

ANNOUNCING

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# Competitive Intelligence in Emerging OTC Markets: China

A newly proposed market research study from Kline's  
Healthcare Practice



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# Competitive Intelligence in Emerging OTC Markets: China



The OTC industry in China is valued at US\$3 billion in 2004 (RMB 24 billion) and is forecast to reach over US\$10 billion (RMB 80 billion) by 2010, as shown in Figure 1. Most major multinational corporations are already present in the Chinese OTC market and are working with local companies to take hold of this burgeoning marketplace. Along with vast opportunities presented by a huge, aging population with increasing disposable income, there are major challenges to marketing OTCs in China. OTCs must compete with traditional Chinese medicines (TCMs), which are often the preferred first-line therapy by Chinese consumers, as shown in Figure 2.

Retail channels that sell OTCs in China are highly fragmented, and the choice of which wholesalers and retailers will sell these products is critical to the success of OTC brands. There are nearly 150,000 outlets that sell OTCs and more than 15,000 wholesalers who distribute the products across the country.

Chain drug stores are rapidly expanding their presence as an important retail outlet for OTCs and related products. In 2003, several discount drug stores emerged as retail channels important to OTCs, where "economical" and "fair" prices are offered at as much as 45% below other channels. See Table 1 for a list of the largest chain drug stores ranked by sales in China.

China's consumers are being encouraged to self-medicate with OTCs, and more consumer advertising, promotions and education will help foster increased OTC trial. The State Food & Drug Administration (SFDA) has removed many OTCs from official reimbursement lists in China, thereby encouraging market pricing and a more open market for OTCs.

Marketing OTCs in China is a complex process, as indicated in Figure 3. The challenges and opportunities of this vast and rapidly growing marketplace will be addressed through this research study.

Figure 1

SALES OF NONPRESCRIPTION DRUGS IN CHINA, 2004 AND 2010

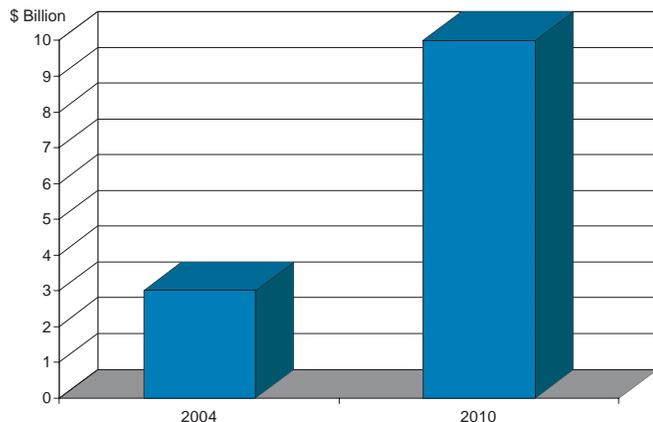
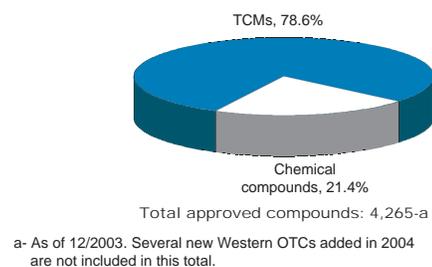


Figure 2

OTC DRUG BREAKDOWN BY PRODUCT TYPE IN CHINA, 2004



# Competitive Intelligence in Emerging OTC Markets: China



Table 1

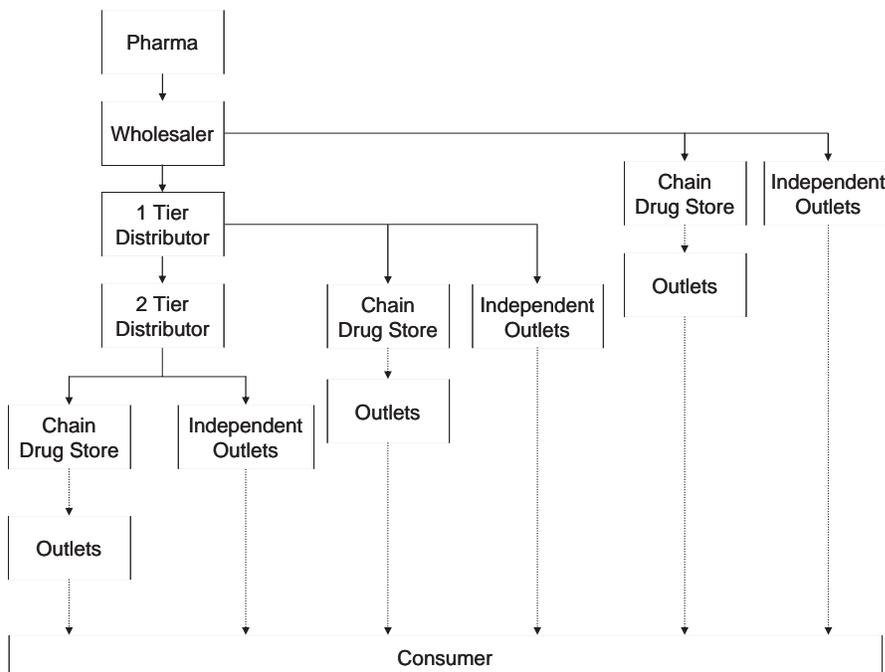
## TOP 10 CHAIN DRUG STORES, 2004

Drug store	Total sales, RMB million-a
Hunan Laobaixing	1,820
Liaoning Chengdafangyuan	1,260
Hubei Tongjitang	1,150
Shenzhen Haiwangxingchen	1,015
Chongqing Tongjunge	882
Shanghai Huashi	751
Jiangxi Kaixinren	87
Chongqing Heping	78
Haerbin Renmintongtai	60
Shenzhen Zhonglian	58

a- For all products sold.

Figure 3

## OTC PRODUCT DISTRIBUTION IN CHINA





## Tentative Report Outline

### 1. INTRODUCTION

- Report scope
- Report organization
- Sources and methods

### 2. EXECUTIVE SUMMARY

*A top-line summary of the major findings of the report, including the following topics:*

- Intellectual property issues
- Generics/counterfeits
- Retail trends
- Rx-to-OTC switches
- Reimbursement issues
- Successful strategies used by OTC companies
- Future sales forecasts and trends that will drive future growth

### 3. MULTINATIONAL COMPANY PROFILES

*In-depth profiles of top multinational OTC companies doing business in China. For each company listed in Table 2, the following information will be provided:*

- Background
- Entry strategy
- Insights on company culture
- Strengths/weaknesses
- Locations within China
- Corporate sales and profits
- Recent licensing agreements/marketing partnerships
- Total OTC sales in 2004/2005
- Sales by category and major brands
- List of OTC brands the company markets
- Recent and upcoming new product launches
- Advertising and promotional strategy
- Areas of R&D focus
- Expected future strategy in China
- Forecast OTC sales through 2010

### 4. LOCAL/REGIONAL COMPANY PROFILES

*Summary profiles of approximately 50 local/regional OTC companies doing business in China. For each company listed in Table 3, the following information will be provided:*

- Background
- Estimated total OTC sales
- Locations within China
- List of OTC brands the company markets
- Strengths/weaknesses
- Recent licensing agreements/marketing partnerships
- Expected future strategy for OTCs

### 5. TRADITIONAL CHINESE MEDICINES

*A summary of how traditional Chinese medicine (TCM) affects the use and sale of nonprescription drugs*

- Classes of TCM
- Market and retail trends for TCM
- How TCM is used by Chinese consumers

### 6. CASE STUDIES

- Analysis of how J&J has established successful joint ventures in China (Xi'an Janssen and Shanghai J&J) with a well-balanced culture of Western-style management that embraces local enterprise culture.
- In 2003, Merck and its partner Hong Kong Apotek launched a line of cough, cold and asthma products, and in 2005, the company divested its OTC business and announced its exit strategy. This case study examines the reasons why this venture did not work and offers lessons learned for other MNCs.
- Analysis of Schering-Plough's Western-style marketing campaign for Claritin.
- Assessment of Bayer's growth-by-acquisition strategy for OTCs in China, including Roche's brands and the potential acquisition of Didong Gaitianli Medicines Co.

# Competitive Intelligence in Emerging OTC Markets: China



Table 2

## EXAMPLES OF MNCs TO BE PROFILED

- AstraZeneca
- Bayer
- Bristol-Myers Squibb
- GlaxoSmithKline
- Johnson & Johnson (Xi'an Janssen)
- Merck
- Novartis
- Procter & Gamble
- Schering-Plough
- Wyeth

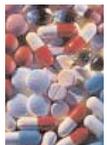
NOTE: List is tentative and subject to change.

Table 3

## EXAMPLES OF LOCAL/REGIONAL COMPANIES TO BE PROFILED

- Beijing TonRenTang Medicine Ltd.
- Chongqing Taiji Group
- Chongqing Tongjunge Co. Ltd.
- Gold Partner/Wuxi
- HangZhou Minsheng
- Harbin Pharmaceutical Group Corp.
- Hayao Pharma
- Jilin Wutai
- Nin Jiom Medicine Manufactory (Hong Kong) Ltd.
- Sanjiu Medical & Pharmaceutical Co. Ltd.
- Shenzhen Joicare Pharmaceutical Group
- Southwest Pharmaceutical Co. Ltd.
- United Laboratories (Hong Kong) Ltd.
- Xi'an Janssen
- Xiu Zheng

NOTE: Approximately 50 companies will be profiled, and charter subscribers can nominate candidate companies for consideration.



# Competitive Intelligence in Emerging OTC Markets: China



## Methodology

As with all of Kline's syndicated studies the methodology for **Competitive Intelligence in Emerging OTC Markets: China** will be weighted most heavily in our primary research with key stakeholders, including manufacturers, regulators, retailers, and distributors in China.

For this study, Kline's consultants will conduct hundreds of in-person and telephone interviews with those companies listed in Figure 4 at the national and provincial levels. This primary research will be validated through rigorous secondary research.

## Capabilities

Kline & Company, a premier consulting firm with a 45-year history of expert consulting to the OTC pharmaceutical industry, has had a presence in China since 1997.

From our office in Shanghai, Kline & Company's staff has completed numerous consulting and research projects on healthcare and consumer products.

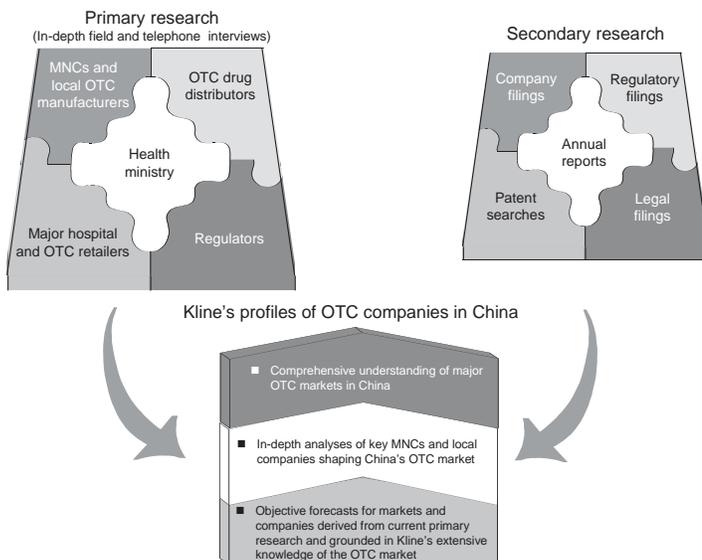
Included in Kline's catalog of syndicated studies covering China are Cosmetics & Toiletries China and Specialty Excipients China. Kline & Company has also established the China Healthcare Advisory Service, featuring an advisory board of highly respected industry experts from various facets of the healthcare and pharmaceutical sectors in China.

As part of this Advisory Service, Kline published "Sell-In Practices and Retail Strategies for the China OTC Drug Market" in September 2005. Kline was also a featured speaker at the **China Rx-to-OTC Switch Roundtable Forum** held in Beijing in December 2005.

From our other locations around the world, Kline's staff has been providing in-depth insights and actionable recommendations to our clients in the OTC industry for more than 40 years. It is with our unparalleled OTC industry knowledge that Kline embarks on this important research project to help our clients make sense of data and trends and to make better business decisions in China.

Figure 4

### STUDY METHODOLOGY



## Who Should Subscribe to this Study

**Competitive Intelligence in Emerging OTC Markets: China** will be an invaluable tool for OTC pharmaceutical executives across many functions, but for those in the following areas, this study will prove extremely useful for formulating future strategies:



# Competitive Intelligence in Emerging OTC Markets: China



- Global business development
- New products/new markets
- Local OTC business managers
- Regional (Asia-Pacific) business directors
- Strategic planning
- Finance
- Competitive intelligence professionals

## Reasons to Subscribe to this Study

The main reasons OTC pharmaceutical executives should subscribe to this study are to:

- Acquire a source of reliable, accurate information grounded in primary research conducted within China
- Gain a source of in-depth competitive intelligence
- Benefit from the lessons learned from other company's strategies in China
- Identify potential acquisition targets and/or licensing partners
- Attain objective forecasts on the future competitive landscape in China
- Gain insights and analysis from a company with a proven track record in the OTC industry with unmatched primary research skills

## Consultation

Subscribers needing more specific or related industry information not covered in the report may consult with our staff through telephone and e-mail contact or faxed requests. One day of consultation time will be provided at specified times during the publication of the study. Individual consultations are allocated in a minimum of one-hour increments. Consults pertaining to a specific section will only be addressed upon publication of that section.

Our clients typically utilize this valuable service to understand specific implications of the research to their business.

## Timing

If sufficient charter subscriber interest is confirmed by October 15, 2006, Kline & Company tentatively expects to publish this report by the end of May 2007. If enough charter subscriber interest is not secured by October 15, 2006, the subsequent delivery of the report will be delayed.

## Subscription Terms and Privileges

**Competitive Intelligence in Emerging OTC Markets: China** is available only by subscription. In order to maximize the value and usefulness of this study, the following privileges and services will be made available:

- A **presurvey discussion** with members of the project team prior to the commencement of the field research. This will provide charter subscribers the opportunity to assist the project team in tailoring the scope of field research.
- **One day of consultation time** with members of the project team, to be used at the client's discretion within six months of report receipt. These meetings are typically utilized as company-specific work sessions to help each subscriber obtain maximum value from the program and Kline's extensive expertise.
- **Hard copy, online, and pdf versions** of the report. The standard subscription includes one hard copy, pdf files of the report contents, and unlimited access to the report contents for employees of the subscribing company via KlineOnline.com. Additional hard copies are available for a nominal fee.
- A **discount** from the standard subscription price for those companies subscribing to the report before it is completed.

For more details on the study program, please contact Laura Mahecha, Industry Manager, Healthcare, at 973-435-3446 or [laura\\_mahecha@klinegroup.com](mailto:laura_mahecha@klinegroup.com) or Li Wang, Director, Kline Asia at +86-21 5382-6677 or [li.wang@kline-asia.com](mailto:li.wang@kline-asia.com).



# Credentials

Established in 1959 as a specialist in the chemicals field, Kline has evolved over the past four decades to provide consulting services and syndicated market research reports across the entire value chain. We help management solve practical problems in marketing strategies, acquisition and divestiture programs, and the appraisal of new technology. Kline provides clients with facts, forecasts, and recommended solutions to business problems, based solidly on the realities of the market as well as modern strategic principles.

Through our Healthcare Practice, Kline has attained a leadership position in providing consulting services to the pharmaceutical industry. Our firm has developed in-depth expertise in this area by tracking and analyzing nonprescription drugs markets for more than 30 years.

Over the past 40 years, Kline has established itself as an authoritative source for market research and strategic insights the healthcare industry. A list of representative reports Kline has published recently and those currently under consideration is provided below:

- Nonprescription Drugs USA annual service
- Nonprescription Drugs Canada 1990, 1992, 1994, 1997, 2000, 2002, 2004, 2006
- OTCs in Managed Care 2004: Taking the Pulse of MCOs and PBMs
- Retailer Perceptions of OTC Drug Marketers 2004
- International Rx-to-OTC-Switch Forecasts, 2004-2008
- Rx-to-OTC Switch: The Next Wave
- OTC Competitor Cost Structures USA 2006
- History and Impact of the Rx-to-OTC Switch
- OTCs in Managed Care: Issues and Opportunities
- Functional Foods: A Competitive Landscape
- U.S. Cholesterol-Lowering Drugs 2005: Rx Market Analysis and Switch Forecasts

# Subscription Agreement

Please enter our subscription to your comprehensive study *COMPETITIVE INTELLIGENCE IN EMERGING OTC MARKETS: CHINA*. The standard subscription includes one hard copy of the report, online access to the report contents via KlineOnline.com, pdf files of the report sections, and one day of consultation time to be used within six months of publication of the report. Expenses related to any travel made at the request of the subscriber are to be reimbursed by the subscriber. Additional hard copies are available for a nominal fee.

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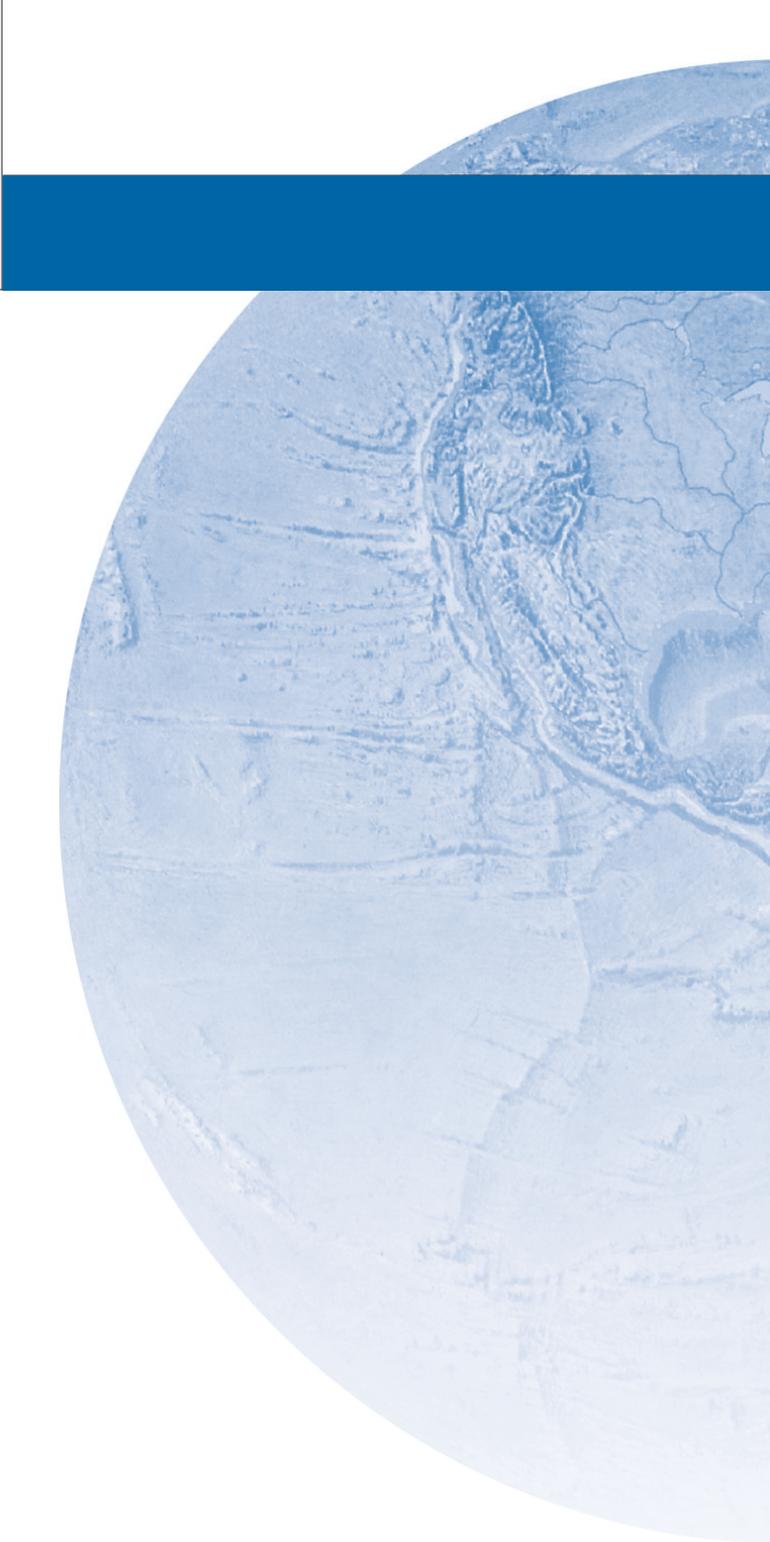
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### Competitive Intelligence in Emerging OTC Markets: China

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				TOTAL	

NOTE: All prices in U.S. funds.



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