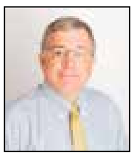
DRUG STORE NEWS
dsn
The Business of Retail Pharmacy August 15, 2017

7 factors changing the OTC e-commerce business



The OTC e-commerce channel is the 900-lb. gorilla in the traditional domestic and global retail worlds. A U.S. brand owner is now confronted with a global pricing discipline challenge. The speed and ubiquity of product pricing and information has forced the issue. To paraphrase Hermione in "Harry Potter," everything has changed.

In 300 BCE, Greek astronomers proved that the earth was round. This is the old retail world. Today's digital era has enabled customers and consumers to make it flat again with ongoing implications: "Product" has a broader definition. Speed to market and pricing discipline are not optional.

1. **Products are sold differently now.** Consumers seek health or beauty solutions that combine products, information and tools that solve bigger challenges. Products are increasingly part of a broader solution. This requires internal cooperation and alignment. Selling just a product will inevitably lead to being treated like a commodity.
2. **Product goes somewhere.** U.S. sales organizations inside a company with global aspirations can no longer dump or close out product by shipping it to an unknown destination via a potentially less-than-reputable wholesaler. Price points and expectations are being set in important future markets. This practice can be especially tough to break, as annual plans are set on last year's numbers. It's a vicious cycle. When negotiating in Korea or China, e-commerce pricing (and therefore the entire value chain) usually come up in the first 30 minutes. Lowered margins leave no room for formal launch marketing budgets.
3. **The consumer and customer have leverage.** Digital technology enables product research, exploration of alternatives and real-time interaction with similar customers previously not available. The unfettered digital world is real. Chinese consumers get their U.S. product information from Alibaba's Taobao or TMall.
4. **Speed (or the lack of it) can kill.** Product differentiation and functionality can be copied. New offerings and competitors come to market quicker. When bird flu hit Asian markets, there were 40-50 new instant hand sanitizer brands within weeks.
5. **Legacy business models are a problem.** Existing business models — organization structure, skills, processes and culture — are built for an environment that is disappearing. Delivering superior cross-functional, customer solutions wrapped in customer experience wins, but the functional silo company isn't wired to deliver that. Brand owners that re-wire themselves by horizontally encouraging and incentivizing cross-functional interaction will survive and thrive. Mindset is everything. Walmart has a strategy to combat Amazon with the Jet platform. Major drug chains like Walgreens and CVS Pharmacy lag in this area.
6. **New business models are a problem.** Amazon Dash has created an automatic replenishment solution for customers requiring little active involvement. This impacts the entire distribution chain: reduced pricing flexibility, distributors and transportation providers cut out and ultimately, retailers eliminated.
7. **New competitors are born agile.** Digital startups do not have legacy systems and are formed around agile passionate cross-functional teams. They are lean, low-cost and productive TODAY. Meanwhile, legacy companies must deal with entrenched organizational interests that resist change, especially when jobs are threatened. They move slowly, extremely slowly if at all. RIP Sears.

Culture is a precursor to digital transformation and requires senior leadership. Everything has indeed changed. Who thought the world could be so flat?

A Lebhar-Friedman® Publication