

Emergence of Organized Pharmacy Retail in India: Challenges and Opportunity

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Abstract

There are over 8 lakh chemists in India. A number of studies on medical stores and community pharmacists reveal that drug retailers do nothing but sell drugs. Organized retail is facilitator for wellness of the customer. Organized chain of pharmacy retailing is planning massive expansion in the next few years and proposes to penetrate Indian market. The study examines, the international and domestic scenario of Pharmacy Retailing, the challenges the sector is likely to face and the strategies it can consider adopting to meet these challenges. The study is based on the report published, latest changes in the government rulings and industry specific research.

Introduction

The Indian retail industry is valued at about \$300 billion and is expected to grow to \$427 billion in 2010 and \$637 billion in 2015. Only three percent of Indian retail is organized. The Indian retailing sector is at an inflexion point where the growth of organised retail and growth in the consumption by Indians is going to adopt a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the organised retail sector. For a while organised retail occupies a miniscule two to three percent of the overall Indian retailing industry that is poised to change (Dominic, 2007).

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience. Even though India has well over 5 million retail outlets of all sizes and styles (or non-styles), the country sorely lacks anything that can resemble a retailing industry in the modern sense of the term. This presents international retailing specialists with a great opportunity. Wal-Mart, the world's largest retailer, and

Bharti Enterprises have signed a Memorandum of Understanding (MoU) to explore business opportunities in the Indian retail industry. This joint venture will mark the entry of Wal-Mart into the Indian retailing industry. The biggest competitor for Bharti-Wal-Mart is likely to be Reliance Retail, the retail wing of Reliance, which had planned to establish 10,000 stores by 2010. It had already opened 11 pilot stores under the “Reliance Fresh” format in Hyderabad (Dominic, 2007).

Evolution of Indian Retail

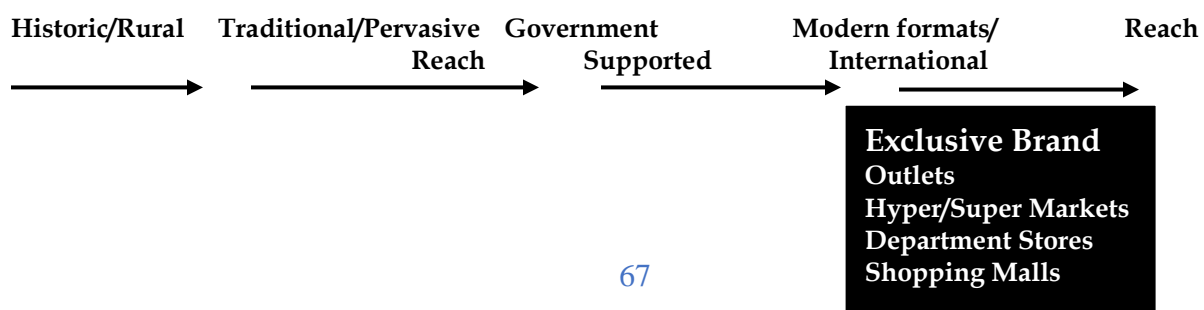
In earlier days, people used to buy the basic utility items from weekly markets, village fairs and melas, which can be said as the starting of Indian retail. These fairs and weekly market were constant source of entertainment and social activities in earlier days, and is still in existence in few villages. The thirst of convenience gave rise to neighbourhood stores and thus society has witnessed the emergence of mom and pop / Kirana stores. The market is now moving from traditionally managed pattern to more organized way of transaction. Government saw an opportunity here and started stores such as cooperative stores and khadi bhandars etc. These governments operated Khadi/Sahakari Bhandar was able to pass on the benefits of low cost and easy availability of goods to the customers. In addition to low cost and volumes present generation also looked for value addition in shopping and the concept of good experience while shopping came. Globalisation made possible for organisations to enter in the Indian retail market with more organized approach. Organized retail with different formats tried to bridge the gap and supermarkets/hypermarkets started becoming vital to have true shopping experience.

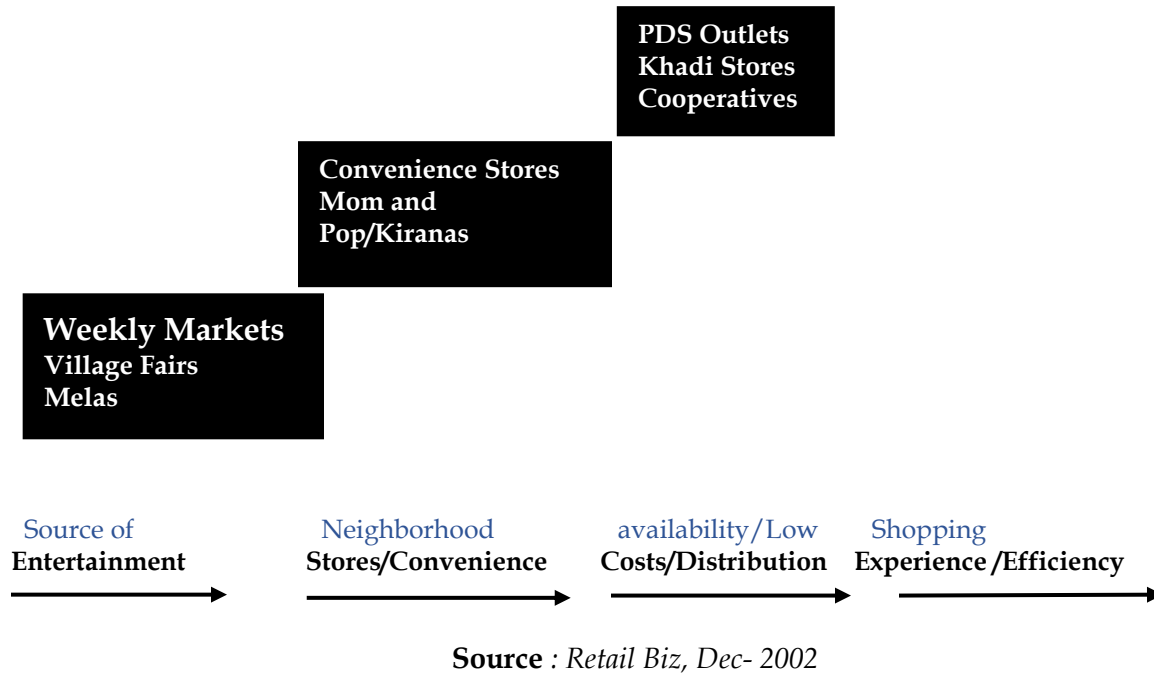
Objective

In the post WTO era, foreign players are allowed to enter in the Indian Market, but their entry is restricted through certain laws. International players have entered in Indian market, and condition of organized retail pharmacies is now more competitive. The objective of the present study is

- To compare Indian and International scenario in organized retail pharmacy.
- To study different challenges faced by organized retail pharmacies in India and the probable solutions for the same

Figure 1: Evolution of Indian Retail





Pharmacy Retailing

On the Global Retail Stage, little has remained the same over the last decade. One of the few similarities with today is that Wal-Mart was ranked the top retailer in the world then and it still holds that distinction. Internationally, the organized retail store competes with unorganized and stand-alone stores on the basis of store location, convenience, customer service & satisfaction, product selection, variety and price. With the emergence of retail chain in pharmacy various parts of the health systems have started to be interlinked and started giving the comfort of shopping even for the drugs and health care products. Pharmacy chains are facing active competition from independent drug stores and from health maintenance organisations, hospitals, mail order organisations, supermarkets and discount drug stores.

The following table1 gives a proportion of sales through organized retail chains pharmacies in some developed as well as developing markets:

Table:1 Country	Prescription Sales
USA	71 %
UK	65 %
Malaysia	55 %
Thailand	40 %
China	20 %

In USA the top 11 chains of organized retails pharmacy represent 25,000 stores and most of these chains are in both prescription and OTC category sales. CVS, Walgreen and Rite Aid are the three largest drug chains in US, among them Walgreen is the clear leader in sales per store. Table 2 shows the comparative statement of different companies operating in different countries and the position they hold in the company wise comparison in food and drug section.

Table 2: Industry: Food and Drug Stores					
Rank*	Company	Based in country	Number of outlets on (APRIL 2007)	Overall score*	Country of Operation
1	Tesco	Britain	NA	7.72	Czech Rep, Hungary, Malaysia, Poland, Rep.of.Ireland, Thailand, S.Korea, Slovakia, Taiwan, Thailand, UK, US
2	Safeway	California	NA	7.56	US, UK, Canada
3	Walgreen	IL, USA	NA	7.38	NA
4	CVS	RI, USA	Over 5400	7.35	Retail
5	Carrefour	France		6.82	Portugal, Romania, Singapore, Thailand, Turkey (14), Poland, Emirates, Spain, Greece, Indonesia, Italy, Japan, Malaysia
6	Metro	Germany	NA	6.51	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep, Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, witzerland, Turkey, UK, Ukraine, Vietnam
7	George Weston	Canada	NA	6.49	Canada, USA
8	Kroger	USA,	NA	6.23	US
9	J Sainsbury	UK	NA	6.22	NA
10	Groupe Auchan	France	1114	6.05	France, Spain, Italy, Portugal, Luxemburg, Poland, Hungary, Russia, Romania, China, Taiwan, Morocco
11	Coles Group	Australia	2900	5.93	Australia and New Zealand
12	AEON	Japan	NA	5.91	Japan

13	Seven & I Holdings	Japan	NA	5.79	Japan
14	Woolworths	Australia	3000	4.84	Australia, New Zealand, economic joint Retail with Tata Group in India.
15	Royal Ahold	Netherlands	NA	4.68	USA, Argentina, Brazil, Chile, Costa Rica, Czech
<p>Compiled by authors from electronic media, printed materials * Ranking is curtsy to Fortune Magazine, 2007.</p>					

Pharmacy Retailing

The last leg of the marketing activity, i.e. retailing occupies an important share of mind space for the customers. Retailing in India is largely in the small, unorganized sector with poor supply chain management. India is said to be a country of the retailers, with 5 million retail outlets in the country. Many surveys have brought out the fact that an overwhelming proportion of the Rs. 400,000 crore retail market is unorganized. In fact, only a Rs. 20,000 crore segment, i.e. 3 % of the market is organized. As much as 96 per cent of the 5 million-plus outlets are smaller than 500 square feet area. This means that India's per capita retailing space is about 2 square feet, compared to 16 square feet in the United States. India's per capita retailing space is thus one of the lowest in the world (Source: KSA Technopak (I) Pvt Ltd,). International rating agency Fitch has concluded that due to increased consumer preference for organised retailing, its penetration is expected to be 8-10 per cent over the next five years. Recent surveys show that health care now ranks third on the Indian consumers spending list, higher than apparel or entertainment. It is not only rising disposable income among the Indian middle and upper classes but also the growing awareness about health, which is responsible for this phenomenon.

According to Technopak (Retail Consultancy firm) estimates the overall market size for all retail and for medical care and health services in 2006 is as follows:

Table 3: Over All Market Size of Organized Retail

	Market Size \$ Billion	Percent Share of Overall retail	Expected growth rate 2005 - 2010
Medical Care & Health Services	8	3 %	12 %
Overall Market (Including all categories)	300	100 %	9 %

Source : KSA Technopak (I) Pvt Ltd

Organised retail chains like Medicine Shoppe, Apollo Pharmacy and few others are already following good pharmacy practices like making available a full time pharmacist at the counter and keeping all medicines in air-conditioned / refrigerated premise. The number of such pharmacies is not very large now but certainly they are growing quite fast all over the country. This calls for a change in the traditional attitude of pharma trade and they should gradually transform into modern pharmacies.

A number of studies on medical stores and community pharmacists reveal that drug retailers do nothing but sell drugs. Organized retail of the future will be a facilitator for wellness of the customer and would like to make buying of medicines a pleasant experience for the customer, by creating the right ambience and providing value-adding services. In India several private players are coming for organized retail in pharmacy few of them are: Planet Health, LifeKen, Apollo Pharmacy, Godrej Aadhar, Himalaya drugs, etc.

Table 4: Organised pharmacy chains in India

Pharmacy chain	Current status	Future plans by 2010
Apollo	450	1500
Medicine Shoppe	120	700
Pantaloon (Tulsi)	63 (2006)	800
RIL	Nil	1500
LifeKen	40	300
Aushadhi	50	N.A
CRS Well being	14	150 (2008)
Fortis	-	300
Subhiksha	550	1500
Muthu Pharmacy	28	150
Max group	-	300
Himalaya	100	1500
9 Others (including Planet Health)	1101	2499
Total of 22 Pharmacy Chains	2167	11,109

Compiled by authors from Industry sources

Government Policies

The margins in retailing are laid down by government - The margins are 16% for scheduled drugs (medicines under DPCO) and 20% for unscheduled drugs (Medicines not under DPCO). Discussion with industry players brought out that average margins work out to 12.5%. One hundred percent (100%) FDI in retailing is not allowed per say, foreign retailers can operate in India through joint ventures, where the Indian partner is a export house, Franchising/Local manufacturing / Sourcing from small-scale sector, Cash and carry operator. The McKinsey report states FDI will help the retail businesses

to grow from the present \$200 billion to \$ 460-470 billion by 2010. An ICRIER study on the subject has brought out that liberalization of retail and allowing Foreign Direct Investment will raise overall economic welfare and does not result in loss of employment as has been pointed out earlier. Some restructuring will take place, but the local markets and Mom and Pop stores will not close down. Both the formats will coexist and they fulfil different needs and serve different clientele. Healthy competition from international players will help Indian modern retailers grow faster. It is also felt that it is not going to be easy for the International players due to high degree of complexity of the Indian markets.

Retailing in pharmacy is subject to a plethora of laws and regulations at central, state and municipal/local levels, some of which have been listed below:

- Restrictive zoning legislation limits availability of land for retail/ commercial purposes
- Restrictive Labour laws and Shops and Establishment Act
- Urban land ceiling regulations, restrictions on shop opening timings, requirements for shops to close once a week
- There is no uniform tax structure - multiple layers of taxes.

This is likely to change in the near future as VAT gets implemented by 2007 and phasing out of Central Sales tax (CST) by 2008.

Cases of Subhiksha and Medicine Shoppe International

The trend and mindset of the present retailer chains in India can be best understood by Studying Subhiksha, a Chennai based discount chain which also have retail pharmacy, wants to be the principal store of purchase for at least 40 per cent of all consumers living within 500-750 meters of the store, that is, within walking distance. This makes the point very clear that the strategy among most existing retail chains of various formats is to completely saturate the markets where they are already established players and then move on to virtually untouched areas where the challenge of sourcing resources and extending their supply chain model to best suit the size and expanse of the market would be a challenging task. Retailers like Subhiksha chose to spread out across the country with their supermarkets and pharmacy outlets (Singh, 2003). Subhiksha's retail model is based on the concept of value shopping, and it offers deep discounts to customers. The management of Subhiksha wants loyal customers and is focused on customer retention rather than footfalls. So Subhiksha offer everyday discounts. Ten years after Subhiksha was set up, the retail chain has around 500 outlets all over India which will be double by 2007-end (Warrier, 2007).

Medicine Shoppe International (MSI), a division of Cardinal Health Inc., is significantly strengthening its position worldwide. MSI started its international presence in 1991 in Taiwan, and it now is in six foreign nations, with 394 MSI pharmacies outside

United States. The company now has 107 stores in Canada, about 100 each in China and India, 68 in Taiwan, 15 stores in Indonesia and 3 in Japan. MSI realizes that it has to adapt its stores to the traditions and desires of each nation to be a successful international player. In China, many want Traditional Chinese Medicine (TCM), so about one quarter of the MSI pharmacies in China have not only a counter for Western medication but a TCM counter as well. MSI has a concept of master franchising which is their main driver for overseas growth. Most chains have already started developing their own unique supply chains that would suit their needs precisely. Replicating the success stories of the big names of the Western nations may still be a distant dream for Indian retailers, but at least the winds are blowing in the direction of growth (Gupta, 2007).

Medicine Shoppe India started its operation in India in the year 1999 and currently has 110 shops across country with major presence in Maharashtra. According to Viraj Gandhi COO "Medicine Shoppe is planning to double its operation by year-end and will open 700 shops by 2010. To cater rural market we have come up with different strategies and would start rural market operation by year- end." Working in the similar line with Himalaya drugs and Apollo Pharmacy, it also talks about nurturing customers. They believe in giving better value to customer, and caters upper middle class segment that can afford high price, understand the service. They target joint families to have long-term association with customer.

Challenges

Organized Pharmacy retail is emerging in a big way in India yet the opportunity is too large for any sizable impact to be created by organized retail so quickly. The change that has happened because of organized retail over unorganized retail is the fact that even small shops are changing their strategies of catering customers through improving its operations to offer better value to customers and retain them. The Indian consumer today is beginning to accept shopping to be a pleasurable experience, and young generation is willing to pay a price premium. It is possible that over the next decade or so tier I and tier II cities or parts of India will have a significant portion of the retail transactions through organized retails while in other parts of the country traditional shops will still be dominant.

The organized retail players in India are looking for availability of adequately developed real estate, trained manpower, logistics and supply chains and well placed legislation to support the growth of this 'industry'. Organized players are at a cost disadvantage, when compared to their unorganized counterparts. The organized players will follow all the norms and pay taxes on all their sales; that itself gives them a disadvantage. The pharmacies or small entrepreneurs do not pay taxes; employ small kids for home delivery and other similar work. In many states, it now required by law for a pharmacy to be air conditioned. But one can hardly find any small time entrepreneur having an air conditioned pharmacy. Every person on the rolls of an organized player will have to be paid salary and PF and will have to be covered by ESI and so many other things. High expenses and low revenue are forcing organized pharmacy retailing to

adopt different models (i.e., fully owned stores, franchise model or a combination of ownership and franchise stores) and survive in today's competitive scenario. Another emerging model is the e-store model, wherein the consumers can order drugs online.

In addition to the high cost, the pharmacy retail segment is fraught with various issues like poor penetration in rural areas that need to be sorted out to make pharmacy retail a more competitive segment. Other than that, there are many more mammoth issues like the complex distribution structure of Indian pharmacy. The fragmented nature of the retail segment results in low revenues per store. Indian distribution system also gives way for counterfeits and there is also apathy to embrace technology which increases this problem manifold. Yet another issue that plagues organized retail in pharmacy is that, unlike the other segments, presently, it is not possible to source products directly from the manufacturer. Industry topography in India is such that spreading presence across cities is a tough call. As pointed out by many experts, organized Pharmacy retailing chains going national requires significant investments. Retailing within this sector is not just about the front-end, but involves complex supply chain and logistics issues as well.

In the organized retail industry, the development periods are long, institutional funding is difficult, and there is none or little Government support. But the belief among top retailer chains in the country is that the industry will see large investments coming once the current ban on foreign direct investment is lifted and Joint venture issues are dissolved. But that could be two-three years away. Pharmacy retailing is specially a tough business in India with margins being very low, and consumers not dissatisfied with existing shops where they buy. To be successful in organized pharmacy retailing in India essentially means to draw away shoppers from, the next door mom and pop pharmacies to organized stores. This transition can be achieved to some extent through pricing, so the success of a retailer depends on how best he understands and squeezes his supply chain. The other factor is providing value added services like home delivery, availability of all range of health care products, equipments, consultants etc. The other major factor is that of convenience shopping which the organized stores has the edge over the traditional pharmacy stores.

Despite various challenges that organized retail in general and pharmacy in particular is facing the segment is still growing because of the nature of services it provides to customer. Organised retail is trying to penetrate Indian market through having value added services. For example, organized retail in pharmacy has added the beauty component as an impulse purchase to the pharmacy, which is better than normal chemists because normally, chemists focus more on the medicine part. In accordance with the changing dynamics in the pharmacy retail scenario, which was earlier operating as a small pharmacy shop - has also been positioned as a complete health solution and consultants. This has been done keeping in mind the yet-to-blossom organized pharmacy market in India. Pharmacy segment might be the last player to venture into retail. Still In last few years various retail chains like the Medicine Shoppe and 98.4o, Planet health have entered into market and excelled, as well as the corporate players like Pantaloon Retail (Medicine Bazaar), Zydus Cadila (Dial for Health), Dr Morepen's and Himalaya have also entered into the market. As these corporate are planning for expansion,

pharmacy retail is going to witness a sea change in the business of selling medicines (Kaushik, 2003).

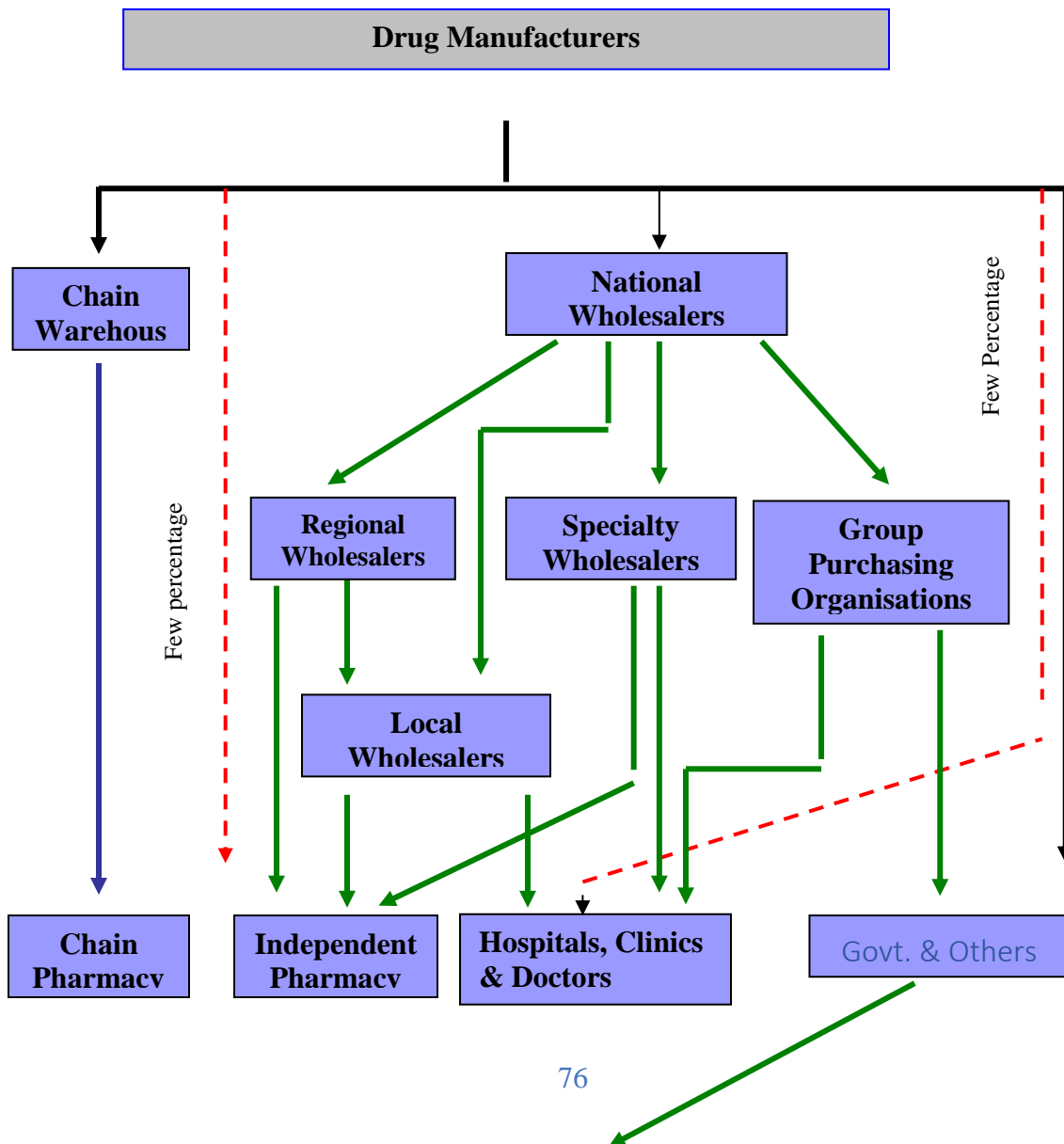
The pharmacy retail segment is characterized by a distribution channel consisting of many tiers between the manufacturer and the consumer, namely the Carrying and Forwarding Agent (CFA), authorized distributors, stockiest and wholesalers, who supply to the retailers, as well as the hospitals. Manufacturers or marketers of prescription drugs most often sell their drug products to a middleman, or intermediate level, before the drug product reaches the pharmacy or physician that will provide the drug to the patient. National wholesalers are the primary intermediate level in the channel of distribution process of prescription drugs. Other intermediate channels of distribution include chain warehouses, regional wholesalers, and group purchasing organizations that usually contract with a wholesaler to perform the distribution function on their behalf. Few percentage of prescription sales by drug manufacturers are made directly to providers (e.g., physicians or hospitals) or pharmacies.

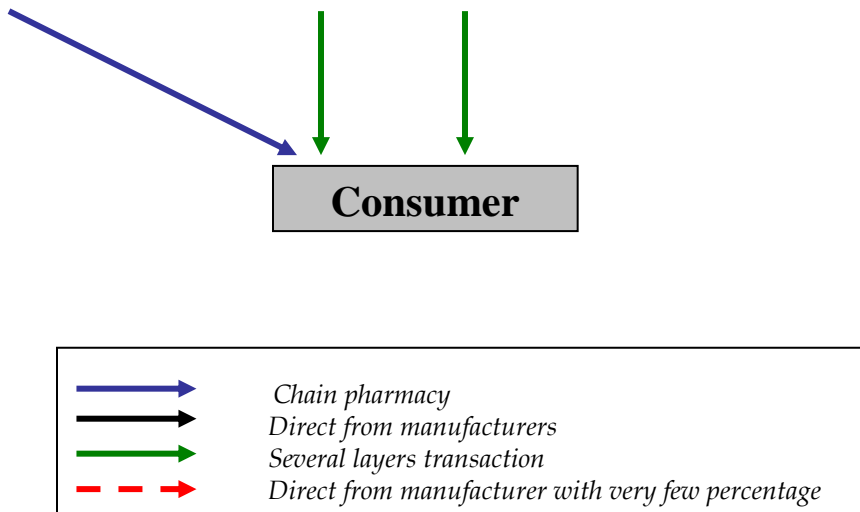
Besides prescription pharmaceuticals and biologics, distributors also supply the additional items that include “over-the-counter and herbal products, health and beauty aids, medical and hospital supplies, durable medical equipment and home healthcare items.” Wholesalers add a markup and fees to the manufacturer’s drug product cost to cover the cost of distribution and other services they provide. These costs are added to the manufacturer’s drug product cost and passed on to the pharmacy or provider purchasing through a wholesaler.

In addition to full-line national wholesalers, there are also regional and specialty wholesalers for the prescribe drugs. Regional wholesalers are usually similar to the national full-line wholesalers, but they typically have only one or a few distribution centers limited to a relatively small geographic region. Specialty wholesalers, in contrast, may have a national market presence, but instead limit the types of drug products stocked to a very narrow set. Specialty wholesalers may focus on generic drugs, biological agents, or drugs for a specific therapeutic purpose such as Cancer, dialysis, or HIV therapy.

Group purchasing organizations (GPOs) may act on behalf of a group of providers to negotiate price with drug manufacturers. Most group purchasing organizations, however, do not ever take possession of, or handle, the drug product. Instead, GPOs often contract with a traditional wholesaler to perform the wholesaling and distribution function on behalf of the GPO and its members.

Fig 2 : Distribution Channel of Pharmacy Retail





A number of large chain pharmacies have developed and operate their own distribution centers rather than purchasing drug products through traditional wholesalers. Chains that operate their own warehouses incur expenses similar to those seen by traditional wholesalers. When a chain pharmacy performs the warehousing function in addition to the retail distribution and counseling functions, the chain does have additional costs similar to those that a national wholesaler would have added to the manufacturer's drug product cost. Since according to the rule, all drugs have maximum retail price written in the cover, the wholesaler and chain pharmacies have the large share of profit. Between the manufacturer and consumers, there are several tiers of CFAs and Wholesalers, which increases the cost of medicine for the consumer and distributes the profit among all the tiers. Less tiers helps Chain pharmacy pass on the benefit of drug price to the end customer and give them the 'discount', which can be proved as lucrative offer to the patients/ Customers.

Some large retail chains purchase drugs in large volumes so that they can bypass the wholesaler and buy directly from the manufacturer. Manufacturers offer these pharmacies discounts both for purchasing their products and discounts for selling specific volumes of certain drugs or achieving a certain share of specific market. Many of these chains provide value added services. Maintaining customer loyalty is the biggest agenda for all the players in the market. In order to attract the maximum customers they are dealing with all sections i.e. Medicines – both prescription & OTC, health care, childcare, personal, electronics, beauty products etc. They are coming up with the new and innovative ideas like, tying up with hospitals, pharmacists, providing tele-medicine, maintaining customer databases, home delivery etc., providing group membership or point systems based on the purchase etc. Therefore, pharmacies have competitors as well as "complementors" like doctors, hospitals, health care centers, path labs etc.

Conclusion

The Indian market of organized pharmacy retail is small, so the international threat is comparatively low, but there is a tough competition from the existing and emerging players in the sector.

MSI is already in India through the master franchise route, others are likely to take some time before entering in a big way, for three reasons:

- Indian markets are not that large
- FDI in retailing has been pegged at 51%. Most foreign players are known to want to retain controlling interest and would not go ahead through the Joint Venture route.
- Drug prices are one of the lowest in the world.

Key factors that will drive growth of organized pharmacy retailing will be a) Rising urbanization, b) Higher disposable income, c) Growing number of educated and enlightened patients d) Graying of population and life style diseases. The Customers profile the company should target was typically Upper middle class, Educated, living in Joint Family and families where some members are suffering from chronic ailments, like hypertension, diabetes, asthma etc. They should be targeting customer profile that is not price sensitive at the same time are not so rich that they themselves will not go to by medicines. Educated customer will understand the intricacies of expiry dates, drugs that require being stored in cool and dry spaces and will also appreciate the value added services being offered.

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