

Accenture Life Sciences

Rethink Reshape Restructure...for better patient outcomes

The Changing Future of Consumer Health

Accenture Research Note: Consumer Healthcare Industry High Performance Business Study—2013 Update

The \$502 billion Consumer Healthcare market is expected to grow by nearly 50 percent to \$737 billion over the next five years. The jump is primarily driven by preventive Health & Wellness categories such as vitamins, nutrition, weight management and fortified foods & beverages, and spurred on by demand from digitally-enabled, health conscious consumers and the growing wealth of emerging market consumers. Accenture's High Performance Business research in Consumer Health reveals that the gap is widening between the High Performers and their peers. High performers are rapidly adapting to customer needs through acquisitions and alliances that reshape their portfolios, investing in emerging markets and digitally transforming their operating models. With multiple industries converging on and transforming the Consumer Health market, traditional Consumer Healthcare companies face a call to action to bring a new pace of innovation, collaboration and understanding of the digital consumer to maintain relevance.

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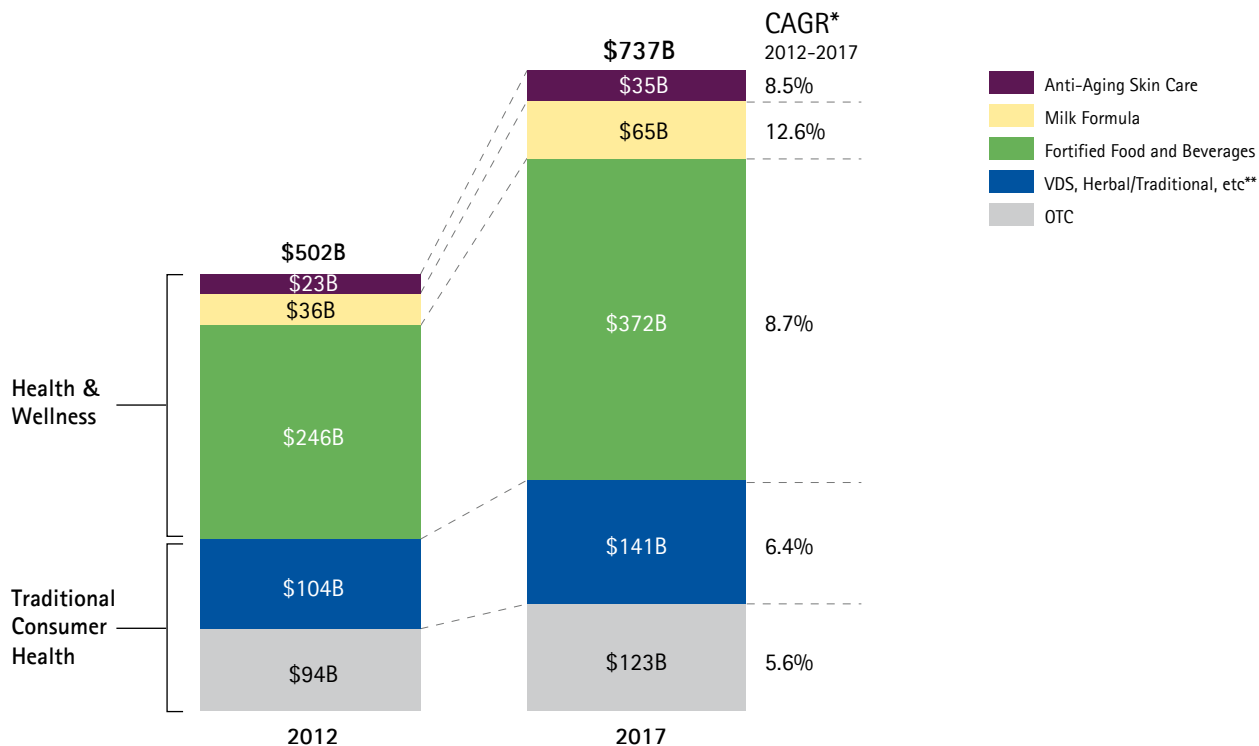
Research Summary

- The Consumer Health market continues to expand beyond over-the-counter drugs (OTC), vitamins & dietary supplements (VDS) and herbal products to include fortified foods & beverages, anti-aging, and milk formula products—which will double the size of the addressable market (see Figure 1).
- The expanded market is expected to grow \$235 billion over the next five years (from \$502 billion in 2012¹ to \$737 billion¹ in 2017).
- Only \$29 billion¹ of this growth will come from OTC products (pain, cough/cold/stomach remedies, etc.), where historical market leaders from the life sciences and consumer goods industries are positioned today.
- The remaining growth, \$206 billion (88 percent), will come from related categories, such as VDS, nutrition, fortified foods & beverages.
- Changing consumer behaviors spurred in part by demographics, evolving healthcare policies and the digital revolution, are the major forces driving growth:
 - Empowered with increasing information and personal technology, the digitally-enabled consumer wants to be a stakeholder in their own health and wellness.
 - In emerging markets, consumer affluence is growing as the population ages. By 2050, China is expected to have 331 million people aged 65 or older², more than the entire US population today, with a life expectancy and population age structure more like that of a developed market (see Figure 2). Affluence, aging and urbanization have sent the number of diabetics in China skyrocketing to 114 million people³, with at least twice as many living with undiagnosed diabetes or pre-diabetes^{4,5}.
 - Consumers' sedentary lifestyles can be tied to rising levels of chronic diseases. One in two adults is overweight or obese, with one in three children qualifying as obese in the United States⁶.
 - Consumers are realizing they have to take a more active role in managing their health as the industry moves towards improved health outcomes and payers are incentivizing healthier lifestyles.

These dynamics reflect a convergence across industries, changing demand for and expectations of consumer health products and services, and evolving delivery of products and services. Companies from life sciences, consumer goods, healthcare, telecommunications and high tech industries are all looking to capture the sizeable opportunity of this growing market.

FIGURE 1. Growth Forecasts for the Consumer Healthcare Sector

Expanded Consumer Health Market 2012–2017 (\$ billion)



*Compound annual growth rate

**VDS, Herbal/Traditional, etc: vitamins and dietary supplements; herbal/traditional products; sports nutrition; weight management

Source: Accenture Research 2013, based on Euromonitor International.

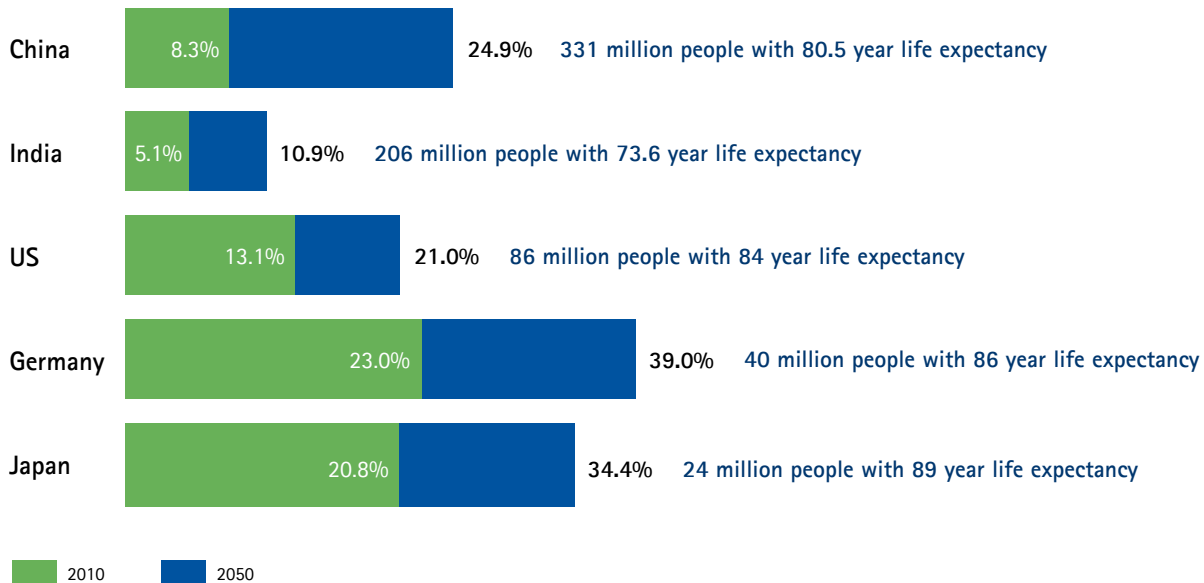
“Consumer health is one of the most fragmented markets in the world, and that is a real issue-stroke-opportunity. The fragmentation will result in consolidation—the only question is who, when and how.”

**Rakesh Kapoor, CEO,
Reckitt Benckiser⁷**



FIGURE 2. Aging Populations are Driving Consumer Health Growth

% Population > 65 Years



Source: United Nations, June 2013.

Key Findings

There is a consumer revolution in healthcare. However, most traditional consumer health companies have not taken advantage of this shift in consumer needs.

Today, consumers want solutions that allow them to take charge of their own health, and to be an informed stakeholder in their health decisions. Consumers want better, easier, “self-serve” ways to manage and improve their health—and they are getting it with an increasing range of health management options as a result of easier and less expensive access to health information and products. Evidence of this is everywhere. Consider these statistics:

- In 2013, around 100,000 mHealth (mobile health) apps were available for download. By 2017, 1.7 billion smartphones and tablets are forecast to have an mHealth app installed. mHealth services revenue is forecast to grow to \$26 billion by 2017⁸.
- Spending on health clubs has continued to grow reaching \$26 billion in the United States in 2012 versus \$23 billion in 2008⁹.
- The number of retail health clinics in the United States expanded from approximately 200 in 2006 to more than 1,500 in 2012, with forecast to increase to 2,700 by 2016¹⁰.
- In 2012, 87 percent of internet users in the United States leveraged online sources for health and wellness research¹¹.
- The in-home diagnostic testing market is approximately \$15 billion and growing by at least 5 percent per year¹².

Companies outside the traditional Consumer Health industry are entering the market to fulfill the unmet needs of the health-oriented consumer.

Companies in sectors from mobile telecommunications to electronics and high tech are entering the consumer health market to respond to the connected consumer. The competition in this space has blown wide open—in part because traditional leaders from the life sciences and consumer goods sectors have tended to maintain a product and brand approach versus a customer outcome focus.

- Google launched Calico in September 2013, a new health and well-being venture focused on understanding aging and related diseases through the processing of big data. Calico will be led by the former CEO of biotech giant Genentech.
- Nike’s FuelBand tracks activity and uploads through an iPhone app, allowing consumers to record the amount and intensity of their daily movement and activity.
- Samsung S Health personal wellness app collects exercise and diet data to help users maintain a healthy lifestyle and is compatible with various healthcare sensors. The company is partnering with health insurer Cigna to evolve this app further. Samsung has also recently released the Galaxy Gear Smart Watch—which incorporates fitness orientated features such as heart rate monitor, pedometer, and a downloadable sleep/stress app.
- US sales of wearable fitness devices jumped from \$43 million in 2009 to an estimated \$854 million in 2013, and are forecast to grow 35 percent to \$1.2 billion in 2014¹³.

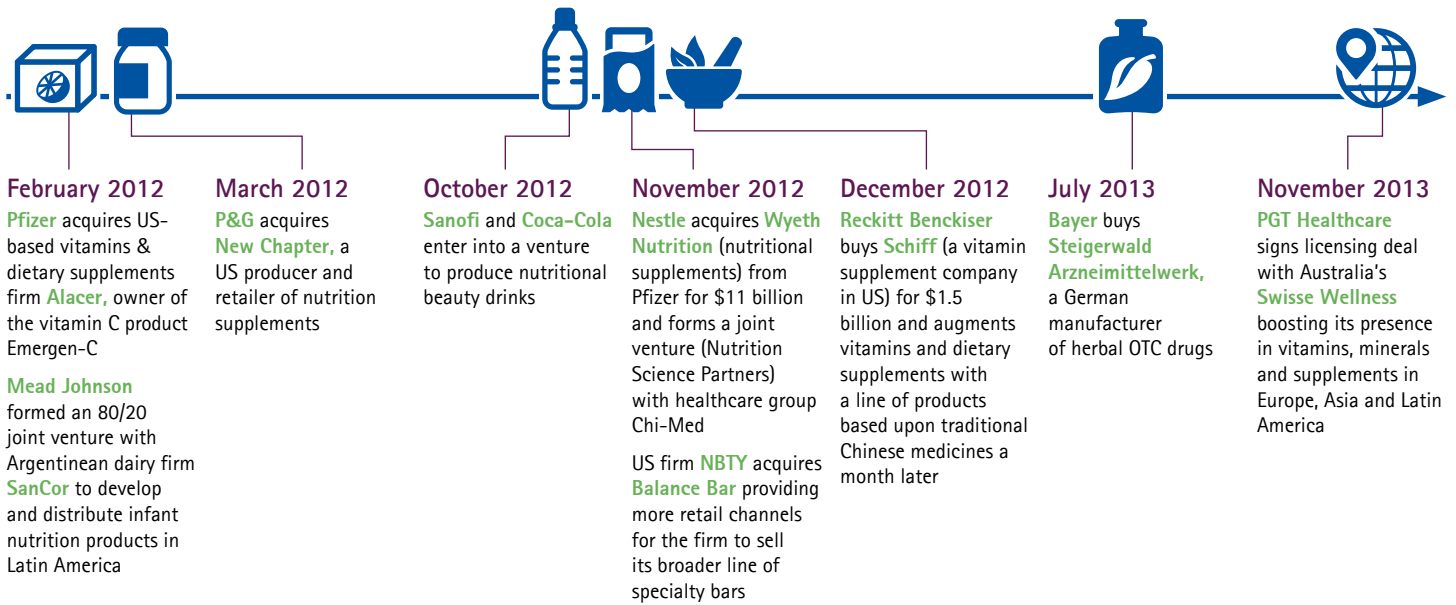
High Performers are converging and collaborating to capitalize on the expanding consumer healthcare opportunity.

A few high performing consumer goods companies are bringing their consumer insight and advanced marketing capabilities to challenge the “traditional” players in addressing the needs of the new health-oriented customer. Meanwhile, select pharmaceutical companies are joining forces with entities from outside their industry.

While organic growth through new product development can bolster consumer health portfolios, many companies are finding a faster path to expanding their product lines or market presence is acquisitions or collaborations. The last two years have seen acquisitions, joint ventures and partnerships between and among industry players accelerate, particularly in the nutrition segment (see Figure 3 on next page).

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FIGURE 3. Convergence and collaboration abound as companies strive to capture the expanded consumer healthcare market



Changes in company rankings between Accenture's Consumer Health HPB studies in 2010 and 2013 show that as High Performers recognize the potential of the expanded Consumer Health market and are adapting their strategies to capitalize on it, a gap is opening up between High Performers and their peers.

This year's research revealed two High Performers, as it did in 2010 but with a change at the top. Reckitt Benckiser retained its position as a High Performer, Mead Johnson Nutrition, newly added this year to the research, entered the rankings as a High Performer, reflecting the changes in the Consumer Health market broadly. Both of these companies have made significant moves to take a dominant role in consumer health.

- Powerhouse Reckitt Benckiser expanded its consumer health portfolio by taking an aggressive approach to acquisitions (outbidding Bayer to acquire Schiff Nutrition) and making other acquisitions in China and Brazil.
- Mead Johnson Nutrition entered into the High Performance group by focusing on high-growth categories and expanding its footprint in emerging markets, where its premium infant formulas appealed to increasingly affluent consumers.

To win in Consumer Health, companies—whether rooted in life sciences or consumer products—will need to re-orient their businesses, quickly adapting capabilities to the changing needs of the new consumer.

For both traditional pharma and consumer goods companies, this will require significant rethinking of a company's commercial capabilities and operating models. "Traditional" pharma companies that have established strong trust in their scientific heritage will need to adapt their scientific/clinical orientation to understand, move into and constantly respond to new market segments and geographies at greater speed, as well as develop the customer-centric skills that consumer goods companies have.

Consumer goods companies will need to develop R&D/Clinical and Regulatory organizations and capabilities to adequately support products' health claims, and achieve and maintain compliance in promotion and manufacturing.

Both types of companies will need to transform to a digitally-enabled operating model as consumers on the internet transform into customers of their products and services. Today's consumers demand information, expect seamless channel service and drive competition through a more open and transparent world.

Our analysis identified a handful of distinctive capabilities that are required to achieve High Performance and enable companies to outperform their competitors. While many companies get some of these capabilities right, High Performers demonstrate them more consistently and integrate them into the fabric of their organizations.

- **Getting to know the customer and consumer through deeper, advanced analytics that are integrated across the organization.** This will mean moving from retrospective to predictive analytics to generate better, actionable customer insights.
 - P&G has developed "Decision Cockpits" which give forward projections of key business indicators and drill down by brand and by market. This data can be visualized remotely on mobile device or in interactive Business Sphere rooms. Additionally, P&G has dedicated Brand websites offering consumers tailored

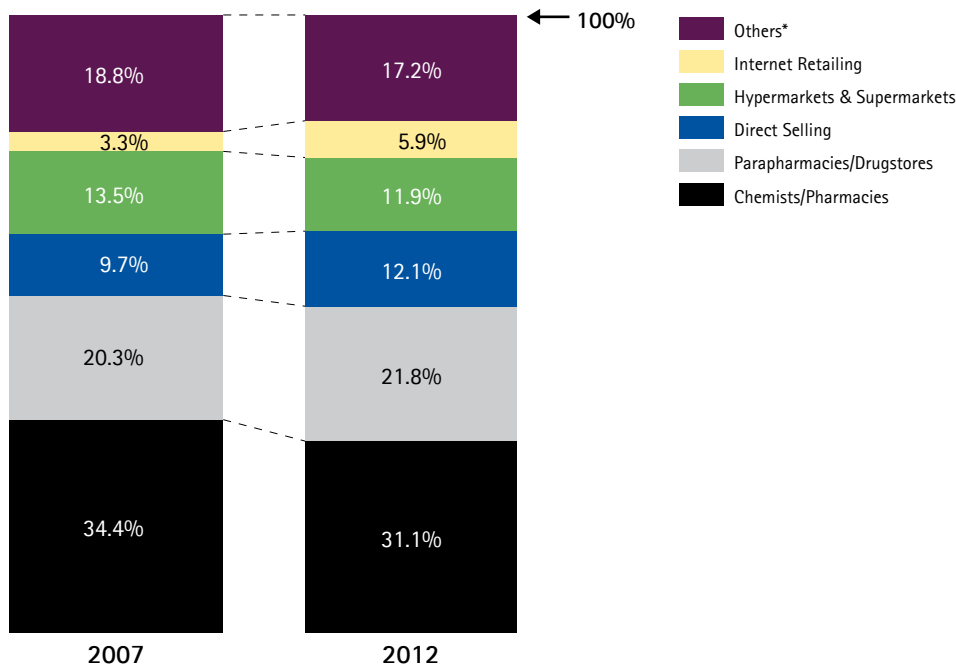
advice, free samples and money-saving coupons—enabling them to gather rich data on their demographics, preferences and engagement. These moves are part of P&G's strategy to become a data-driven information-centric culture.

- **Engaging in one-to-one marketing through innovation that delivers a seamless customer experience.** This capability needs to be underpinned by better insights and span multiple digital and tangible touch-points enabling personalized communication when, where and how the consumer desires. Internet retailing of consumer health products grew by almost 100 percent, taking share from traditional channels like chemists and pharmacies (see Figure 4).
 - Reckitt Benckiser moved from a lab-based approach to using "live" consumer data, resulting in the launch of a new single-dose antacid product, supported by 360° digital/social communications.

- **Delivering seamless channel experiences** so consumers can access the brands they want anytime, anywhere, supported by customer-driven, nimble supply chains.
 - P&G developed "virtual shopping" experience centers to test new products with consumers, and then share the consumer reviews with retail partners.
- **Evolving to more dynamic operating models that serve emerging markets** with flexible, cost-effective "super global-super local" supply chains.
 - Reckitt Benckiser merged its European and North American operations into one Amsterdam-based unit, and split the rest of the world into two reporting areas to align with market demand and put accountability in the areas closest to the customer.

FIGURE 4. High Performance in Consumer Health Requires Multichannel Marketing and Retailing Capabilities

Consumer Healthcare, share of sales by channel, 2012



Source: Euromonitor International 2013 and Press Searches

- **Focus on winning** in high-value categories and high potential markets. High performers are continuing to invest in M&A in growth categories and emerging markets, and dispose of non-core businesses to prioritize core brands:
 - Reckitt Benckiser acquiring Schiff Nutrition and acquisitions in Latin America and China.
 - Mead Johnson forming JV with SanCor to strengthen presence and growth potential in South America.

High Performers are evolving their business models to reflect changes in consumer behavior. Internet purchases of consumer health products although now only about 6 percent will continue to grow. Mastering this channel or multichannel retailing in general will change how companies sell and market, and fundamentally how they operate and compete.

The convergence of forces driving growth in Consumer Health will not abate anytime soon, in fact the forces will undoubtedly grow stronger. Consumers will continue to embrace Health & Wellness, and look for new products and solutions that fit their needs. While the brand strength of traditional companies may help initial positioning of legacy and new products, consumers also trust and rely upon technology and service providers in other sectors to provide pragmatic, easy-to-use solutions for proactive health management. Consequently, companies looking to capture a share of the growing Consumer Health pie will need to scrutinize their portfolios, strengthen consumer-specific capabilities, and refine their operating models to ensure that all are working in concert to respond to evolving consumer needs.

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Attributions

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Accenture embarked on its High Performance Business Program in 2003. We have studied more than 6,000 companies across multiple industries and industry segments and come up with definitive answers regarding business performance. Our High Performance Business research methodology is a proprietary approach for analyzing relative peer company performance across five key metrics. For each company, we capture the metrics for profitability, growth, positioning for the future, longevity and consistency with scores graded along a curve. Composite scores demonstrate relative performance within the peer set and highlight the high performers.

About Accenture's High Performance Business Research for the Consumer Healthcare Industry

Accenture's study of the Consumer Healthcare industry is in its 4th year and has analyzed the long term performance of "pure play" Consumer Healthcare companies (with portfolio focused entirely on the segment), as well as the Consumer Healthcare focused divisions of larger Pharmaceutical or Consumer Goods companies. Our 2013 update is based on fiscal year end 2012 financials and analyzes 17 of the largest Consumer Healthcare companies in the world over a 5 year period. Collectively these companies had \$81 billion in 2012 aggregate revenue, representing 35 percent of the Traditional Consumer Healthcare Market. The results have been compared with our 2010 study (based on fiscal year-end 2009 financials) to identify relative movements in the performance rankings. The analysis pro forma adjusts for the impact of major M&A deals and removes the impact of exceptional operating costs to reveal an accurate picture of ongoing business operations. A detailed analysis of historic financial performance averaged over 3 and 5 year timeframes takes into account overall growth and return on investment, as well as consistency over time.

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