

Marketing strategies of Brazilian pharmacies in competition with distribution channels for health and beauty

Abstract: The market for personal hygiene, perfumery and cosmetics Brazil is the third largest in the world after the United States and China. The sector's revenues represented R\$ 101.7 billion in 2014. Brazilian companies account for over 1.8% of the national Gross Domestic Product and represents 9.4% of world consumption. In this sector, the auto services and pharmacies dominate the distribution of mass consumer products produced by the large segment of the industries operating in the country. Faced with this scenario this article seeks to contribute to the understanding of the influence of dynamic capabilities in strategic marketing decisions that have led to this growth scenario before a more consolidated and powerful competitor. Therefore, we use a qualitative exploratory analysis, case study, secondary data and information from third major pharmacy chains that have open capital.

Key words: dynamic capabilities, pharmaceutical retail, health and beauty.

Resumen: El mercado de la higiene personal, perfumería y cosméticos Brasil es el tercero más grande del mundo después de Estados Unidos y China. Los ingresos del sector representaron R\$ 101,7 billones en 2014. Las empresas brasileñas representan más del 1,8% del Producto Interior Bruto nacional y representa el 9,4% del consumo mundial. En este sector, los autoservicios y farmacias dominan la distribución de productos de consumo masivo producido por el gran segmento de las industrias que operan en el país. Frente a este escenario este artículo busca contribuir a la comprensión de la influencia de las capacidades dinámicas en las decisiones estratégicas de marketing que han llevado a este escenario de crecimiento antes de que un competidor más consolidada y de gran alcance. Por lo tanto, utilizamos un análisis exploratorio cualitativo, estudio de caso, los datos secundarios y la información de terceros principales cadenas de farmacias que tienen capital abierta.

Palabras-clave: capacidades dinámicas, venta por menor farmacéutica, salud y belleza.

Introduction

The market for personal hygiene, perfumery and cosmetics Brazil is the third largest in the world after the United States and China. The sector's revenues represented R \$ 101.7 billion in 2014. Brazilian companies account for over 1.8% of gross domestic product (GDP) and accounts for 9.4% of world consumption. In this sector, the auto services and pharmacies dominate the distribution of mass consumer products produced by the large segment of the industries operating in the country (EUROMONITOR, 2015).

According to data from the Institute for Healthcare Informatics (IMS) non medicines account for 34.82% of total sales in retail pharmacies. The rates of growth of the pharmaceutical industry in Brazil demonstrate the strong expansion of consumption of medicines and health and beauty products in the country. Even with the slowdown of the Brazilian economy in recent years, this sector will only grow (IMS, 2015).

Much of this growth was driven by sales of the categories of hygiene and beauty. The pharmacy channel as a place of convenience to purchase health and beauty products are a noticeable trend channel. However, pharmacies challenge the leadership of the supermarket channel that grows in a continuous and consistent way, in the face of a dynamic and competitive environment.

So, how a business acquires and maintains a superior competitive position?

According to Dierickx (1989), this is the central issue at the heart of the development process and sets the strategic management segment. An answer given by emerging theories capabilities or theory based on resources, cite two sources related advantage: assets are the resources the business has accumulated as investments in scale, scope, efficient factories and systems, brand equity and also the consequences local activities rules. Capacities are as a glue that binds these assets and allows them to be used advantageously (DIERICKX, 1989).

The capabilities differ from assets in the sense of being intangible, i.e. it is not possible to provide a financial value, as can be done to plant and equipment, and are deeply embedded in organizational routines and practices that can not be exchanged or imitated. Thus, this article aims to understand which strategies and the leading pharmacy chains in Brazil have employed marketing capabilities, and how they influenced the growth of the channel.

The shops pharmacies represent around 30% of the revenues of large fast-moving toiletries and beauty industry, and its main competitor channel - supermarkets - account for

63%. However, the share of the pharmacy channel has increased in recent years, even in categories where traditionally the supermarket channel has increased participation.

To understand these movements is important to assess that the channels forms reacted to the pressures of the external environment, including: a change in the pyramid of social class, the increased presence of women in the labor market, an aging population and increased concern with health. Other restrictive elements acted as forces that shaped the decision-making of major organizations, such as the new rules imposed by the government in the industry that forced pharmacies to withdraw the over-the-counter products of their self-service shelves. Thus, it created space for new products such as skin cosmetics and other toiletries and beauty.

Marketing capabilities

The dynamic capabilities approach has emerged as an attempt to unravel the complex problem of sustainable advantage in the rapidly changing environment (EINSENHARDT; MARTIN, 2000; TEECE, PISANO, SHUEN, 1997).

Dynamic capabilities reflect the human capital, social capital and cognition of the managers involved in the creation, use and integration of market knowledge and marketing resources in order to combine and create market changes and technological (EINSENHARDT; MARTIN, 2000; TEECE, PISANO, SHUEN, 1997).

Day (1994) believes that the channel bonding is a marketing resource that strengthens the relationship with distributors. In fact, dynamic marketing capabilities are geared specifically to integrate market knowledge that helps companies evolve. The dynamic capabilities reflect the ability of organizations to acquire new and innovative competitive advantages due to the dependence of predefined paths and market positioning (Barton, 1992).

For the large health and beauty industry, represented by organizations such as Unilever™, Procter & Gamble™ and L'Oréal™, the pharmacy channel has become an extremely attractive opportunity to deal with the multiple challenges facing the industry: increasing the power of retail supermarkets, profile changes and lifestyle of consumers and their consequent needs.

Far from inflation, much of the consumption of hypermarkets has been moved to neighborhood stores. Pharmacies by the profile of convenience and more enjoyable and specialized environment for health and beauty products shopping gained importance among the options available to the consumer. The expansion of formal employment allowed the extension of access to health plans provided by most employers as a benefit to employees, resulting in a directly related increase in the number of prescriptions, leading to increased visits to pharmacies to buy drugs, which means more consumers in pharmacies, that would eventually acquire hygiene and beauty products on impulse (IMS, 2015).

According to data from the Brazilian Association of Supermarkets, the top three food retailers in Brazil (Companhia Brasileira de Distribuição, Wal-Mart and Carrefour) concentration reached 43%, which helps in the design of the degree of industry dependence on this channel, making highly strategic investment in new channels such as pharmacy (ABRAS, 2010).

However, the need for investment to make capillarity and bargaining power soon became also a problem for the retail pharmacies, extremely fragmented and until recently totally national time, consisting mainly of family and regional companies. The sector has undergone a major environmental pressure to professionalization and, in a short time, faced significant movements in search of adaptability to the environment. The first transactions took place with the opening of capital of some of the major players in the industry and

following came the mergers and acquisitions that completely altered the ranking of the largest retail organizations in pharmacies.

This process demonstrates the strategic capacity of these organizations, who saw the urgent need capitalization and professionalism. With the IPO, companies before regional and under family control, now have a professional management and the rules and collection characteristics of public companies.

Despite the changes, the retail pharmacies are still sprayed. Brazil has currently around 97,000 points of sale, and the industry's turnover concentration among the top 5 pharmacy retailers is 29% below the top 3 retailers from supermarkets, which account for 43% of Brazil's retail sales (IMS, 2015).

A large spray of the market still leaves the industry play an important power over retail pharmacies, a fact that influences the search for partnerships and mergers to generate relevance to networks and increase bargaining power. It is in these environment-permeated changes that the capabilities used by companies to survive become noticeable. Dynamic capabilities are the skills of organizations to integrate, build and reconfigure internal and external competences to address rapidly changing environments. They reflect the ability of a company to acquire new and innovative forms of competitive advantage given its dependence trajectory and market position (LEONARD-BARTON, 1992).

A change program aiming to strengthen these capabilities include: (1) the diagnosis of current capabilities, (2) anticipation of future needs for skills, (3) redesign the bottom up processes, (4) direction and commitment top -down, (5) creative use of information technology, and (6) continuous monitoring of progress (DAY, 1994).

"Capabilities are a complex set of skills and collective learning exercised through organizational processes that ensure superior coordination of functional activities" (DAY, 1994 p.38)

To deal with this kind of limitation, it is possible to analyze the theory of dynamic capabilities. The theory of dynamic capabilities argues that the most significant and lasting source of competitive advantage, rather than the mere possession of resources, consists of the ability of firms to acquire, integrate, and use so as to match the market environment of each companies (EISENHARDT; MARTIN, 2000; MORGAN AND VORHIES; MASON, 2009).

Day (1994) argues that every business takes many capabilities that allow them to perform the activities required to move their products and services across the value chain. Some will be done properly, others poorly, but a few should be higher if your business is beating the competition. These are the distinctive capabilities that support a market value position and difficult to achieve. They should be administered with special care through focused resource commitment, choice of dedicated people and continued efforts to learn, supported by dramatic goals for improvement.

Objectives

This article seeks to contribute to the understanding of the influence of dynamic capabilities in strategic marketing decisions that have led to this growth scenario before a more consolidated and powerful competitor.

The changes assessed in this article took place in a very recent period, and how the major pharmacy chains understood and responded to market demands appear to have been the major drivers of this surprising result. Evaluation of marketing capabilities in the process of strategic adjustment of pharmacy retail sector in recent years prompted the interest in the subject of research. The capabilities to implement the 4P's mix are inherently limited by their tactical and functional bias. A strategic perspective on marketing extends the field to understand the capabilities (DAY, 2011).

Methodology and Results

Due to the exploratory nature of the research, it was decided to adopt a qualitative approach (EISENHARDT, 1989; LEE, 1999). This approach is also more consistent with the fact that capacities are processes and features a built-in nature (MILES; HUBERMAN, 1994). We identified some of the sample companies in the pharmaceutical industry from different strategic groups. By choosing the sample companies, three relevant dimensions were used which, according to official studies, have featured strategic groups in the pharmaceutical industry, ie, the scope commitment, the commitment of resources and geographic location.

This research was entirely conducted in Brazil and compared the performance of the pharmaceutical channel and auto services through a case study. The case study was based on data provided by a report from Nielsen consulting and also on data published in the information session to investors of the leading retail companies pharmacies in Brazil. By investigating the data published by publicly traded companies in the sector, as well as published studies by specialized consultants, as Nielsen and IMS, indicators that lead to marketing capabilities that would justify the growth of the pharmacy retail sector in hygiene class were found and Beauty, which was much higher than obtained by the supermarket channel, which implies the retail share gains pharmacies in sales of health and beauty.

Supported by the economic situation and investment industry and retail, the health and beauty basket is among the largest increases in recent years. According to the Nielsen report (2010) on the evolution of the pharmacy channel, the retail sector pharmacies is gaining interest in health and beauty class (audited 29 categories) in recent years, as can be displayed in graph 1.

Graph 1: Evolution of pharmacies and supermarkets channel



Source: Relatório Nielsen do Brasil, 2010

Among the pharmacy channel characteristics it should be noted that the largest share of its turnover comes from products with higher added value and probably greater differentiation and margin, indicating that the assortment management capacity is one of the competitive advantages of the channel in relation to supermarkets.

To understand the dynamic capabilities in strategic marketing pharmacy channel, the categories were grouped into (1) product (2) price, (3) place and (4) promotion in order to outline the capabilities that influenced this performance.

1. Capacity (product): According to the study presented by Nielsen (2010), even with respect to the assortment, it was observed that the contribution to the 3 largest brands in each category in the pharmacy channel was 39%, while the contribution the leading brands in auto services was 58%, indicating a lower dependence on pharmacy channel major industries. From a consumer point of view, an assortment with more options than in auto services.
2. Capacity (price): Although the channel to act with a greater number of higher value-added items, analyzing exactly the same items, the report found that pharmacies prices were very close to equal or more competitive over 85% of the items sold by the two channels.
3. Capacity (place): According to the figures of ABRAFARMA, Brazil has a ratio of 3.34 pharmacies per 10 thousand inhabitants, considering a population of 170 million. The World

Health Organization (WHO) recommends a pharmacy for each group of 10,000 inhabitants. Physical proximity is a great strength of this channel.

4. Capacity (promotion): The major networks held a working relationship with the much more closely client than auto services, offering a more pleasant store environment and other advantages, such as: 24-hour stores, delivery system at home, loyalty card, online sales, own magazines, own brands.

Discussion

The popular saying, "Necessity is the mother of all inventions", holds a great wisdom. For marketers, all lines, there is pressure to respond quickly to the accelerating complexity of its markets, which stresses their organizations and puts them potentially at a competitive disadvantage. There is a real gap and expanding market demands regarding the ability of companies to respond to changing speed and complexity of its markets (DAY, 2011).

From the analysis of the study data, we can infer that some marketing capabilities were responsible for the industry's best performance against auto services. In summary, the pharmacy channel differs by unique items and is competitive in price categories common to the two channels

The retail sector pharmacies in Brazil could somehow use the ability to sense the market, taking advantage of the changes that have been packaged by the environment in which organizations were inserted and translated into targeted strategies and actions to meet the demands of the market through the marketing capacity. Also known react to social scenario, favorable economic and demographic, which can be seen by the rapid move in search of increased representation of chains, resulting in a significant movement of mergers and acquisitions in a short time.

The ability to feel the market can also be detected by the way used the potential impediment caused by legislation and turning the problem into an opportunity. On restricting

the marketing of over-the-counter in pharmacies, the open space on the shelves was quickly adapted to the use of this sales area for the marketing of health and beauty products, making it a highly contested space by large industries the sector.

Conclusions

Compared to international standards and to the process of consolidation that has occurred in food retailing, the prospect is that the pharmacy retail sector maintain its growth over the next five years and continue with the intense pace of change. An increasingly oriented positioning for the international model where pharmacies stores are targeted to the welfare and convenience should support this growth.

Limitations of this study indicated the non-deepening comparative verification of the data disclosed by the three largest organizations of pharmacies, whose data are available in presentations to investors in the Internet. Another important limitation is not performed research directly with the managers of large networks of pharmacies to identify what are the main marketing capabilities identified by them.

For future studies, it highlights some issues like the opportunity to pharmacy role of analysis on the distribution of health and beauty luxury products. The pharmacy retail consolidation will follow the model of the supermarket sector, with the field of international companies in three major players in the industry will continue or essentially national.

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