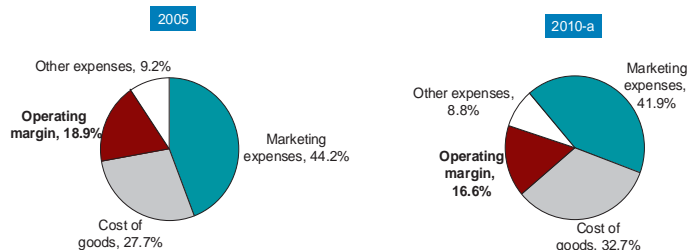


OTC Drugs: U.S. Competitor Cost Structures 2010

2010 Fact Sheet

Cost components

Marketing expenses and cost of goods sold (COGS) remain the two largest cost components for the OTC industry in 2009 and the first half of 2010. However, COGS have increased over the past two years while several marketers have reduced marketing expenses as a way to offset higher COGS and maintain operating margins.



Cost structures of product classes

The most profitable OTC product classes include digestive products, topical products, and other products (including home diagnostics, smoking cessation, sleeping aids, and weight loss medications). Digestive products have relatively low raw material costs, marketing expenses have been reduced recently, and several brands including Prilosec OTC (Procter & Gamble), Miralax (Merck), and Prevacid 24 Hour (Novartis) command high retail prices, which all help to improve margins in this class. The least profitable class is allergy, asthma, and sinus medications due to inordinately high marketing expenses for Zyrtec (Johnson & Johnson) and Claritin (Merck).

Product class	Operating margin, % of net sales	
	2008	2009
Digestive products	24.0	27.6
Topical products	24.4	26.6
Other products	20.4	24.4
Internal analgesics	15.9	20.2
Nutritional products	16.5	19.0
Cough and cold preparations	16.2	17.7
Allergy, asthma, and sinus products	(2.2)	10.8

Key trends

COGS have increased driven by increased costs of oil, raw materials, and packaging components. Less availability of resins have caused costs of packaging materials to increase 10% to 15% since 2007. Resins used to make plastic bottles including polyethylene terephthalate (PET), high density polyethylene (HDPE), and polypropylene (PP) have all had sharp increases over past three years. Aluminum ingot used to make blister packs also increased in costs over past three years significantly. Marketing expenses have been reduced by most marketers in order to offset higher COGS, but not enough to maintain operating margins of the past. Many companies have spent less on advertising expenses and more on promotions as a way to attract cost-conscious consumers during the recession. Other expenses have remained about the same over the past few years.

