Ed Rowland: 2020 review

When songwriter Nobel Laureate Bob Dylan recorded *The Times, They Are A-Changin'* in October 1963 he could have been talking about the 2020 CH world in N America.

In 2020, Dylan might have slightly tweaked the lyrics to *The Times and the Time They Are A-Changin*. The velocity and change experienced during Covid-related time was, and remains, dizzying. It is still not a post-Covid world, but the pre-Covid world is blowing in the wind. A 2019 star, CBD was D-list this year.

The big stories from 2019, to be sure, continued into 2020. After a few months of new Covid-driven consumer behaviour, some segments warped forward. The omni-channel world is now more balanced as CH e-commerce went from a projected 10-12% of industry revenue to potentially topping 30%. Everything changed in 16 weeks. News about supply chains, forecasting, categories, trade channels, go-to-market, M&A, a tragic and stubborn opioid crisis, transformative changes to the CHPA and (finally) Monograph reform were eclipsed by Covid.

Several developing stories also impacted 2020: legalised marijuana and a greater attention to the environment and "green-washing" were all newsworthy. CBD enjoyed another growth year. A lot happened besides a pandemic.

Bob Dylan had the perfect lyrics to describe the traditional bricks & mortar conundrum: *If your time to you is worth savin' Then you better start swimmin' or you'll sink like a stone*. From a historical perspective, Amazon is impacting CH similar to Walmart's arrival in the 80s and 90s. The shift to Amazon has been seismic. By Amazon's rough estimate Covid spurred 36 months of adoption growth in 16 weeks. One small business owner, enjoying the company's best year ever, saw a shift from the drug chain world to Amazon account for 90% of annual growth. Emerson Group saw an increase in bricks & mortar distribution of 7%. Meanwhile their e-commerce business jumped 90%. Emerson's e-commerce sales will end 2020 within sight of surpassing their top customer, Walmart.

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.

While omni-channel and Amazon thrived, there were traditional format winners notably Walmart and Target who had strong long-standing pre-Covid digital strategies in place. As one leader noted the grocery channel was an "accidental" winner benefiting from consumers transitioning to a one-stop-for-everything habit. Covid unmasked how far behind the digital drug channel is. Another brand owner saw a 15% jump at Dollar Store, attributing it to stretched budgets in the face of unemployment. Meanwhile the distribution world had to adjust and adapt. The good news for 2020 included the Emerson Group indexing at 111 vs Plan as well as record EBITDA as T&E expense dropped to virtually zero. The "bad" news; the gains are temporary as the '21 forecast index is 93-97 of '20 and once in-person meetings resume, the increased expenses will bring EBITDA back to historical norms.

It is not all smooth seas for Amazon. One leader noted they are "not easy to work with". The intricacies between Vendor Central and Seller Central and frequent rule changes or misapplication can take weeks for human intervention. Meanwhile, Walmart and Target have leveraged click and collect which, in effect, has transitioned stores into mini Distribution Centers. Click & Collect is competing directly against Amazon Prime as a hybrid traditional and e-commerce consumer solution, a seamless omni-channel experience. Kantar Research estimates that a typical consumer is making 60 monthly e-commerce visits. While Amazon dominates with "eyeball" traffic, it is not alone. Walmart reported Q3 e-commerce revenue at +79%. At the end of Q3, the retailer's online grocery pickup service was available at 3,600 stores and same-day delivery at almost 2,900 stores.

Amazon has long leveraged scale with shipping costs. While Amazon seeks a $10+ order, most of the strictly e-commerce competition looks for $50+ basket. Meanwhile, traditional retailers will need to re-evaluate in-store inventories, space allotment and staffing structure. One observer noted that retail analytical capabilities dramatically improved. Given the structural changes, it had to. Pioneered with grocery products, Click & Collect or even home delivery has led to in-store traffic jams. It also limits upselling and / or impulse items. If a product is not on the "click" list, it will not be collected.

In addition to order accuracy, retailers also have the added challenge of improving safety and preventing infections for both their own employees and consumers. Systematic sanitising of carts may soon be table stakes. A consistent comprehensive Store Certification framework is not too far behind.

Amazon's widely expected move into the Rx arena will further impact the traditional trade. It was just a matter of time before the 2018 PillPack acquisition and pharmacy certifications in almost every state trumpeted Amazon's impending arrival. The "back of the store" in drug chains and independent pharmacy are especially vulnerable and will lose Rx volume. This will impact crucial "front of the store" foot traffic.

Meanwhile, Amazon will pinpoint areas where a new go-to-market structure will permanently disrupt the status quo. Amazon views Patient pain points as opportunities. Small scale pilots will confirm new models. Amazon then leverages its structural advantages of data, Amazon Prime and vertically integrated sales and supply chains. And the patient journey does have some pain points ripe for fixing including the ease of FSA and HSA account usage, DTC delivery of multi-dose medications and direct fulfillment. There are certainly more extreme disruptors to consider. Could Alexa receive orders? Can the Halo Fitness Tracker prompt patient action and even integrate data into electronic health records? Will Amazon carve out the PBM system through alliances with large employers, effectively becoming the PBM?

Imagine a large company providing its employees a fitness tracker that records patient data, enables Alexa to reorder prescriptions (and OTCs), bypasses / becomes a PBM and delivers multi-dose medications with the seamless application of HSA or FSA account credit as part of Amazon Prime. Amazon imagines that scenario. While there are many nuances and complexities to address, Amazon has the staying power to pilot, fail quickly, learn and disrupt.

Shopify has a longer-term potential to upset the Amazon e-cart. The algorithmic control of e-commerce pricing is a key factor ensuring Amazon loyalty. As a longer-term competitor, Shopify does not control pricing and will pose a challenge. But as one manufacturer wincingly noted, Shopify is "not unified, not global." One could add "yet." And within the e-commerce world, Walmart receives high consumer adoption marks from another brand owner.

Meanwhile the big three drug chains are struggling and are mostly in a defensive mode. Some brand owners observe that Walgreens has not been able to adapt the powerful Boots UK Loyalty framework to the US market. Instead, CLR (Container Load Results) "shakedowns" occur on a regular basis. CVS' strategic shift to Wellness is still in rollout phase and appears to be gaining traction. The shift to DIY selfcare led by immunity products, general wellbeing, and sanitisers are on-trend as consumers are turning more to recovery at home combined with convenient self-care management.

CVS HealthHubs's point-of-care – testing, monitoring and inoculations – is a timely shift to product plus service. At the corporate level, CVS made changes: an entire level of management was removed in Rhode Island while 15,000 new field positions were created, enabling HealthHub stand ups around the USA. Meanwhile, Rite Aid launched its RxEvolution strategy combining alternative medicines with traditional OTCs. All three major drug chain retailers suffered significant turnover and reorganisations especially at the category buyer level impacting category management. The drug chain channel in general has been slower to transition to an omni-channel and / or product plus service model.

There are global results that reaffirm these trends. In fact, these trends are potentially predictive of where the USA is heading. Nicholas Hall recently published global e-commerce results which included some awe-inspiring China numbers. In the next 10 years NHC forecasts global community pharmacy and online sales growing from 9% to 19% and from 11% to 27% in Asia. The astounding numbers across Alibaba's Global Shopping Festival generated $76bn (yes, a "B") in a "Double 11" campaign running from November 1-11. The Alibaba digital infrastructure handled 583,000 orders per second at peak, while the logistics arm, Cainiao, processed 2.3bn+ orders in 11 days.

There were Covid-created category winners and losers. Any product that could claim immunity flew off the shelves while impulse products dependent on retail foot traffic, especially at drug chain or mass, suffered. One brand owner saw mass channel foot traffic down 20% and its overall USA sales fell 6-7% as a result. On an annual basis, CCA was down by 30% as it was hit with a multi-faceted wave of headwinds. No back-to-school, lower retail foot traffic, people staying at home, large natural disasters such as fires and hurricanes all offset initial consumer Spring stock-ups.

Beyond immunity, the emotional / mental health, stress and PPE categories all prospered. Gummies continued solid growth with starchless technology promising further growth. There were some specific product launches as GSK was able to introduce the topical analgesic Voltaren (diclofenac).

The marketing landscape also changed. Digital became much more important while Covid-themed content and the run-up to the 2020 election took up almost all of the oxygen in the marketing messaging, impact and cost worlds. The fragmented and skewed media market was even more pronounced because of Covid and influencers gained in importance. One industry observer compared Walmart's acquisition of TikTok as the modern-day equivalent of P&G's leveraging soap operas in the 60s. Brand owners re-focused their digital footprint as principal displays and site navigation were scrutinised.

On the sales front, presentations and materials changed as sales calls migrated to Zoom. The sales hierarchy of preferred meetings was re-ordered: Zoom over Facetime over Phone over an email. While US sales forces struggled on Zoom, Covid ushered in a re-evaluation of the need for, or at least the size of, a field sales force. Tele-medicine has jumped from 2-3% penetration to 30%, a 3-5 year jump according to most forecasts. Importantly, tele-health has been approved for reimbursement at full Medicaid cost. Traditional health systems will be challenged as hospitals will see declining visits and stays. Health systems presently focused on Rx cost containment and consolidation will battle falling revenue as well.

The negotiations with insurance companies will be tougher. The echo effect of this dynamic could impact the OTC sales force composition. On the positive for self-care and OTCs, the challenged healthcare system will force consumers to look at OTC alternatives as the unemployment spike will lead to lost insurance coverage, a bittersweet silver lining for sure.

The normally stodgy world of supply chain suddenly became a first order concern. The hunt for clean ingredients and dependable supply chain vendors became mission critical. Depending on the category, brand owners either had too much or too little of work-in-process materials. Ingredients and components sourced overseas were at particular risk. Even smaller to medium sized OTC brand owners were getting a crash course on hedging for key ingredients. Overall, US manufacturers were, by and large, able to source key ingredients. One of their biggest challenge, like the famous words of the movie *The Graduate*, was plastics. The steep decline in petroleum demand resulted in the chain reaction crash in the availability of plastics. While hopefully only temporary in duration, plastic caps, dependent on petroleum, became scarce. Inventories took a double hit: reduced production and hand sanitisers gobbled up capacity.

The tragedy of the US opioid crisis unfortunately continued in 2020. US states, cities and counties will ensure that the legal nightmare will continue for companies implicated in the manufacture and / or distribution with opioids. There are now some 3,000 opioid-related lawsuits. Sadly, the US National Center for Health Statistics reported a Year-on-Year (April '19 to April '20) increase in deaths of +13.6%. That figure will inevitably grow as Covid-related unemployment and isolation persists.

An October 2019 settlement offer from distributors McKesson, Cardinal Health and AmerisourceBergen to pay a combined $18bn is still meeting resistance. At that time J&J reached a separate $4bn settlement with a group of state attorneys general. In October 2020 J&J offered to add another $1bn with that group. Indicative of the fragmented nature of legal repercussions, J&J has a separate appeal of a $465mn judgment in Oklahoma. All companies involved continue to deny wrongdoing.

Meanwhile, OxyContin manufacturer Purdue Pharma, the epicentre of the opioid crisis, reached a new settlement in October with the US Department of Justice which included an $8.3bn payment and a guilty plea to criminal charges enabling the supply of drugs "without legitimate medical purpose". That Federal level agreement could impact the state and municipality negotiations but there is pushback. One state attorney general pointedly noted that the Sackler family is getting off too lightly and that a rushed pre-Presidential election settlement was not justified. In short, the opioid saga is not over.

With change comes opportunity and Covid impacted the 2020 M&A world. Categories suddenly became larger than expected with winners or losers directly impacting valuations and availability. In the early pandemic days, firms jumped into survival mode and cut costs at all cost. Once survival seemed more secure, there was a realisation that there were new possibilities. Companies and investors slowly emerged from a bunker mentality. Then the frenzy began. One of the major US investment CH bankers languished through weeks of silence. Then, it hit. In just 3 days, this firm achieved its total year of forecasted business.

CHPA refreshed its logo in 2020, but this was anything but a simple rebranding exercise. The trade group successfully transformed from a narrower legacy mission serving the OTC industry to include medical devices and supplements. Two long-time seemingly elusive goals also crossed the finish line: OTC Monograph reform and re-establishment of HSA / FSA reimbursement eligibility.

The transition from OTCs to a broader self-care mission ushered in a new CHPA structure; each major segment has its own Council and Strategic think tanks. The CHPA hopes that Monograph reform will jumpstart flat categories and stalled innovation. The old order depended on two time-consuming new product paths: switch and / or the tedious NDA route. The industry did compromise to achieve this goal. In order to fund the streamlined FDA process, user fees were part of the package. The HSA / FSA reimbursement restoration was tucked into the CARES Act. CHPA CEO Scott Melville assessed this victory as "restoring industry credibility and bring value to our members."

The CHPA also progressed on other fronts. An industry Women's Leadership Forum and evolving industry-inspired Sustainability & Packaging initiatives are in a formative stage. The CHPA's Covid pivot to Zoom boosted the quantity and quality of content.

The Covid 2020 world also hid developing stories that will most likely grow into bigger stories in 2021: cookies, marijuana and the continuing blur into the natural space.

The demise of cookies is about to get real. With the e-commerce world seemingly boundlessly growing, digital marketing will grow along with it. Marketers will fish where the consumers are – but it is about to get a lot more challenging to track the fish.

It started in Europe and migrated to California and by the end of 2022 cookies will disappear. In Spring 2018, the EU enacted the Global Data Protection Regulation (GDPR). By June 2018, using GDPR as a model, the California Consumer Privacy Act was passed into law, almost certainly pioneering a framework that will sweep the USA.

The heart of the legislation was and is data protection of personal consumer information. The Europeans had two main objectives: ensuring that *Personally Identifiable Information* and *Sensitive Personal Information* are protected. In short, digital data confidentiality was personal. The consumer now has the right to tell a firm to stop using, storing or collecting their online data. The California law went even further in protection of content. Search engines and news platforms must compensate sources for third party content, and internet players, big and small, are liable for copyright infringement. The penalties are severe.

Michelle Bottomley and Steve Horne, co-founders of the Modern Growth Exchange, recently published a clearly-outlined new world in *Arbolus*. Marketers are heavily investing in data and Customer Data Platforms to identify both prospects and customers before 2022 when Google withdraws from the cookie market. Second level data suppliers will need to negotiate with some major players – Facebook, Twitter, Amazon, Google, Apple, Microsoft – to enable the consumer data exchange between Demand Side Platforms and Supply Side Platforms.

Arbolus has aptly described this new world marketplace as e-commerce internet giants each owning a "walled garden" of consumer data. Demand side platform owners will attempt to negotiate data access to harvest each garden and ultimately aggregate and consolidate data crops in a harmonised manner. This will not be easy because the major players will desire to retain their own information. New players will emerge that will have the capability to survive in a cookie-less privacy driven world but will need new techniques and new methods of data management in order to compete. The cookie data farmers market will unfold in 2021.

The control of consumer data and consequently the greater control of messaging to the consumer will move from third-party vendors to first and second parties. The challenge will remain the same – find, retain and build loyalty with High Value Consumers, but how to catch the fish will require new methods. AdTech and MarTech companies will create new ways to manage a cookie-less privacy world or fail. Owned, earned, shared and paid media will have a different look.

The great political Red / Blue divide has been healed in one way: there was another Green wave in the 2020 election. Five new states went Green and now 36 states allow some form of marijuana with 15 greenlighting recreational weed. One in 3 Americans can legally enjoy recreational formats. According to CivicScience, 69% of US adults support marijuana legalisation, up from 56% just 3 years ago. Medical and recreational marijuana will only grow in importance over the next few years.

To be sure there are challenges. New Jersey legalised recreational forms in November but a Democratic Governor and the Democrat-led State Assembly are struggling to enact legislation to strike the right balance of numbers of licences issued, a tax level that will bring revenue but not create a grey market, earmarking the anticipated tax revenues, decriminalise the product and grant amnesty to those presently imprisoned. It will take some time to walk a straight legal marijuana line.

While demoted to D list status, CBD did grow 22% in 2020 and, unlike almost every other category, remained predominantly a bricks & mortar business. CivicScience has noted a year-end Covid fatigue CBD trend. More than 20% of the country plans to include CBD for the holidays. Look for special gummies in stockings this year.

The CH industry is gradually blurring into the broadly defined natural channel. For several years CVS has focused on natural remedies. Interestingly, UNFI, the largest natural channel distributor, created a separate healthcare division with dedicated warehousing on both coasts. The blur is coming from both sides.

The real change coming will be concern for carbon footprints and eco-friendly products and packaging. Green-washing will encounter demands for certifications with teeth – Leaping Bunny, Organic – will become the norm. ECRM planners are already developing 2021 content in this area. It is instructional to look at several of the Specialty Food Association Trendspotter 2021 predictions as they could migrate to the CH industry in the next few years. Values-based buying will be reflected by the desire to purchase sustainability-focused brands from companies owned by women, Black people, people of colour and / or B Corps. Ingredients will be scrutinised for functional values. Products containing ingredients like fermented honey sauce, prebiotics-laced snacks and functional ghee will gain traction.

As 2020 draws to a close, Dylan's seminal tune concluded with lyrics that *the order is rapidly fadin' and the first one now will later be last for the times they are a-changin*. Covid pushed that new order ahead in 2020 faster than anyone could have predicted. Indeed, *the battle outside ragin' will soon shake your windows and rattle your walls for the times they are a-changin'*....