

Sławek Ludwiczuk – Country Head, Bayer Consumer Health Czech Republic & Slovakia



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Sławek Ludwiczuk, country head Bayer Consumer Health Czech Republic & Slovakia, explains how Bayer has successfully adapted to the rapidly shifting retail channel environment in the Czech consumer healthcare market with the consolidation of the pharmacy market and the emerging e-commerce and mass market.

What were your priorities when you took over the reins of the Czech affiliate in 2017?

My key priority was to readjust the ways of working and restructure the organization in order to adapt to the rapidly shifting market trends.

There is a dynamic transition from independent pharmacies to consolidated pharmacy chains in the Czech Republic with Dr. Max and BENU controlling an increasing share of the market. At the same time, we have seen a rapid rise in e-commerce, while the importance of mass-market channels is also growing.

My mission was to set the systems, structures, mindsets and capabilities in order to be at the avant-garde of this transformation because I would rather be in the driver's seat than simply a passenger. However, as Bayer is positioned as the eighth or ninth player on the market, this is not

an easy task as we lack the scale of competitors such as GSK or Sanofi. We are growing ahead of the market and thus expanding our market share. This is not an easy feat, especially in the Czech Republic where there are few growth drivers available. Having the right mindset and capabilities in place is thus crucial to our success.

I am happy to say that the changes we have made are paying off. In all three channels – pharmacy chains, mass market, and e-commerce – we are growing rapidly. The newer the channel, the better we do. Although relatively small compared to the pharmacy channel, we are growing ahead of the curve in the expanding mass market and e-commerce channels.

I am immensely proud of my team who has been able to reorganize itself quickly. We were able to fill the gaps in capabilities, and those who came on board are doing a fantastic job. How to lead the transformation was not obvious in the beginning as Bayer is a rather traditional company whose main markets in Europe, such as Germany or France, are characterized by a strong network of independent pharmacies. As a result, operating in a consolidated market requires a change in mentality, which in my opinion should be embraced to an even higher extent.

How does this situation differ from other markets in the CEE region?

There is a tendency to put all the Central European markets into one basket, but it is a mistake because they are very different from each other, which comes down to very nitty-gritty details. For example, in the Czech Republic, one needs to consider that the pharmacy market is dominated by two players, coupled with a rapidly emerging e-commerce and the mass market. Regarding distribution, in the Czech Republic the environment is dominated by international players such as Phoenix and Alliance. In Slovakia however, international players co-exist with strong local distributors. In Poland, there are only local distributors. Moreover, while there are pharmacy chains in Poland, most of them are local ones. The conversation will be quite different from a local Polish distributor and retail chain compared to an international distributor and chain with more developed corporate structures. Another kind of animal is Hungary where chains do not have many pharmacies compared to the Czech Republic.

In the Czech Republic, due to the consolidated nature of the market, a lot of attention will go to key account management and trade marketing. We need to spend a lot of time analyzing and planning for each SKU in the chain in order to determine how to activate it. It is a completely different mindset.

Moreover, while the activation of healthcare professionals (HCPs) is extremely relevant in markets where independent pharmacies are ubiquitous, it is less so in consolidated markets because pharmacy assistants have targets on what to sell. As a result, shoppers might come with a prescription but leave with something else.

When designing go-to-market strategies, all these specificities need to be considered. Trade terms, systems, capabilities, and ways of working need to be set up to reflect the realities of the market. For instance, in the Czech Republic, I do not need 60 people in the field. What I need are excellent key account managers. On the contrary, in Hungary, I may need a large field force.

From my experience in the French market, I have seen the evolution from a completely fragmented to a semi-consolidated environment with the creation of pharmacy groups and the impact it had not only on the behaviour of pharmacies but also on Bayer's results and structure. In order to benefit from the channel shift, we need to stay on top of the game. Remaining a passenger will have a negative impact on the profitability of the business.

How would you characterize the Czech consumer healthcare market?

It is a complex question, as it could be considered mature in some respects, but not in others. On the one hand, Czechs do not spend much on self-medication compared to Slovakia or Poland. Looking at Western Europe, there is simply no comparison. The reason may lie in the fact that the state provides a high level of healthcare service so that people do not feel the need for self-medication products. They might also feel entitled to free healthcare.

In my opinion, the Czech healthcare system is of high quality. However, rising healthcare costs are putting a strain on healthcare budgets. Currently, the economy is performing spectacularly well, with the unemployment rate one the lowest in Europe, so the country is able to finance this increasing burden. As a result, I do not see the situation changing soon, but it might in the long run.

On the other hand, from the channel development standpoint, the Czech market is maturing. While half of all OTC sales already happen in two pharmacy chains, the consolidation keeps on progressing. The question is where it will end.

To sum up, I think there is still potential to increase how much Czechs spend on self-medication, but it will depend on how the overall healthcare situation develops. At the same time, trade is set up in a very mature environment.

In the Czech Republic, Bayer operates in five main segments – Pain & Cardio, Digestive (GI), Dermatology, Allergy & Cold, and Nutritionals. Which segments are driving the performance?

Currently, our two strongholds and growth drivers are Dermatology and GI. While Dermatology is the larger segment, GI is growing faster with the successful re-launch of our unique product Iberogast: it is a fully herbal medicine for gastrointestinal symptoms. While the product was on the market, it was not activated. We started activating it last year and year-to-date we are already number three in the category according to IQVIA figures. While we still have a lot of distance to travel to reach our key competitors, I am very satisfied with the progress we are making. Compared to the positioning of Iberogast in Germany, Austria and Switzerland, we still have a lot of room to grow. I think the brand can double in size in the Czech Republic in upcoming years.

In GI, we also have Rennie which is the clear market leader and represents the benchmark in the heartburn category. While heartburn is a relatively small category, it is characterized by a high brand loyalty when people seek immediate relief and consistent treatment. Our results show that Rennie has been relevant for many years and continues to be.

Compared to GI, Dermatology is more fragmented and, as a result, we do not look at it as one single segment. Our Dermatology products are geared towards skin care than beauty with the Bepanthen antiseptic cream as well as antifungals and antimycotics with Canesten and Canespor on the treatment side. Bepanthen has recently won the most trusted brand award in the baby segment with Bepanthen Baby, a nappy rash cream, which is by far the category leader in the Czech Republic. Other products under the Bepanthen brand are also doing very well, except for Bepanthen Sensiderm for eczema as it has been a tough year for the category in general.

When it comes to antifungals and antimycotics, Canespor, a once-a-day application, is growing steadily. While we have a long way to go to reach leadership position, the growth is satisfying. On

the other hand, we ran into troubles with Canesten GYN, a capsule used to treat vaginal infections. While the product is the category leader, we faced disruptions in deliveries due to internal issues which we needed to fix.

How do you negotiate mutually beneficial partnerships with pharmacy chains in order to stand out from the large array of products on the market while increasing profitability?

As a relatively small player in the market, investing in our brands is the only way to become an equal partner and build mutually beneficial partnerships with large pharmacy chains like BENU or Dr. Max in the long term. Fortunately, at Bayer we are blessed with exceptional brands. While we do not have a leader in large segments like Pain or Cough & Cold, we have leaders in niche categories such as heartburn and baby nappy rash cream as aforementioned. Even though smaller, these are categories that are highly relevant for consumers and where they really care to make the best choice. Our negotiation tactic is to constantly explain the added value of our brands to their business and how we can help them build their retailer equity with our selling propositions which very often are unique.

While in the long term having both strong relevant brands as well as the right capabilities is crucial to success, in the short to midterm, the right capabilities are indispensable to create competitive advantage. Category managers at large retail chains manage hundreds of SKUs. While they have the right capabilities and systems in place, they simply do not have the capacity to analyze such a high number of SKUs. They would need three times more people in order to work through all the assortment. As experts in our niche categories, we can bring insights to those partners in order for them to squeeze out more growth. We need to find intersections where we can jointly make our value propositions more relevant for the consumer.

Retailers perceive us as a reputable partner with quality products and a culture of compliance. In fact, we have received supplier of the year awards from some e-commerce retailers. We take part in their conferences where we brainstorm together about the future of e-commerce.

As you mentioned, the Czech consumer healthcare market has seen major advances in e-commerce, with nine percent of total sales now being done online according to IQVIA. How have you adapted to and taken advantage of the e-commerce trend?

In our relevant categories, we are the number one player on e-pharmacy websites. After one and a half years, e-commerce is already bigger than the mass market and growing fast.

In December of last year, we hired our first e-commerce dedicated person. At the time, their responsibility was split between e-commerce and brick-and-mortar pharmacies. However, while the physical and digital worlds may be overlapping, they are not the same. As a result, we will now be strengthening the digital team even more. We need teams who can connect the dots between intangible digital marketing and e-commerce.

I am really impressed with the ingenuity and the pace at which e-commerce players implement new initiatives in the Czech market. For instance, BENU and Rohlik started a collaboration in order to deliver OTC medicines faster to urban consumers. Rohlik is an online grocery store which can deliver orders in one and half hours for a small fee. While their scope is still limited to big Czech cities, there is a lot of potential. Buying online is especially relevant such certain categories such as gynecology as women might not feel comfortable talking about their intimate issues in a physical

pharmacy and want privacy. For instance, women suffering from a vaginal infection can order online Bayer's Canestest, one-step self-test that will diagnose the problem they have. They can then order another product from the Canesten range providing the solution without leaving the comfort of their home or talking to anybody.

For us, one way to build the equity of our trusted partners is to provide rich e-content which consumers will not find on less reputable websites. On our partners website, consumers can view videos explaining how the product is used, made and how it works. If they need more information, they will find links to our website where they can access studies. However, there can sometimes be obstacles on the technical side. I would love to see platforms being able to provide information directly to consumers via chat bots.

What does the future hold for Bayer Consumer Healthcare in the Czech Republic?

I think the future looks bright. Under the leadership of Jens Becker, Head CEEC Consumer Health, we have significantly strengthened our marketing capabilities for the CEE region which I think is going to be a huge business enabler. As the CEE cluster, we will be more visible and receive more focus from the Bayer Consumer Healthcare HQ in Basel. Now that everything will be better coordinated and planned on a regional level, we will have access to initiatives which we did not have before when only operating as separate markets whose scale is not comparable to countries like France or Germany.

According to IQVIA, the CEE is the second-fastest growing region after MENAP. In Hungary, the market is growing steadily, while Romania is experiencing an unbelievably fast growth, the second biggest nominal growth after Russia. There is a lot of potential in the region, we just need to bring relevant innovations on the market and make our current value proposition even stronger for consumers. While the Czech Republic is not the fastest growing market in the region, I think there are reserves. More importantly, the country is in the avant-garde of the channel shift. What is happening now in the Czech Republic will happen in larger Western European markets in the future. This is the reason why we should never underestimate smaller markets because they can serve as a testbed for new ideas, which can then be introduced in larger markets.

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