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Rules of the road: On Boots and Brexit

The U.K. OTC market is, as the Brits would say, brilliant. For North American brand owners, it's always on the list of attractive potential markets. Complex and unique, there are two "B"s that stand out — Boots and Brexit.

It's not tickety-boo with the "B"s throwing a spanner in the works presenting challenges. Boots moves fast, while Brexit will unfold at a slower pace.

Translated, the United Kingdom is an attractive market.

Boots, now WBA (Walgreen's Boots Alliance) after "merging," is the leading UK drug chain. WBA is becoming the first truly global drug chain. Besides Walgreen's, WBA has acquired Rite Aid in the United States, leading chains in Mexico and Chile, launched in South Korea and is shopping in Australia. On the Rx wholesale front, huge equity investments have been made, notably AmerisourceBergen.

WBA's activity has at least four major consequences: acquisitions cost money, Boots U.K. trade practices are being adopted in the United States, Boots UK executives in WAG's Chicago offices are learning about U.S. market traits — notably seasonal, food and drive thru — and, at some point, WBA's customers will face global price negotiations. WBA is maximizing acquisition payments out of operating cash flow. OTC category reviews will inevitably focus on cash. Indeed, the Boots U.K. practices of extending payment terms from 45 to 145 days, requiring permanent three-for-two trade promotions and a more aggressive private label approach are finding their way to Chicago. It's already an established dismal science for UK marketers. It will eventually become a global fact.

The recent surprise Brexit vote will reshape the U.K. OTC market. The British Parliament must first ratify EU Article 50, triggering a two-year decoupling process. Some U.K. observers believe market uncertainty could last for five years and, at best, have a neutral impact. I anticipate at least four consequences:

1. The British Pound will be weaker, but not dramatically so;
2. Any hopes of an easier-formatted regulatory path to the United Kingdom are gone;
3. Duties will almost certainly be re-evaluated; and
4. Scotland could very well vote for independence opting to remain in the European Union. (Scotland's 5.3 million consumers represent a little more than 8% of the United Kingdom's 64M million population and would become more difficult to reach.)

The devalued pound is already a near-term challenge. The pound has indeed dropped but not by that much. It's not a reset situation. Instead, currency will pose a negotiation challenge as key accounts will want to hold the line on retail selling prices. Any exchange-rate differentials will be pushed back on the distributor and/or brand owner. Price negotiations won't be pretty. The United Kingdom is well-situated and regarded as a thought- and policy-leader in the regulatory world, but will probably lose the EU's EMA, or European Medicine Agency, London-based headquarters, overseeing drug development and approval.

There are a few other U.K. market rules of the road:

1. The U.K. OTC market is roughly 10% of the U.S. market. One very general guide for U.S. market entry is the need for a $10 million consumer-marketing budget. Figure on something at least close to $1 million for the United Kingdom.
2. The U.K. private label OTC market is extremely well developed. Be prepared to fight it.
3. E-commerce is gaining traction, but not as robustly as could be expected. The United Kingdom arguably is overbuilt in brick-and-mortar, resulting in more accessible stores.

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