LEO J. SHAPIRO & ASSOCIATES LLC.

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First Salvo: The Battle for Generics Commences

Generic has become the choice of prescription drug for an increasing number of Americans. Generic medicines account for 65 percent of all prescriptions dispensed in the United States (source: IMS Health). A new Leo J. Shapiro & Associates (LJS) study showed that half of adults (50 percent) actually request generic drugs from their doctors.* The growth in choice of generic drugs, already encouraged by health insurers, was given a big boost in 2006 when Wal-Mart introduced the $4 generic prescription in its pharmacies, with many competitors following suit.

A previous LJS study found that consumers were discriminating between the generics sold by different drugstore chain pharmacies. Some were seen as superior to others. In other words, consumers were relying on their opinions of a specific drug store chain to make a judgment about "their brand" of generics. With their growing popularity, consumers had, in effect, begun to do their own branding of generics as both retailers and manufacturers avoided or neglected to undertake generic branding initiatives aimed at the consumer.

Retailers will not take long to fill the marketing void left as commoditized generic drug pricing trumps the drive for brand-name drugs. An example of this push to fill the void is Target. It has recently launched a major campaign to distinguish its pharmacy brand. This campaign associates specific attributes with the drugs (including generics) sold by Target pharmacies. One attribute is ClearRx; an innovative and distinctive drug packaging and delivery system designed to make it easier to take your medicine. ClearRx features a unique flat-faced bottle with large print, easy to read labels; color coded ID rings for family members; and 19 free flavorings (watermelon, bubble gum) that can be added to overcome the taste of bitter medicine. "Target Pharmacy" and the trademark bullet logo are displayed prominently in bold red at the bottom of each label.

The battle by retailers to grow share of the generic drug market is not just to boost pharmacy sales; at $4 a generic prescription, the generic becomes, in effect, a loss-leader. It is a battle to grow overall store sales by boosting pharmacy traffic. The branding impetus, of the sort used by Target, is likely to continue and grow at the retail level. That growth is inevitable, since it responds to the consumer's need to distinguish generic quality as generics become an increasingly popular choice of prescription drug.

There is an even broader impetus motivating retailers to ride on the wings of generics. Retailers are becoming providers of healthcare in a system that has many fine-line cracks; some would say ruptures, and a system which excludes nearly one in seven Americans not covered by health insurance. Retailers who lead the way in cutting costs and upping expediency could be seen by the consumer as the answer to America's healthcare boondoggle.

* National study of 900 households interviewed by telephone, January and February 2008. Leo J. Shapiro & Associates

Walgreens, CVS Pharmacy, OSCO, Target and others now offer flu shots and treatment for common illnesses as part of their in-store “convenient care clinics” to adapt to their customer’s busy lives. If the FDA decides to create a Behind-the-Counter category of drugs (drugs that would be available to the consumer without a prescription but only after talking with the pharmacist), “brand” choice will increasingly move away from the physician and into the hands of the consumer and drugstore retailer.

Retailers are not the only business to see the potential of branding generic prescription drugs. Back at the physician’s office patients may see a new medical device these days: a machine resembling an ATM and dispensing samples of generic prescription drugs. Pharmaceutical marketers have long recognized the power brand sampling has to gain access to physicians and turn a branded sample into a branded prescription at the pharmacy. MedVantx Inc., the company that distributes the machines, boasts it has created a strategy to “promote and increase the appropriate utilization of generic medications.” It is also, potentially, creating a strategy for branding of generic medications. Aside from the MedVantx OTC Advantage™ brand itself, it is, in addition, offering generic manufacturers an opportunity to promote their products directly to physicians. Retailers can jump in here too. MedVantx offers a program to provide OTC store branded sample product at the point-of-care with coupons linked to Rx and additional products back at the retail outlet.

As differentiation in therapeutic efficacy between branded and generics and among generic drugs ceases to exist, consumers will seek other differentiating factors to inform their purchase decision. These factors would likely span the experience from initial prescription to taking the drug and might include: “branded” sampling, ease of purchase (phone ahead orders, 24 hour refill, home delivery, prescription transfer), packaging (easy to read labels, easy open yet childproof containers), physical characteristics of the drug itself (color, size, coating, smell). In a national telephone survey of 900 households conducted by LJS in January and February 2008 consumers revealed that convenience (71 percent) is a top factor in considering where to have a generic prescription filled beating cost (63 percent). Interestingly, half (50 percent) cited “quality of the generic drug” as a consideration. Additional research may reveal yet unknown factors that could sway human purchase behavior.

Authorized generics may represent a compromise to consumers between abandoning the security, but higher cost of brand-name drugs and accepting the lower cost, but perceived inequality of generics. An authorized generic is chemically identical to its particular brand-name counterpart, but the brand-name manufacturer authorizes it to be marketed in a generic version thus creating, in essence, a branded generic. While this option is currently available for certain drugs, the Federal Trade commission is studying the competitive impact of this practice.

In our fiercely competitive economy, it is simply not realistic for the marketer to turn a blind eye to branding when penetration of a product category has reached over half of households. While the branding of generics may proceed slowly, it likely is unstoppable. Leaders among retailers, generic drug manufacturers, and perhaps even innovative new delivery companies, will not ignore this substantial marketing opportunity.

For more information please contact Peggy Gerlock at pegg@ljs.com or 312.321.8294. Leo J. Shapiro & Associates (LJS) is a market research firm based in Chicago. LJS conducts extensive research in the areas of pharmaceuticals, OTC and health care. For more information, please visit our website at www.ljs.com.