does have some impact on the consumer healthcare world, although it is not a first-tier impacter. Kroger and WBA have teamed up. In the core grocery categories, Aldi's hard discounting continues to take share from home-grown US grocery chains and now numbers about 2,500 stores in the US. Another German chain, Lidl, should not be discounted – literally and figuratively.

It is Amazon that may fundamentally change the grocery business that will inevitably impact the consumer healthcare products sold in this channel. Overall, as one longtime industry executive observed at the recent *Drug Store News* Industry Issues Summit, there was a nagging sense that the retail world was somewhat like a passenger on Titanic: addressing issues on board the ship (in store) but failing to steer a course that avoids the Amazon and WMT icebergs. Undoubtedly, millennials and Gen Z shopping behaviour is changing the old order.

After acquiring the 500-store Whole Foods chain in 2017, it appears that Amazon is planning 2,000-3,000 Amazon branded supermarkets. For comparison, US grocery leader Kroger has 3,900 stores. Amazon has only dabbled in retail to date with 38 stores in three formats: Amazon Go, Amazon 4-Star, and Amazon Books. That is about to change as, according to *WSJ*, Amazon signed leases in early October 2019 for at least 12 grocery stores in Los Angeles. Apparently, these stores will not be cashless like Amazon Go but will have traditional checkouts. Meanwhile, Amazon eliminated a $15 / month fee for AmazonFresh, with two-hour delivery for orders > $35 coming free with a Prime membership. It remains to be seen how Amazon will navigate the distribution side of the business as agreements with natural channel wholesaler UNFI run through 2025. Still, there may be a longer-term strategy as Amazon has developed services in the past in order to become its own best customer.

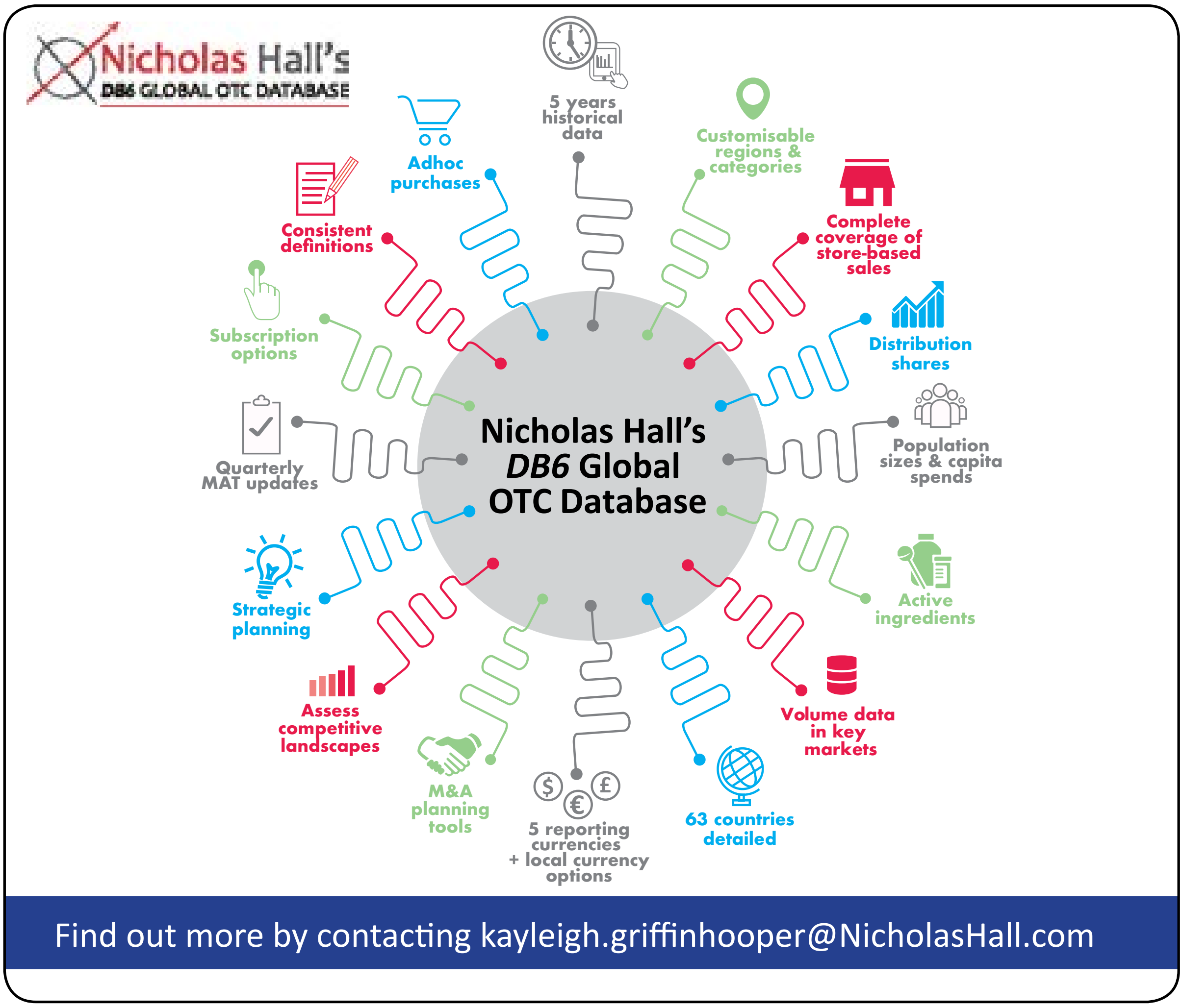
Grocery delivery is a battleground. Walmart has its $98 / year "Delivery Unlimited" grocery delivery subscription that is planned to reach more than 50% US households by year-end 2019. Amazingly, Walmart now has the ability to deliver groceries directly inside a home when no one is home via its smart entry technology, InHome delivery service.

Looming beyond the Amazon / Walmart challenge, global powerhouse Alibaba will eventually impact the newly forming order. It is important to recognise Alibaba's immense size. Imagine Amazon (TMall), E-Bay (TaoBao) and the leading payment system (AliPay) under one corporate roof. Alibaba turned 20 in September and CEO Daniel Zhang announced the seemingly amazing goal to serve over 1bn annual active consumers and transact $1.5tn in gross merchandise volume by 2024. The published longer-term Alibaba vision is even more staggering: serve 2bn consumers, empower 10mn profitable enterprises and create 100mn jobs. If ever there was a TBD for an industry, this is it. The Alibaba tsunami will arrive in the US at some point in the coming years.

Pharmapacks, an interesting e-commerce consumer healthcare start-up, now with solid financial backing, is pioneering a different e-commerce marketing and NPD model. Started as mom-and-pop retail pharmacy in the Bronx in 2010, at some point Pharmapacks launched an online business with friends & family support of $750K, funding a modest 3,000 sq. ft. warehouse in Queens.

Under CEO Andrew Vagenas's leadership, Pharmapacks' strategy has been revolutionary. In many ways, Pharmapacks pioneered a Chinese TP-like model (TaoBao Partner) that builds and operates e-commerce platforms on TMall, JD and other platforms but with a twist. Pharmapacks built its own proprietary software first tying systems to Amazon and then Walmart and eBay. By 2017, sales totalled $170mn and $270mn in 2018; there is a vision to reach $1bn in the next few years. In 2018, Pharmapacks attracted outside investment by selling a minority stake to a consortium of RB, the Emerson Group, McKesson Ventures and Sealed Air for $32.5mn allowing personnel and warehouse expansion.

Pharmapacks' true unique proposition or twist is serving as a "launch pad" for emerging brands, specifically millennial brands created by millennials, with a social media marketing effort encompassing Instagram, Twitter, Facebook and Pinterest building critical messaging mass with over 700,000 reviews. Pharmapacks looks to secure 3-5 year exclusive contracts.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