

A CRITICAL REVIEW: STUDY ABOUT THE INDIAN PHARMACY RETAIL CHAIN STORES

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Abstract

The Pharmacy Retail Market in India is a considerably big market already but has tremendous scope to grow further. Retail pharmacy outlets happens to be the most leading distribution channel that is responsible for satisfying customer needs of pharmaceutical and allied products directly. There are two types of retail pharmacy prevailing in India one is organised and the other one is unorganised. Retailing, it is an emerging trend in the India. It is a proven fact that in India the retail industry has become the 2nd largest employer after agriculture. The Indian retail market is the 5th largest retail destination globally and it is estimated to grow further. The driving factors that are encouraging the pharmacy retail market among which the growing pharmaceutical market finds a prominent position, increased healthcare spending, changing disease profile, growing OTC segment, consumer's attitude towards their disease and illness and lucrative profit margins evolve as the possible reasons for the industry to prosper. A detailed analysis has been made of the drivers. Study regarding the various players in the organised pharmaceutical retail chain store and the different types of services they provide to stand apart from the conventional one.

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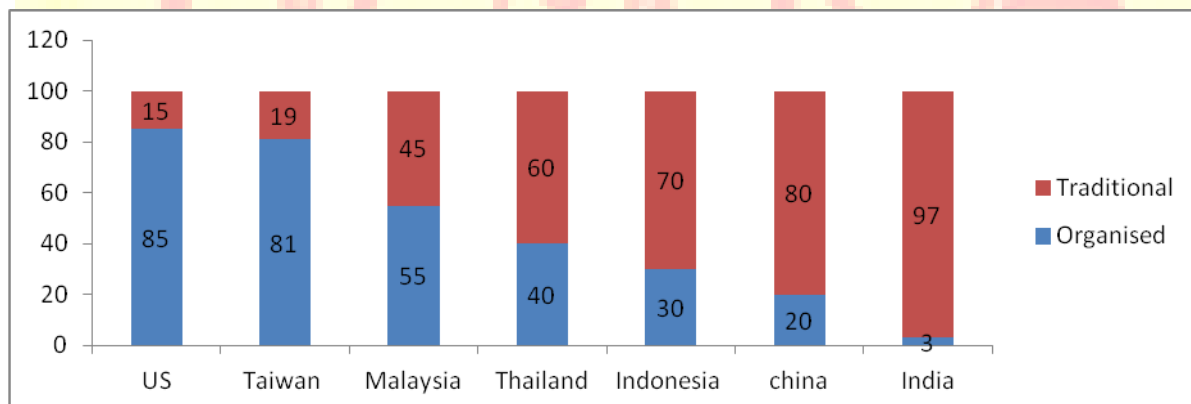
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Introduction to India's Retail Sector:

The Indian retail industry is divided into organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc. 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 big cities alike, introducing the Indian consumer to an unparalleled and new shopping experience.

The Indian pharmaceutical market is one of the fastest growing markets in the world. With a current valuation of approximately USD 11 billion, it is likely to be valued at USD 20 billion by the mid of this decade. The retail side too has been posting high growth rates ranked thirteenth in terms of value, and fourth in terms of volume, it is estimated to be ranked amongst the top ten markets, by 2015. Retail pharmaceutical sector in India is highly fragmented, and the unorganized channel of pharmaceuticals currently dominates this space commanding over 97% of the total market share whereas organised sector comprises of only 3%. The graph presented below show the trend of organised retail store vs unorganised retail stores of various countries.

Table: 1 Comparative Penetration of Organised Retail (in %)



Source: Ernst &Young, the Great Indian Retail Story, 2006

The retail scenario in India is unique. Much of it is in the unorganized sector, with over 12 million retail outlets of various sizes and formats. Almost 95% of these retail outlets are less than 500 sq.ft. in size, the per capita retail space in India being 2 sq. ft. compared to the US figure of 16 sq.ft. Thus India's per capita retailing space is the lowest in the world. With more than 9 outlets per 1000 people, India has the largest number of outlets in the world. Most of them are independent and contribute as much as 97% to the total retail sales. Because of the increasing number of nuclear family, working women, greater work pressure and increased commuting time, convenience has become a priority for the Indian consumers.

Objectives of the Study:

Retailing has changed the fate of several companies across the world. In this booming retail market in India it has become unavoidable for the companies to learn how to retain their market share as well as to enhance it. With the entry of bigger players, the retail market is getting more and more organized and structured. Not only in apparels and FMCG products but also in Pharmaceutical products we see many big corporate entering this sector in an organized manner. Competition will soon be very intense. Research reveals the cost of retaining customers is conventionally estimated to be one-fifth of the cost of acquiring new ones. Existing customers generate larger margins and profits (per customer) than the new ones (Smith and Taylor, 2005). In the present scenario, the researchers want to venture into organized pharma retailing in the Indian sector and to explore the different growth drivers that impact on consumers' buying behavior in the pharma retail segment in India. The agenda of the study is to know the players in this sector and understand the growth drivers in this sector.

Research Methodology:

The data collected by the researcher for this study is mainly based on the secondary data through various sources like online journals, national & International as well as the reports available on the net and various literature has been reviewed from the related studies which has been conducted previously.

Pharmacy Retail Chain Stores in India:

The Pharmacy Retail Chain Store Market in India is a considerably big market already but has tremendous scope to grow further. Retail pharmacy outlets happens to be the most dominant distribution channel that is responsible for satisfying customer needs of pharmaceutical and allied products directly. The total retail pharmacy market has been growing at an average of 18% per annum over the last few years, and is expected to grow by even higher numbers in the future. Organised retail chain pharmacy however, as a subset, has been growing at an average of 25%, and is expected to grow between 35 – 40% in this next decade. This sector currently has nearly 15-20 different players serving through an aggregate of nearly 10000 plus stores across the country which operates either through the company owned and managed stores or through franchise model. Both, the number of players and the total stores in operations will increase with the increase in investments in this sector. As per the report by Retail Mantra that provides updates on retail industry in India, India's pharmacy retail is growing at rate of 20-25% annually with a current size of around \$9 billion. Analyst's consensus suggests the retail pharma sector would witness investments in excess of USD one billion over the next few years. High margin of 25-35% makes the retail pharmacy a very lucrative business in India. With increasing consciousness and disposable incomes, the organized pharmacy business is expecting plenty of opportunities for growth.

Table:2 Company, Promoters, Outlets & Mode of Operation

Company	Promoter's	Outlets	Mode of Operation
Appollo Pharmacy	Apollo Hospitals Enterprises Ltd.	>1000	Company Managed Stores
Fortis Healthworld	Fortis Healthcare	500	Both company owned & franchise model
MedPlus Health Services	Dr. Madhukar Gangadi	800	Franchise Model
Tulsi	Future Group	35	Company Managed Stores
Lifeken	Lifetime Healthcare Pvt. Ltd.	82	Company Managed Stores
Guardian	Lifecare Pvt. Ltd.	400	Company Managed Stores
98.4	Global Healthline	300	Company owned

CRS Health- The Wellbeing Place	SAK Industries	30	Company owned
Medicine Shoppe	Medicine Shoppe International	1000	Franchise Model
Reliance Health & Pharma	Reliance Retail	150	Company owned
Planet Health	Sagar Drugs & Pharmaceuticals	150	Company owned
Dial For Health	Zydus Cadila	200	Company owned
Health & Glow	JV between Dairy Farm International holdings ltd. of Hong Kong and Arko ltd	65	Company owned Joint Venture
Religare Wellness	Religare group	1000	Company owned
Himalaya Healthcare	Himalaya Drugs	100	Company Managed Stores
Trust Pharmacy		80	Company Managed Stores

The pharmaceutical distribution system has seen a paradigm shift during the 1990s. Before this period the manufacturers used to own and control the warehousing facilities. During the 90s this was taken over by the clearing & forwarding agents (CFAs) which take care of the storing and forwarding to the stocks to the stockists as per their requirement. The CFAs have exclusive agreements with the manufacturers and cannot handle the stocks of any other companies. But the stockists generally stock the products of more than one manufacturer.

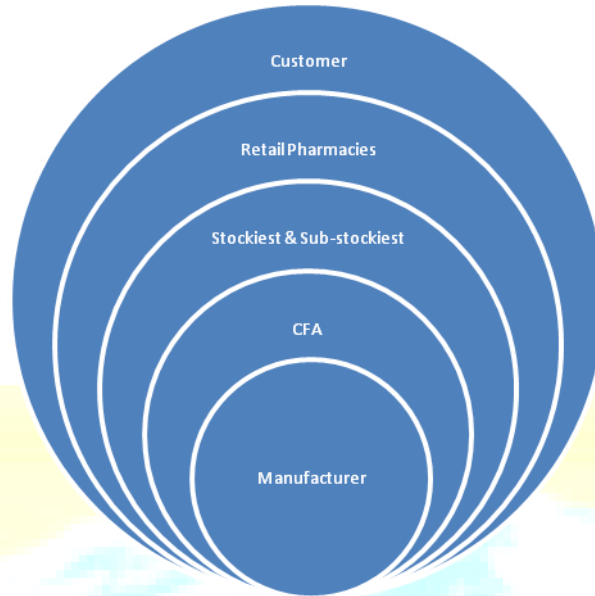


Fig.1 Pharmaceutical supply chain

The distribution systems in India are more costly and less efficient compared to that of the developed world. The lower efficiency is attributed to the lobbying involved at the various stages of distribution that prevents the pharmaceutical companies from bringing the products direct to the patient. The system is controlled by the distributor unions which makes it inevitable that companies pay huge margins to the middlemen. Also the systems used in distribution have not been upgraded with the passage of time. Future of Indian pharmaceutical distribution lies with pharmacy retail chains that use the advances in information technology to track the stocks and avoid unnecessary hassles involved with the current system.

Types of format being used in Organized Pharmacy sector:

The various types of format being used for the setup of organized store are Shop in Shop, in hospitals, High street stores, in shopping malls, express stores, concept stores, hyper markets, super markets, company owned stores, franchise stores, speciality stores and institutions, etc.

They have got tie up with various bodies and they provide various value added services. The service which is provided by these organized stores is one of the very important drivers which drive the growth of the organized sector.

Key Growth Drivers:

Key Growth drivers for Retail Pharmaceutical Chain stores in India are as mentioned below:

1. Overall growth in the Indian pharmaceutical sector

Indian pharmaceutical market has been described as ‘flexible’ and ‘High Yielding’ India has emerged as one of the highest defensive players during the recent US subprime recession.

Increase in the growth rates of the Domestic Pharmaceutical industry.

Indian Pharmaceutical market is valued 4th in terms of volumes and 13th in terms of value. It is expected to multiply manifold by the mid of this decade, clocking the highest CAGR of 12.8%, the Indian pharmaceutical market shall experience the highest volumes.

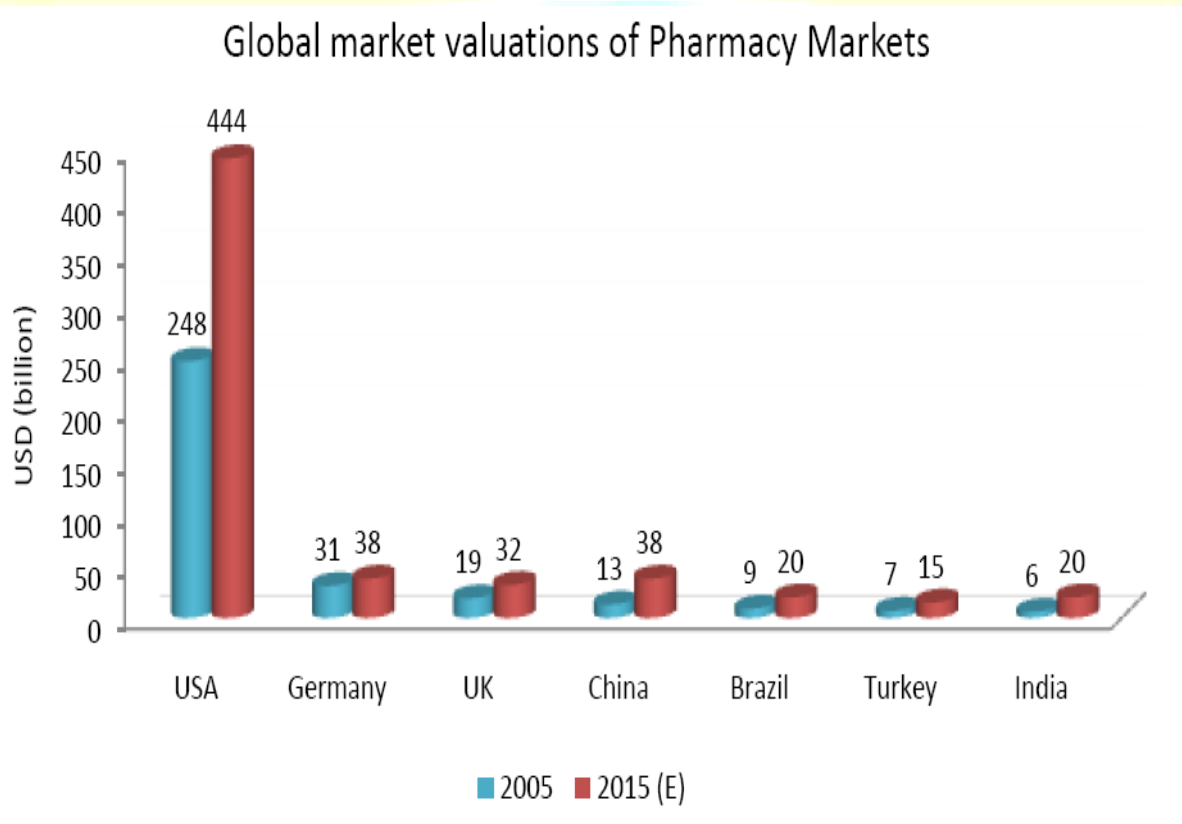


Fig:2 Source: IMS word review

Government Stimulus:

Government of India is very optimistic about the growth rate of Domestic Pharmaceutical Industry.

It's vision 2015 statement indicates a CAGR of 18% during the next decade.

Recently announced by the government about setting up a venture fund that shall aim to inculcate USD 5 billion in the pharma sector through industry players.

It may open the FDI option for the retail sector in India.

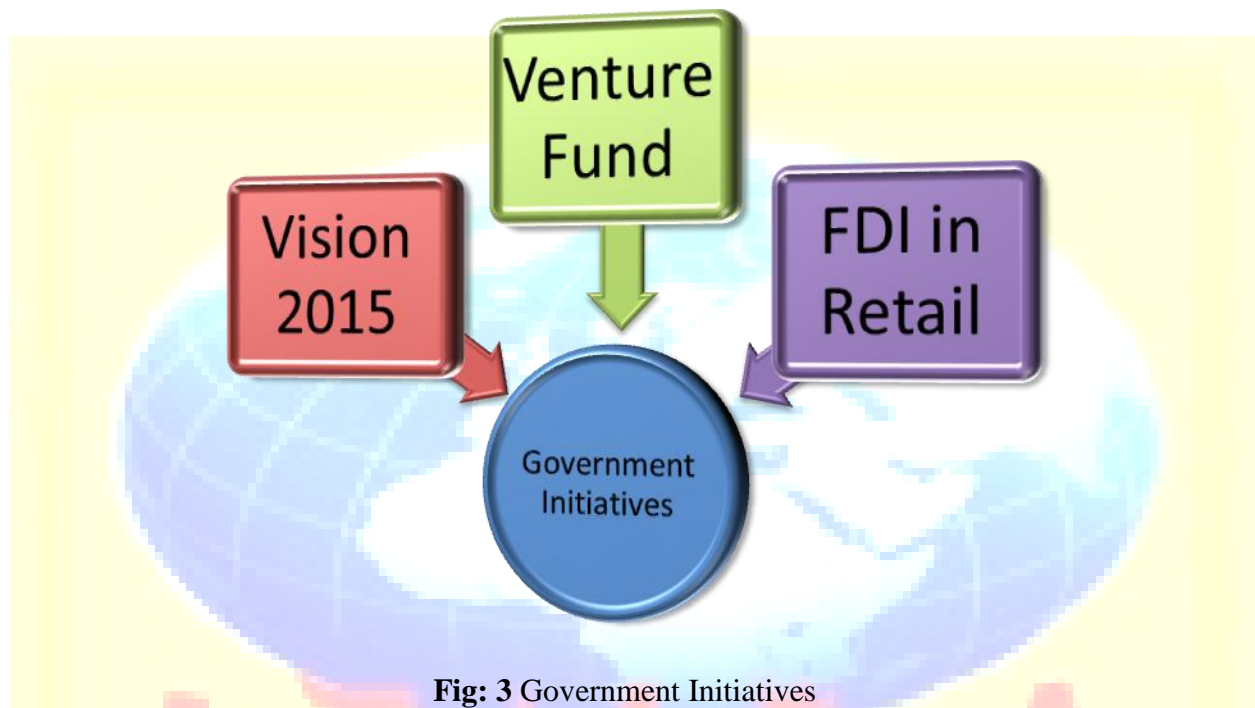


Fig: 3 Government Initiatives

Increased contribution to country's GDP:

The pharmaceutical sector currently contributes to about 2-3% of India's GDP. Increase in healthcare spending, increased medical tourism in India, clubbed with Greater levels of investments, shall grow the total contribution of this sector to an estimated 8% of the country's GDP by 2015

2. Increase in population:

India's current population is equal to 1.16 billion. Demographers expect that India's population will surpass the population of China by 2030. Increase in population would call for higher

investments and development of the pharmacy sector in India, which in turn will imply to the growth of retail pharmaceutical sector, more specifically in the organized channel.

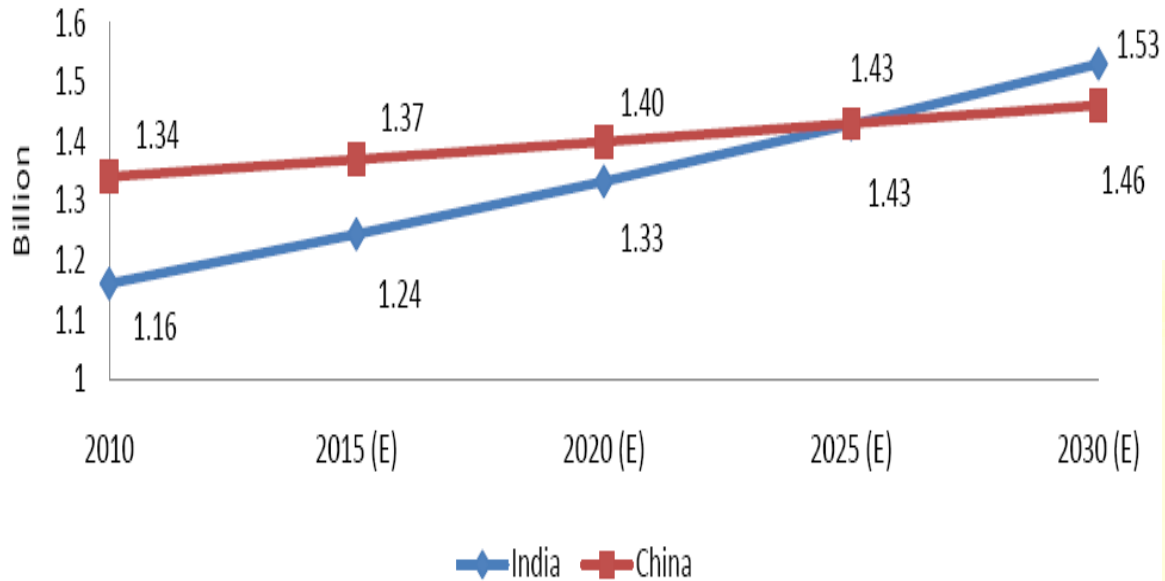


Fig:4 Source: wikipedia.org

3. Increase in Disposable income:

Two decades back, the average consumer spending on healthcare was 8%; today it is 20 per cent. The customer has also become aware of various offerings in the pharma market, and is demanding better services. India, an emerging economy is currently experience a high growth in per capita disposable incomes. As the disposable income increases with the increase in the educated population, which would continue increasing the Indian Consumer's consciousness and spends on wellness products.

4. Changing diseases profile:

Alongwith with high economic growth, India is witnessing a transition in the disease profile of its population.

As per WHO, India shall have the highest no. of cases relating to lifestyle disorders like Diabetes, Cardio Vascular Disorders & Obesity in the near future.

In addition to the traditional health risks faced by the country, it shall also witness a new class of risks originating due to physical inactivity, diet related factors, and tobacco and alcohol related

health hazards. Changes in the disease profiles would only lead to an increase in demand as well as the consumption rates of pharmaceuticals. With the improving consciousness amongst Indian consumers, improved demands would only call for a higher demand for organised retail pharma stores

5. Growth in OTC segments:

OTC products are those that do not require prescription to purchase a product from the store. Growing consciousness among the consumers as well growth in the number of educated people has lead to the increase in sale of OTC products. The numbers shall continue the uptrend.

6. Change in Consumer Attitude:

Increased awareness towards health and wellness, rising affordability and willingness to spend more on fitness is the mantra amongst the new age Indian consumer. Such a change only spells tremendous opportunities for the growth of Consumer Wellness Business. With this attitude, and the overseas trend of the pharmacy sector transitioning from 'Sick care' to 'Heath care', India too shall over time stand on the captivating ground.

7. Attractive margins:

Prices of the essential drugs in India are controlled. Despite of existence of such a stringent controls, high margins of 25-30% prevails in the retail pharmaceutical segment.

8. Government Regulations:

Government currently does not permit FDI in the retail segment in India. However, 100% FDI exists in the pharmaceutical sector. Opening this sector for Foreign investments shall certainly enhance the growth prospects.

9. Operation Support Systems:

Use of ERP System

Various ERP vendors have developed retail-specific systems which help in integrating all the functions from warehousing to distribution, front and back office store systems and merchandising. An integrated supply chain helps the retailer in maintaining his stocks, getting

his supplies on time, preventing stock-outs and thus reducing his costs, while servicing the customer better.

Use of CRM activities

The rise of loyalty programs, mail order and the Internet has provided retailers with real access to consumer data. Data warehousing & mining technologies offers retailers the tools they need to make sense of their consumer data and apply it to business. This, along with the various available CRM (Customer Relationship Management) activities, allows the retailers to study the purchase behavior of consumers in detail and grow the value of individual consumers to their businesses.

Use of Advanced Planning and Scheduling Systems

Advanced Planning and Scheduling (APS) systems can provide improved control across the supply chain, all the way from raw material supplier's right through to the retail shelf. These APS packages complement existing ERP packages. They enable consolidation of activities such as long term budgeting, monthly forecasting, weekly factory scheduling and daily distribution scheduling into one overall planning process using a single set of data.

Conclusion:

From this study it has been found by the researcher that there is a tremendous scope for the growth of organized pharmacy in India. Organized Indian retailers are trying out a variety of formats, ranging from company owned stores to supermarket to hypermarkets to specialty chains. Every year, organized retail will grow and enhance its market share. It will certainly out do unorganized retail in the near future with the value added services provided by them to the customers. The main points which push the growth of organized pharma sector are studied deeply in the key growth drivers of this sector.

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