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Be prepared for a tough OTC world in Germany

Five pre-kickoff rules to take note of before entering the market

Germany is the largest and one of the most challenging OTC markets in Europe, writes Ed Rowland. Any market where one of the leading chains, dm, actually marks on shelf, "price not changed since (year)" is seriously tough. The German trade can be tougher than the German National Soccer team. You can score an OTC goal but it's not easy.

The German OTC playing field is also slightly different. Only Pharmacy can sell Rx items, so drug store chains like CVS and Walgreen's don't exist. And there are no pharmacy chains because an individual pharmacist can only own up to four locations. The Germany Pharmacy trade has also not developed standardized banners with set planograms as found in Australia.

So, here's some pre-kickoff rules of the game:

1. Both pharmacy and chains sell OTCs and health and beauty aids. Products find their way to pharmacies via wholesalers and there are three that dominate. In general, there are no distributors that are powerful in both channels. While there is no set rule as to which channel to utilize, the chain world tends to focus on products that retail for $30 Euro or less.
2. Market observers have long forecast a decline in the number of German pharmacies, but the number has held fairly steady at 21,000 for the last few years. Given the sales challenge of convincing pharmacies one by one to list your product, it's not easy. However, pharmacy as a whole is looking for non-Rx items. Dereimbursement and government controls on Rx margins have forced the issue. The typical German pharmacist is looking for new non-Rx products.
3. Meanwhile, the German Chain Trade went through an enormous downsizing in 2012 when one of the four largest chains, Schlecker, went bankrupt. At its peak, Schlecker had 10,000 stores and when it finally "went under" after a slow painful process, the remaining 6,000 locations were closed. Of the survivors, Rossmanns has 2,000 locations and dm has 1,825 locations. Mueller, which actually mirrors a general merchandiser/medium-sized department store with an upmarket beauty focus, has 535 locations. Overall, however, imagine a major trade channel recently losing up to 50% of its locations over a few years? Tough negotiators are left standing and, after the shakeout, are stronger. For my trade promotion money, they are the toughest in the world.
4. Private label is important in both the chain and pharmacy channels but it's not at level of Boots. Yet at least.
5. So, a launch strategy must account for which channel works best. One way is to go to pharmacy first. It's a slow tedious process, but there are no listing fees, although the wholesalers do take their percentage. Generally, a lower, more affordable retail selling price can be established with potentially a larger margin achievable, but those funds will be needed for consumer marketing. Another route is via the chains. Both Rossmanns and dm are discounters; Rossmans is the heavy promoter, while dm follows an everyday low price approach. Either one is a tough "shot on goal," to borrow a soccer phrase again. And starting in one, usually pharmacy, and then expanding to chains risks alienating your base business when transitioning. It's been done but it's a tightrope trail.

Goals are being scored in the German OTC world but, be prepared for a tough game.

Ed Rowland, founder/owner of Rowland Global LLC (www.rowland-global.com) has provided Drug Store News a series of six 2016 blog posts focusing on non-U.S. markets. Rowland Global assists companies in their global growth strategies, tactics and execution.

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