# THE NEW Pet Med Market





Can independent pet retailers, squeezed by vets on one side and big boxes on the other, find a way to tap into the lucrative pet medication market?

**By Jeff Siegel** 

et retailers have enjoyed smashing success with flea/ tick products since they moved from veterinariandispensed to over-thecounter-some \$2 billion in sales since their introduction, according to one estimate. In this, Frontline and Advantage mimicked what often happens in the human pharma market when a product moves from prescription to OTC. Heartburn medications like Prilosec, Nexium and Prevacid, for example, have reaped billions for manufacturers and retailers over the past decade.

Given this, it would seem only a matter of time until pet retailers get another pharma-to-OTC product to sell. There is just too much money involved

to think otherwise. In "Pet Medications in the U.S., 2nd Edition," Packaged Facts (Rockville, Md.) projects that pet medication sales will grow to \$9.25 billion in 2015, based on an 8.5 percent annual growth rate. The report said sales will be fueled by new drugs, thanks to the increasing presence of the world's largest pharmaceutical companies in the pet category, and by new retail channels, as veterinarians lose their near-monopoly over pet pharma.

The reality, though, is much more confusing. Pet pharma is not exactly comparable to human pharma, said several pharmaceutical analysts, and it may well be that flea/tick was an exception. And, unless the potential OTC products are for dogs and cats, said pet market analysts, the market

probably isn't big enough to justify the trouble.

The big change may be that supermarkets, national drug store chains and big boxes, including PetSmart—most of which have the pharmacies or prescription services to dispense vet medications—will focus on pet prescriptions to attract high-end customers away from the vet channel.

"Vet pharma probably hasn't flowed to OTC the way it has in human for several reasons," said Ron Brakke, who runs Brakke Consulting Inc. (Dallas), one of the leading pharmaceutical consultancies in the country. "Mainly, the market isn't as big as it is for human, so the opportunity to go OTC is significantly less."

## From Prescription to OTC

The usual route from prescription drug to OTC product begins with a name-brand prescription. When the patent on the active ingredient expires, it can become a generic prescription. Next, the patent holder applies with the federal

Food and Drug Administration to take the product over-the-counter. Generic and private label OTC products usually follow. This has happened countless times, whether with antacid drugs or antihistamines like Claritin.

Lipitor, the cholesterol medication that is the best-selling drug in pharmaceutical history, is now OTC and has sold \$10 billion to \$12 billion over its lifetime, said Brakke. That dwarfs the sales figures for even the OTC flea/tick medications.

That's the catch when it comes to vet pharma going over-the-counter. The biggest pharmaceutical companies want blockbuster products like Lipitor, and there doesn't appear to be anything like that coming up on the pet side. Even the heartworm preventives, which are probably the best-selling products after flea/tick, are tiny by comparison, said Brakke. To wit, Heartgard's annual sales are only about \$200 million.

"From a retailer perspective, you want an OTC product because your customers want it," said Dan Graham, vice president of Dechert-Hampe Consulting (San Juan Capistrano, Calif.), who has worked for and with grocers on the health and beauty category. "But there are a lot of challenges, including whether you will sell enough of it to justify the shelf space."

Almost all of the OTC pet medications focus heavily on fleas and ticks, according to the Packaged Facts report. In mid-2011, approximately 60 percent of flea/tick spot-on sales were through channels other than veterinarians. Retailers accounted for about one-third and Internet sellers, about one-quarter.

So how did the types of flea/tick products once sold only through veterinarians end up proliferating in the pet specialty market?

First, there was money in it. Second, technically, they were never prescription drugs. Manufacturers sold the products through the vet channel because they wanted to, not because they had to. While some flea/tick products are regulated by the FDA, most, like Frontline and Advantage, are regulated by the Environmental Protection Agency. Hence, the usual prescription-to-OTC process didn't apply—meaning, when the patent ran out on the active ingredient in those products, anyone

was free to manufacture and sell them through any channel.

This explains the seemingly infinite variety of products now available with the same active ingredients as Frontline and Advantage, whether sold in pet stores, supermarkets or mass merchants.

## **Manufacturer Resistance**

Another obstacle to pet meds like heartworm medications finding a legitimate home in pet stores: Many vet pharma manufacturers don't want to take such products over-the-counter.

For example, Pfizer Animal Health (Madison, N.J.), which makes Revolution, a combination flea/tick and heartworm medication, intends to stick with the veterinary channel, according to spokesman Deron L. Johnson.

A statement from Steve Leder, vice president of Pfizer's Companion Animal

Division, said in part: "Pfizer Animal Health maintains a policy to sell prescription products directly to licensed veterinarians or through a select group of distributors authorized to sell to the veterinary channel. ... [O]ur sales policy, under which we sell small-animal prescription products to practicing veterinarians who dispense such products within the context of a valid veterinarian-client-patient relationship, [helps] to ensure consistency of treatment and continuity of care."

Similarly, Merial Ltd. (Duluth, Ga.), which manufactures Heartgard, remains committed to prescription-only and the vet channel, said spokeswoman Natasha Mahanes.

"Merial has no plans to apply to FDA for a change in this status," Mahanes wrote in an email. "Additionally, it is Merial's long-standing policy to sell all

# **Gray Market Perils**

FRANK FRATTINI, CEO of The Hungry Puppy (Farmingdale, N.J.), said he can buy all the Heartgard heartworm preventive he wants. He just doesn't want to—even though his customers want him to sell it.

"We get calls about it all the time," Frattini said. "Our customers expect us to have it, and they want our pricing on it instead of the vet's."

Why won't The Hungry Puppy, a supplies-only traditional and online retailer, sell Heartgard? It's prescription-only, so Frattini would have to buy it from a so-called secondary distributor on the gray market—a shadowy, not always legal part of the supply chain.

Prescription drugs are supposed to go from manufacturer to authorized distributor to retailer, but still regularly show up on the gray market. Secondary distributors may sell products like Heartgard that they get from veterinarians who sell part of their supply, from authorized retailers who went out of business, from authorized distributors with an overstock, or even the manufacturer.

At the very least, buying on the gray market poses an ethical problem. At

worst, selling prescription drugs without a license is illegal, violating federal law.

In fact, retail and pharmaceutical experts alike said the worst thing a retailer could do is to sell prescription products or ethical products (nonprescription medications whose distribution is restricted by the manufacturer to veterinarians) that they aren't supposed to sell. There are two key reasons.

First, there's the potential for lawsuits from consumers if something happens to the animal. One reason Jim Seidewand, owner of Pet World Inc. (West Henrietta, N.Y.), won't sell Heartgard is that an animal suffering from heartworms can die if it takes the drug. Vets run heartworm tests before they prescribe it; Seidewand can't do that.

Second, there is always the chance the product could be counterfeit. This is more of a problem with human pharma. Still, incidents with vet pharma occur often enough that the Environmental Protection Agency has addressed it.

For more information, visit http://www.epa.gov/opp00001/factsheets/petproduct.htm.

—Jeff Siegel

our companion animal products, including those not requiring a prescription, only to licensed practicing veterinarians who maintain active relationships with clients and patients. This policy remains unchanged. Merial does not have commercial relationships with any pet specialty retailers, mass retailers, online pet specialty Internet sites or warehouse stores."

Nevertheless, Merial's Frontline is routinely found in just such channels—which points to the existence of a gray market.

According to their official statements, drug makers are siding with the vet channel in what looks to be an increasingly robust fight between mass market retailers, grocers and drug stores over vet pharma. It's something veterinarians aren't happy about, given that drug sales account for as much as one-quarter of their revenue.

# **Big-Box Competition**

Two-thirds of all animal medications, and not just prescriptions, are still

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—Daryl Szyska, pharmaceutical consultant

sold by vets, according to Packaged Facts. But this may be changing. Large retailers want to build on their flea/tick success, said Graham. They see vet pharma as a way to lure the coveted "pet parent" demographic to their stores. For example:

• Wal-Mart Stores Inc. (Bentonville, Ark.) sells a private label, generic heartworm prescription, PetTrustPlus, with the banner: "Protects just as well as Heartgard Plus. Costs up to 50 percent less." In addition, the marketing materials say PetTrustPlus is "the most convenient heartworm preventive ever"—reminding consumers that it's easier to pick up the prescription at

Walmart than making a trip to the vet.

• Target Corp. (Minneapolis), not to be outdone, has its PetRX program, with \$4 generics, many of the bestknown vet products like Heartgard, and a discount program. Like Wal-Mart, it urges consumers to pick up their pet's drugs while they're shopping in the store instead of making a trip to the vet.

• Walgreen Co. (Deerfield, Ill.) offers a prescription discount club that includes generic medications that cost \$12 for a 90-day supply.

• The Kroger Co. (Cincinnati) is offering generic pet medications for \$4 for a 30-day supply or \$10 for a 90-day supply.

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Regional grocers and pharmacies see an opportunity as well. Kerr Drug, with 164 stores in North Carolina, now offers what it said is a "100 percent inventory" of pet medications at up to 40 percent less than other pharmacies and online retailers. The Stop & Shop Supermarket Co. L.L.C. (Quincy, Mass.), a regional grocer in the Northeast, says it will offer Heartgard Plus, Rimadyl and Frontline Plus.

"The more mainstream these products become, the more retailers are going to find ways to sell them," said Daryl Szyska, a Chicago-area pharmaceutical consultant. "And more people are going to ask their retailers why they aren't selling them."

# The Independent's Response

Consumers expect to be able to buy these products at their local pet store as well, said several retailers interviewed for this story. Customers want the lower prices and convenience that OTC brings and increasingly ask when they will be able to buy products like Heartgard and

Interceptor over the counter.

So what's an independent pet retailer, squeezed by vets on one side and the big boxes on the other, to do? Is there a way to sell vet pharma so you don't lose out?

One option is the gray market—but that presents ethical and legal dilemmas (see "Gray Market Perils").

Another option is opening your own pharmacy—unlikely for most pet retailers. As Dr. Travis Meredith, a veterinarian and pharmaceutical consultant based in Royersford, Pa., explained, retailers would need to be licensed by their state pharmacy board before they could buy the products from a distributor, let alone dispense them—a costly, time-consuming process.

The retailer's best bet, said David Lummis, senior pet market analyst for Packaged Facts, is to hook up with a local pharmacy or veterinarian that does sell prescription products. As business allies, each could benefit by referring customers to the other. Vets—faced with competition from the big boxes—should be willing to try something unique to



counter that competition. That could well include some sort of discount plan for the retailer's customers, which might involve price matching. Brakke maintains that price matching is veterinarians' most effective method for dealing with big-box encroachment, and more of them ought to be doing it.

That they aren't gives savvy pet retailers an opportunity they might not otherwise have. In the end, it's about giving consumers what they want—and they want to be able to buy pet prescription drugs more easily and cheaply.

Jeff Siegel is a freelance writer based in Dallas. He has covered the pet industry for more than 20 years.

