DIAGNOSES

presents analyses of the management case by academicians and practitioners

Planet Health

Abhinandan K Jain, Piyush Kumar Sinha, and Preshth Bharadwaj

The October-December 2006 (Vol. 31, No.4) issue of *Vikalpa* had published a management case titled "**Planet Health**" by Abhinandan K Jain, Piyush Kumar Sinha, and Preshth Bhardwaj. This issue features five responses on the case by Avinash Mulky, Devashish Das Gupta, Dwarika Prasad Uniyal, Salma Ahmed, Khalid Azam, and Ashfaque Khan, Zillur Rahman, and Manmohan Rahul and Shahini Rahul.

Case Analysis I

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This case, set in early 2001, describes the situation facing Mr. Rohit Patel, MD of Sagar Group of Industries (SGI), an Indian business group engaged in the manufacture and marketing of bulk pharmaceuticals, intermediates, and formulations. SGI had achieved a turnover of Rs. 75 million in the year 2000 and has a comfortable net worth. The environment in SGI's core business was likely to change for the worse in the coming years and therefore Mr. Patel was exploring new business opportunities that had better prospects. One of the new businesses considered was retailing of pharmacy and healthcare products. This area had appealed to Mr. Patel who had initiated two studies of business opportunities in pharmacy retail. The first study was carried out by SGI executives and the second by an external consultant. Mr. Patel had to now decide whether SGI should enter the retail pharmacy business or not. If he decided to enter, he would also need a retailing strategy and an operational plan.

The Decision Context

The nature of the decision facing Mr. Patel is strategic in general and diversification decision in particular. A strategic decision is one which is important for the firm, involves a significant commitment of resources, and is not easily reversible. Strategic decisions affect the scope of an organization's activities, build and stretch its resources and competencies, create opportunities, and affect operational decisions. Diversification changes a company's portfolio of businesses through movement into new products and markets. SGI's proposed entry into pharmacy retail would involve a significant resource commitment, change the group's business portfolio, and require new skill sets. Hence, this decision is a strategic, diversification decision.

Literature on strategy recommends that several types of analyses may be carried out while examining strategic, diversification decisions. These include analyses of the macro-environment; structural forces within the particular industry or sector; consumer requirements and segments; strengths, weaknesses, opportunities, and threats (SWOT); and financial analysis. A detailed analysis would be useful for SGI because the two studies on Indian pharmacy retail that were initiated have suggested diametrically opposite conclusions regarding whether the group should enter pharmacy retailing or not.

Strategic Analyses

Macro Environment

The PESTEL framework is useful in analysing the macro-environment surrounding pharmacy retailing. This framework examines the political, economic, socio-cultural, technological, environmental, and legal issues affecting the industry.

Political issues: On the political front, we note that foreign direct investment is not permitted in Indian retail. There is a reasonable consensus across the political parties that FDI will hurt the livelihood of the millions of shopkeepers who are engaged in retail trade. While there is opposition to FDI, the political class may not be averse to the entry of Indian business houses into retailing, especially if there are arguments that entry of organized players will lead to benefits to consumers, especially the under-privileged consumers.

Economic issues: On the *economic* front, we may assume that the fruits of economic liberalization will provide a setting for consistent GDP growth of over 6 per cent per annum. With inflation projected to hover around 4 per cent, there are good prospects of real growth in disposable incomes. Spending on healthcare will be a major benefiiary of real economic growth.

Socio-cultural issues: On the socio-cultural front, improved availability of information about healthcare via internet, television, and print media is likely to make consumers more concerned about the preventive, diagnostic, and enhancement facets of health. This trend is likely to be supported by increased urbanization, increasing stress levels, and greater pollution in our cities. Overall, changes in the socio-cultural front will be positive for retailing of pharmacy and wellness products and services.

Technological issues: On the technology side, developments in the retail point-of-sale systems and software will allow accurate stock analysis, billing, ordering, payment analysis and implementation of customer loyalty schemes to better manage the retail pharmacy operations.

Environmental issues: On the environmental front, in line with the worldwide trends, there will be greater consumer concern about the long-term impact of chemicals and pollution on human health. This will stimulate more interest in wellness, genuine drugs, alternative therapies, proper advice, and wellness services. These changes will have implications for the format and positioning of retail pharmacies by influencing the range of products and services offered and the consumer segments targeted.

Legal issues: On the legal front, given the history in the industry, it may be assumed that there will not be any drastic change in regulation, and so, traditional pharmacy retail practices (and malpractices) will continue. On the other hand, since the entry of organized players in pharmacy retailing has substantial news value, it may be expected that the new players, especially those who seek to initiate new operational practices, will be investigated by the regulatory apparatus in considerable depth. New players will have to plan for substantial time and effort in convincing the regulators that they adhere to all the prevailing laws.

The overall inference about prospects in retail pharmacy based on PESTEL analysis is shown in Table 1.

Industry Analysis

The Five Forces framework developed by Michael Porter is very useful in understanding the attractiveness of an industry. The framework involves five factors: bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products/services, and competitive rivalry in the industry. Let us examine these forces one by one to see how they would impact SGI if they entered the retail pharmacy business.

Bargaining power of buyers: In pharmacy retail, this is low or high depending upon the characteristics of the buyers. Bargaining power of the lesser educated buyers is low and therefore the retailer can switch the medicine and sell a drug which provides a high retail margin. On the other hand, the educated consumers and doctors who buy for their clinics, have a much higher bargaining power since they have negligible switching costs and can thus easily move to one of the many competing retail pharmacies located nearby.

Bargaining power of suppliers: We need to note that the primary suppliers for the retail pharmacies are the pharmaceutical and FMCG stockists while the ultimate suppliers are the respective manufacturers. In prescription drugs, there are many branded and generic alternatives available, so the bargaining power of the manufacturers is low. The bargaining power of the stockists is potentially high since they represent many manufacturers on an exclusive basis in a given geographic territory. However, retail pharmacies have banded together in a powerful association called the All India Organization of Chemists and Druggists to exert pressure on the stockists (and manufacturers); the bargaining power of the stockists is thus moderated. The bargaining power of the FMCG stockists is potentially high but is blunted by the presence of the FMCG wholesalers who sell across territories and provide an alternative source of supply in case the stockist cuts off supplies to any retailer.

Threat of new entrants : It is likely to be high because the entry barriers in pharmacy retail are low and many more chains may enter the sector on a regional and national basis in the future. Also, supermarkets and mass merchandisers may add pharmaceutical items to their existing product range, creating new sources of competition.

Threat of substitute products and services: It ranges from low to high depending upon the product category. For prescription products, the threat comes mainly from hospitals like Apollo increasing their medicine retail operations at their hospitals and clinics. For the FMCG products, the threat comes mainly from mass merchandisers and new supermarkets operating in a discount format. Alternative medicines could pose a threat to allopathic medicines in general. Potentially, retail pharmacies could offer services like blood tests, blood pressure tests, etc., but the spread of specialized medical testing facilities could hamper this.

Competitive rivalry: In retail pharmacy business, it is likely to be moderate. The perceived competition is likely to be high in places where there are many pharmacies concentrated within a tight geographical area as happens in the traditional market areas and places close to hospitals. In actual practice, there is little price competition between the pharmacies. The rivalry will increase in case a major supermarket chain ups the ante by indulging in discounting of medicines. This will put pressure on all the independent pharmacies and chains in the vicinity. The overall inferences about the attractiveness of the retail pharmacy sector based on the Five Forces analysis is shown in Table 2.

Consumer Analysis

The two studies on retail pharmacy business carried out for SGI do not appear to have studied consumer requirements and behaviour in depth. Since consumer needs must form the cornerstone of a successful marketing strategy, consumer analyses will be useful in examining the poten-

Table 1: PESTEL Analysis

Factors/Issues	Impact	Inference
Political	±	• FDI will be kept out in the medium term and Indian business groups will be allowed to enter • Powerful general retailers may enter pharmacy retail
Economic	+	• Good GDP growth and increased share of spending on healthcare in PFCE
Socio-cultural	+	• Greater interest in prevention, diagnosis, and enhancement of health • Greater value placed on genuine products and relevant services
Technological	+	• Tools for managing the business
Environmental	+	• More interest in alternative therapies and health knowledge
Legal	±	• No change in regulation of traditional shops • Greater regulatory interest in organized pharmacy retail

Table 2: Five Forces Analysis

Forces	Strength/ Extent	Inference
Bargaining power of buyers	Low to High	• Low for uneducated buyers • High for educated buyers and doctors
Bargaining power of suppliers	Low Medium	• Manufacturers of prescription drugs and FMCG stockists • Pharma stockists
Threat of new entrants	High	• New chains • Supermarkets and mass merchandisers entering pharmacy retailing
Threat of substitute products and services	High Moderate	• Hospital affiliated retail pharmacies with respect to prescription products • Supermarket and mass merchandisers with respect to FMCG products • Alternative therapies and alternative medicines and services
Competitive rivalry	Moderate	• Depends on emergence of price competition

tial and developing strategy for the retail pharmacy business.

A typical consumer visit to a retail pharmacy occurs when someone in the family is unwell and medicines have to be purchased. In this situation, the consumer is usually not in a pleasant state of mind and wants to get the right products quickly and head back immediately. Confusion arises when the required medicine is not available and the retailer may suggest an alternative. The acceptance of the alternative medicine depends upon the educational level of the consumer and the trust the consumer has on the pharmacy outlet. Once the availability of the medicine is assured, the consumer may want a bill for reimbursement purposes. In some cases, the consumer may purchase other items like OTC or FMCG products from the pharmacy while waiting for the medicines to be picked and billed. Given the small size of the traditional pharmacy retail shops and the limited manpower available in these shops, it may take quite some time for the purchase to be completed. The waiting period is unlikely to be pleasant if there is a crowd of consumers jostling for attention and service.

Customer expectations from retail pharmacies may also be understood using the product levels concept. The *core benefit* expected from a visit to a retail pharmacy is the availability of the desired medicines. At the *generic level*, the consumer may expect a convenient location, the availability of prescribed medicines or correct alternatives, some popular OTC and health-related products, and a prompt response to consumer queries. At the *expected level*, the consumer may expect genuine, non-expired products; attention on a first-come-first-served basis; quick, courteous service; and proper billing. At the *augmented level*, the expectations may include a proper advice; good ambience and décor; air conditioning; enough space to move around; wide product range, and a pleasant shopping experience. At a *futuristic level*, the consumers may wish for facilities that generate "delight" — qualified pharmacist, personalized attention; loyalty schemes; information on healthcare via touch screen or leaflets; availability of health-related services; and a broad product and service range covering wellness-related products and services. The concept of product levels has been recommended as a basis for meeting the consumer expectations, generating brand differentiation and keeping in tune with the international and national trends in the category. SGI can therefore utilize the retail implications of this concept in developing its retail strategy.

The consultant's report suggests that SGI's proposed retail pharmacy venture should proactively focus on wellness rather than just providing medicinal solutions to health breakdowns. This is a worthwhile but challenging objective. It is a worthwhile objective because disease prevention activities can have a significant positive impact on health and simultaneously reduce overall healthcare costs, and so, it is in the public interest to promote disease prevention. It is a challenging objective because the entrenched habits and beliefs may prevent the large majority of consumers from appreciating the value provided by the new approach to pharmacy retailing, and propagating the new approach may take considerable time. Taking a diffusion of innovations perspective, in the initial phase, SGI may consider focusing on cities where modern retailing has penetrated to a greater degree compared to the All India average. Metro cities in the South like Bangalore, Chennai, and Hyderabad have a relatively higher level of per capita disposable income and a large population of technically educated consumers who may be more prone to accepting innovations in retailing.

Financial Analysis

The external consultant has provided indicative figures of sales, contribution, expenses, profitability, and cash flow for various store sizes ranging from 250 to 2,000 sq. ft. (Exhibits 9a and 9b). Mr. Patel has a requirement that the stores should generate a sale of at least Rs. 1,000 per sq. ft. per month. Table 3 shows that this requirement can be met between years 1 to 4 depending upon the size of the store.

Exhibit 9 b of the case suggests that the stores would be profitable in year 2 onwards, and given the capital expenditure levels indicated in Exhibit 9a, the payback period works out to be between 4 and 5 years. In the absence of data, it is not clear how the new venture will be funded. It appears that the initial investment for a few stores will come from SGI or its directors and that the second stage funding for expansion of the chain will

Table 3: Projected Sales per Sq. Ft.

Projected Sales per Sq. Ft.	Year 1	Year 2	Year 3	Year 4	Year 5
250 sq.ft. store	2,040	2,640	3,480	4,320	5,400
500 sq.ft. store	1,440	1,860	2,460	3,060	3,780
1,000 sq.ft. store	870	1,140	1,470	1,830	2,310
2,000 sq.ft. store	570	735	960	1,200	1,500

need to come from franchisees or other sources (banks, venture capital, and public).

Sensitivity Analysis

The projected annual sales growth implied in Exhibit 9a ranges from a low of 24.3 per cent per annum to a high of 31 per cent per annum. Compared to the growth in spending on healthcare during the last decade as part of PFCE, the projected sales growth is on the higher side, but the projections are achievable as the venture can take share from the fragmented competitors. A key issue is the budgeted provision for staff expenses shown in Exhibit 9b which are on the lower side. Table 4 shows the difference between the planned and the realistic level of staff to operate extended store hours in two shifts. In order to ensure adequate motivation and high levels of honesty, the staff will need to be properly compensated. Hence the staff costs should be set at realistic levels where all staff are paid wages which are higher than the minimum wage and the supervisory and customer-facing staff are paid a competitive wage.

The inventory expenses and the implied inventory levels mentioned in Exhibit 9b also deserve attention. An interest rate of 10 per cent seems to have been applied when working out the interest on the fair value of property. Applying the same interest rate on inventory holding and calculating the number of days of inventory projected in each of the five years, it appears that the average inventory value will change from Rs. 5.5 lakhs in year 1 to Rs. 4 lakhs in year 5. Taking into account the monthly sale in each year, the average inventory holding appears to be moving from about 28 days of sale in year 1 to just 8 days of sale in year 5. This drastic reduction in inventory over time appears to be extremely challenging. While achieving this reduction would be recommendable, prudence dictates conservatism in accounting for inventory, and a budgeted holding of around 30 days or so would be prudent. The gross margin is assumed to increase from 18 per cent in year 1 to around 20 per cent in year 5. These levels are achievable given the high margins on prescription drugs and generics and higher discounts which can be negotiated on bulk purchase of OTC and FMCG items. The royalty provision in Exhibit 9b is not required in the initial wholly-owned store stage and may be considered only when franchising is started.

The revised profitability estimates based on the above discussion are shown in Table 5. Although profitability is now achieved only in year 3, the payback period is not very different compared to the consultant's indication in Exhibit 9 b.

Table 4: Staffing for 500 sq.ft. Store-Year 1

	Planned Budget p.m.		Realistic Budget p.m
Pharmacist x 2@10,000 pm	20,000	Pharmacist x 2 @ 12,000 pm	24,000
Assistants x 2 @ 3,500 pm	7,000	Assistants x 2 @ 6,000	12,000
Helper/Delivery person x 2 @ 3,000 p.m	6,000	Helper/Delivery person x 2 @ 4,500 pm	9,000
Security guard x 2 @3000 pm	6,000	Security Guard x 2 @ 4,500 pm	9,000
Total (Rs)	**39,000**		**54,000**

Overall Evaluation and Entry Decision

Based on the analyses of macro-environment, industry, consumer, and financial projections carried out above, it appears that it would be in order for SGI to enter the pharmacy retail business. The macro-environment will be generally supportive with four factors positive and two factors neutral. The industry is reasonably attractive. The threat of new entrants is high while that of substitute products and services and competitive rivalry are moderate, and the bargaining power of buyers and suppliers is low to moderate. SGI can modify these forces with a good strategy and a large scale of operation. The consumer-related trends are positive, although it will be a challenge to change the entrenched beliefs and buying behaviour. SGI can focus first on the more innovative metropolitan cities in the South. The financial analysis indicates that profitability can be achieved by year 3 and cash break-even by year 5 (tax liability has not been considered). Hence, the decision may be taken in favour of entry.

Developing the Retail Strategy

The retailing literature suggests a step-by step approach towards developing the retail strategy. The major steps suggested include development of the guiding elements (creating the mission statement, deciding the ownership structure, choosing the basis of competitive advantage), segmentation and targeting (analysing customer expectations, segmenting the market, choosing target segments); developing the retailing mix (locations, store design, merchandising, services, promotion, pricing, and organization), and firming up the operational strategy. We will look at some important aspects of these steps.

Mission statement: A sample mission statement for Planet

Table 5: Revised Profitability Estimates (500 sq. ft.)

	Rev Year 1	Rev Year 2	Rev Year 3	Rev Year 4	Rev Year 5
Gross sales / Daily	**24**	**31**	**41**	**51**	**63**
Gross sales / Daily(non FMCG)	18	24	32	41	51
Gross sales / Daily(FMCG)	6	7	9	10	12
Gross sales/Annual	**8,760**	**11,315**	**14,965**	**18,615**	**22,995**
Contribution margin	0.182	0.187	0.192	0.198	0.1977
Contribution from sales	**1,590**	**2,115**	**2,878**	**3,680**	**4,546**
Annual display sales rental	48	86	115	144	173
Annual income-value added services	21	38	60	91	131
Miscellaneous income	44	57	74	93	116
Other income	**113**	**181**	**250**	**327**	**419**
Gross income	**1,703**	**2,296**	**3,128**	**4,007**	**4,965**
Expenses					
Salaries and wages	648	745	857	986	1133
Energy	309	340	374	411	452
Others	161	172	184	197	211
Operating expenses	1,118	1,257	1,415	1,594	1,796
Membership programme	88	113	150	186	230
Discounts	169	219	285	356	445
Advertising and promotion expenses	175	228	296	370	463
Marketing expenses	364	457	593	739	924
Royalty fees	0	0	0	0	0
Direct expenses	**1,550**	**1,817**	**2,146**	**2,506**	**2,934**
Monthly sale at cost price	598	767	1,007	1,245	1,537
No. of days inventory	45	30	30	30	30
Value of inventory	896	767	1,007	1,245	1,537
Interest on inventory	90	77	101	124	154
Interest on fair value of premises	224	224	224	224	224
Amortisation	53	53	53	53	53
Depreciation	142	142	142	142	142
Deferred revenue expenditure	18	18	18	18	18
Int. Amort, Dep, and Def rev exp	526.6	513.7	538	561	591
Gross expenses	**2,076**	**2,331**	**2,683**	**3,067**	**3,525**
Net profit/loss	-373.3	-35.25	204	703	1,147
Cash profit/ loss	153	608	742	1,264	1,738
Cumulative cash flow	**153**	**761**	**1,503**	**2,767**	**4,505**

Health may read as follows: "Planet Health's mission is to provide convenient access to genuine, high quality medicines, health-related products and services, and advice from qualified pharmacists to enable individuals and families to meet their needs for health recovery, wellness maintenance, and health enhancement."

Vision statement*:* A sample vision statement may read as follows: "Planet Health aims to become India's leading chain of consumer-oriented retail pharmacies within 10 years by offering genuine medicines, health-related products, and useful pharmaceutical and wellness advice from qualified pharmacists."

Ownership structure: SGI has several options with regard to ownership structure. Options include structuring Planet Health as a division of SGI, a fully-owned subsidiary of SGI, or as a private limited company. Setting up Planet Health as a public limited company will have to wait until the venture gains reasonable size and profitability. The case does not provide details of SGI's ownership structure. Given the size of its operation, it is reasonable to assume that it is structured as a public limited company. If this is the case, it may be better for SGI to structure Planet Health as a private limited company so that any market sentiment about adverse results in the launch phase does not affect the market value of SGI shares. Mr. Patel may either make an initial investment in Planet Health himself, or persuade a younger family member to invest as a promoter. It would also be appropriate to bring in capital from outside SGI via co-promoters with management expertise in pharmaceutical marketing, operations or finance. Mr. Patel should ensure that Planet Health has a good management team and sufficient finance in the first round. Subsequently, the promoters can be asked to ensure further rounds of funding as required from financial institutions or from the capital market.

Basis of competitive advantage: The literature on competitive strategy recommends that firms must follow one of the three basic strategies in order to achieve competitive advantage. The basic strategies are cost advantage through low cost, developing uniqueness via differentiation, and focusing on niche segments via differentiation or/and low cost. In the retail pharmacy sector, a low cost position may be achieved by bulk purchasing, direct purchasing from manufacturers (taking distributorship), and control on operational expenses. Bulk purchasing is possible when the organization is buying for large number of stores (requirements of a retail chain). Lower operational expenses can be achieved by spreading promotional expenses over many stores in the chain; effective utilization of store space; and tight control over inventory, debtors, and shrinkage. Differentiation in retail pharmacy business can be achieved through the retail mix (store format, locations, store design, merchandising, services, promotion, and organization). A focus strategy involves focusing on particular customer segments, product categories, store formats, locations, or image associations.

Given the need to be seen as distinctly different from both the traditional chemists and the newer organized pharmacy chains, it appears that Planet Health will need to initially follow a differentiation strategy. Simultaneously, it must have tight operational control and aim to move towards a low cost strategy over time. The differentiation strategy will build image; tight operational control will conserve cash and contribute towards profitability; and the low cost strategy will buttress profitability and fund customer loyalty programmes (rather than supporting lower prices).

Segmentation and targeting: Consumer requirements from retail stores in general revolve around convenience in space and time, assortment of products, store atmosphere, reasonable price, services, information, and personal interaction. Segments are formed in retail because different customer groups place different priorities on each of these basic requirements; groups differ in their consumption or buying behaviour; or groups differ in their attitude towards health. For example, low-income and deal-prone consumers may place a higher priority on low prices, time-poor consumers may prioritize quick service and locational convenience, time-rich consumers may prioritize detailed information and personalized service, etc. Consumers' age, family life cycle, and health may determine whether they are heavy or light buyers of medicines. Their lifetstyle, attitudes, and beliefs may influence their interest in alternative therapies and disease prevention.

Planet Health may benefit from targeting relatively more educated and affluent families where there are young children or senior citizens as such families are likely to be more concerned about health and are likely to value the genuine medicines and range of healthcare products and services that the organization plans to provide.

Retail mix: Planet Health should emphasize convenience. The stores should be located in good residential locations, near offices; or on main roads connecting major residential localities to the commercial centres. An important aspect of convenience relates to hours of operation. Two-shift operations from 7 am to 11 pm will be required to maximize revenue. SGI must attempt to grow the chain quickly; otherwise there will be little impact. In addition to starting stores on its own, SGI may also look at acquiring local chains which have stores at good locations and have a good image. Planet Health must aim to achieve reasonable market share of the retail pharmacy business at a regional level within five years and at national level within ten years if it wants to be viable and successful over the long term.

The signage, décor, and ambience of Planet Health should be consistent across the stores and distinctly different from that of other pharmacy chains. An attractive logo should be designed. Modular furniture and shelving should be used so that renovations can be carried out in future to accommodate more products and services. In terms of merchandise, the list of product categories suggested by the consultant in Exhibit 6 appears to be more or less similar to what the traditional chemists and the new organized chains stock. The consultant has suggested that Planet Health should attempt to enlarge its product offerings from mere medicines to a larger range of health and beauty-related products. This is quite similar to what the Health and Glow chain is doing and does not provide sufficient differentiation. Over-emphasis on non medicinal items may dilute the impact of placing a full-time pharmacist at the stores; so, the company must attempt to make the pharmacist the focal point around the store's activities. Possible guiding propositions for structuring the product range could be based on any combinations of the following wellness themes — health, fitness, nutrition, and beauty. The health theme is relatively better understood in retail pharmacy business compared to the other themes; therefore SGI should undertake some research to identify the relative sales potential, profit potential, and space requirement of each theme, especially the three other themes. Interesting product and service ideas may emerge depending upon the theme chosen — for example, the nutrition theme may lead towards the provision of freshly prepared organic fruit and vegetable juices and salads, backed by high quality diet and nutrition advice.

In addition to the planned core service of pharmacist counseling, Planet Health can provide the usual services like home delivery, credit card acceptance, telephonic ordering of non-prescription items, environment-friendly carry bags, and pure, cool drinking water. It can design consumer-friendly waiting lines and follow a first-in-first-served policy. Women with infants and senior citizens may be served through a special line. In larger outlets, a couple of chairs may be provided for the benefit of senior citizens. The stores may be designed to provide easy access to physically handicapped consumers. Such thoughtful innovations will add to the perceived differentiation of the venture.

The financial provisions for promotion and loyalty programmes budgeted by the consultant are actually quite small; hence, Planet Health must use its advertising and promotion resources efficiently. It must concentrate on generating positive word-of-mouth publicity by providing exceptional and courteous service. A formal CRM application will be an asset. The company may approach large corporates to provide communication access to their employees. The shop events organized by the pharmacists and communicated via word-of-mouth can be a key element of the promotional strategy. The company can invest in an excellent website to provide information on wellness and health. The budgeted allocation of about four per cent of sales for marketing activities can be used to fund consumer contact events and shop maintenance.

Pricing is usually a key element of retail strategy. As indicated earlier in the discussion on competitive advantage, Planet Health must not follow the path of discounting as this will not only hurt its profitability and image in the short run but will also draw unnecessary attention and bring it in conflict with the association of the chemists. The cost advantages achieved through operations may however be passed on as loyalty bonus to the regular consumers or used to fund value adding services.

The ability to recruit, train, and retain qualified, motivated, and enthusiastic personnel will be a key factor in Planet Health's success. It must pay attractive wages, and provide good working conditions; have fixed working hours and holidays; ensure humane supervision; and provide emergency assistance to its employees. It may also practice affirmative action so that underprivileged sections of the society benefit from the available job opportunities. The personnel must be convinced that the company will grow rapidly and that consistent performance with the company will result in job security and satisfaction.

Planet Health should commence operations by opening just one medium size (500 or 1,000 sq. ft.) model store to test its retail strategy. Based on the learning from this model store, additional stores can be quickly opened in the chosen city (after having tied up the finance). In order to effectively manage operations and merchandise across a multi-store chain, Planet Health should invest in well-designed systems especially information technology infrastructure, connectivity, and software. This kind of investment may appear to be a luxury in the initial stages but will pay for itself, and provide significant operational efficiencies and competitive advantage over the long term.

To sum up, the fragmented and under-regulated pharmacy retail sector in India needs an ethical, modern, professional, and consumer-friendly retail chain. If Planet Health implements a well thought-out strategy that meets the needs of health conscious consumers, it has every chance of fulfilling its mission and vision successfully and developing into a vibrant, socially contributing enterprise.

Case Analysis II

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The case on Planet Health captures the dilemma of an organization that has been into bulk phar maceutical manufacturing which now wants to diversify into pharma retailing. Sagar Group of Companies (SGI) is based in Ahmedabad, Gujarat. Established in 1956, the organization has made a blistering performance achieving a whopping 660 per cent growth in net worth in the past decade. However, foreseeing the WTO implementation and the resultant product patent regime, the Managing Director, Rohit Patel, rightly initiates the thought process for investing in the greener pastures. Nearest to the core competency and the best utilization of synergy is pharma retailing.

Situation Analysis

The case data pertains to the year 2000-2001 which means that the company still has about four years in hand before WTO is implemented. As mentioned in the case, it aimed at making the generic drugs market very competitive through a shift from the process patent to the product patent.

At present, SGI's main interest lies in the manufacturing and/or marketing of bulk pharmaceuticals, drug intermediaries, drug formulations, fine chemicals, dyes, dye intermediates, and food preservatives. Ten companies carry out the activities for the SGI. In the year 2000, the annual turnover was Rs.750 million. It also exports to countries in Europe, South East Asia, and the US.

Pharma Retail: Industry Analysis

For the entry of any player in a new market, we need to analyse it on the basis of Porter's Five Forces model.

Threat from New Entrants

If we look into the existing scenario, the threat is definitely there. A market which only has small retail outlets of 150 sq. ft. area, generally family-owned and poorly-equipped, opens the door for better players in terms of both strength and acumen. Over and above this, a trade margin of 40 per cent in the business scenario of 2000 was a very good deal. The existing players in the country would definitely like to follow on the footsteps of the SGI group. Thus, even if Planet Health had an early beginner's advantage, it could get eroded if not strengthened from time to time.

Threat of Substitutes

Pharma retailing is at a nascent stage, and it would itself be substituting the existing system; thus further substitution was not possible. However, better formats from new entrants may substitute the proposed retail pharma format in the future.

Inter-segment Rivalry

Three categories of retailers are found in the market:

- those attached to hospitals
- those around the concentration of chambers of consulting doctors
- those in residential/market areas.

Generally for all pharma retailers, 80 per cent of the sales were contributed through prescription drugs. Here, SGI was trying to coin in a new concept of 'welfare and prevention than cure.' Being a new segment, it is hoped that there would be no scope for rivalry.

Bargaining Power of Suppliers

For such a large player like SGI, the bargaining power of suppliers would definitely be lower. However, the case rightly brings out the fear of a backlash from the traders' association. With a chain of such mother and daughter stores opening up in the city of Ahmedabad and in other parts of Gujarat, it is more than expected that the existing retailers would come under considerable pressure. So far, the existing players were operating inefficiently, and at times violating various norms like Food and Drugs Act governing them. In 2000, there were 12,000 pharmacy outlets in Gujarat. There would definitely be a resistance from them and legally and strategically, Planet Health should be ready for that.

Bargaining Power of Buyers

Buyers will definitely be the biggest beneficiary. The consumer profile has undergone a radical change. The socio-cultural change in the general customer fraternity also holds good for Planet Health. For instance average longevity, education level, income, and awareness about health have gone up.

An increase in the number of nuclear families and a shift towards urban areas along with an early onset of lifestyle diseases like diabetes, hypertension, asthma, and arthritis have together lead to a growth in expenditure on health and personal care. Finally, in the last decade, private final consumption on medical and health care services had doubled. The rise in life expectancy can also be attributed to this increase in medicine consumption. But with the growth in this area and the emergence of more players, the customers are bound to become more demanding.

Retail Entry Strategy

Controllable vs. Uncontrollable Variables

For a retail store, there are some controllable variables like store location, business management, merchandise management, and communication with the customer. There are some uncontrollable variables like consumers, competition, technology, economic conditions, and legal restrictions (for instance, pricing in the case of pharma retail). Fortunately, in the case of pharma, economic conditions will not have a bearing. Competition is yet to come in. Technologically, Planet Health will be on a good footing.

Return on Investment

A point of caution will be the projections given for a 2,000 sq. ft. shop in Exhibit 9A since it will be a critical variable for survival as well as for the prosperity of the store. A point worth noting here is that the percentage of growth in profitability in year 5 may actually go down in real value terms if we discount the competition which would enter by that time. Although, it depends on the performance in the first three years, which is very critical for any retail venture.

Service Efficacy

Being in the health industry wherein the organizations want to change the customer's approach from curative to preventive, success will depend a lot on the service efficacy of the stores per se. Applying the Servqual model, Planet Health will have to stress on these five factors:

- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

Retail Image

With major sales coming from Rx drugs, the onus on creating a good place in the mind of the market will be on these five factors to generate goodwill for the store. This is more so because the customers in general buy drugs from ra particular etailer due to its favourable location or doctor's specification (which is an influencing factor for pharma store selection in India). Being the first mover in Gujarat, though Planet Health has an advantage over the late entrants, yet a positive retail image would be critical for its success. This is explained in Figure 1:

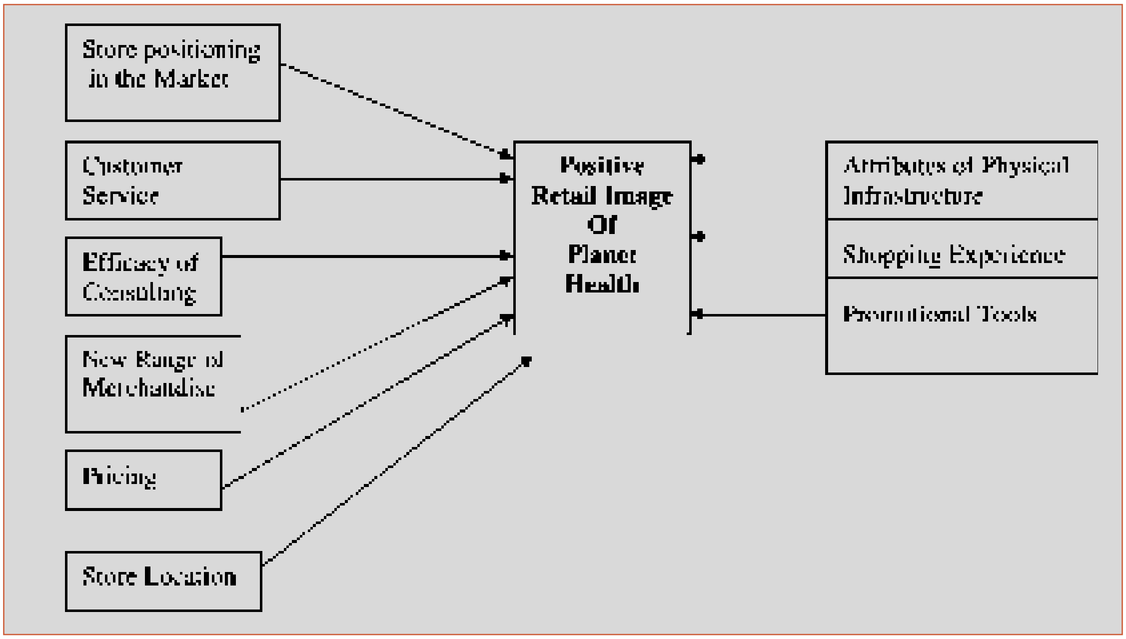
Some of the important points that emerge are:

- Merchandise: Health-related products, herbal products, calorie-free items, and even pet food (as well as health accessories) can be instrumental in drawing footfall.
- Shopping experience: A relaxed design already mentioned in the case will rightly put the customer on a browsing mode.
- Promotional tools: Pharmaceuticals may not need push like other products. For store patronage attractive loyalty schemes will neutralize locational disadvantage if any and also increase the target audience radius for the store.

CONCLUSION

Diversification of SGI into pharma retail is a wise step to follow. It will have synergy with the core competency of the group. There lies a huge scope for organized retail in pharma particularly one with a welfare focus. Issues like resistance from traders, scarcity of trained manpower, and need for initial big investment can be resolved through a proper planning and strategic approach. As a new market entrant, SGI will have to learn one thing very fast — that, retailing is very different from manufacturing. Since the organization primarily has been into manufacturing, it will have to culturally change itself while dealing with Planet Health. This approach would ensure success for both Planet health and SGI.

Figure 1: Factors Influencing Retail Image



Case Analysis III

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The case is an interesting account of how an indigenous business tries to expand its horizons and enter into diversification in the advent of changing business situations. SGI's foray into retailing is one such example where the existing business is facing threats from the environment while simultaneously opening up opportunities for exploring new concepts.

Key Issue for Rohit Patel

As a second generation entrepreneur, Rohit Patel's anxiety and excitement is palpable. On the one hand, he is concerned about the eroding margins and the emergence of low cost operators from China and, on the other hand, he is excited about the newer challenges and an opportunity to create his own identity in a unique way through a business which will be his own and not a carry over from the past.

After identifying pharma retailing as one of the key businesses to enter and going through the feasibility plans, the key issue in front of Rohit is "Dare to go out or stay put." It is a new venture and completely different from the one he has been managing successfully so far and though pharma is still the common connection, he soon realized that retailing is a completely different business and needs much more in-depth analysis of various partners in the supply chain and an understanding of the ultimate customers.

Diagnosis of the Problem

Once it was decided to explore the concept further, the key problem in front of the management was how to design a format for this business. After studying both national and international formats of similar businesses of the likes of Boots, Apollo, Life Spring, Medicine Shopper, etc., the consulting team had suggested a format of a retail store initially owned by the company which provided not just the medicines, but a whole range of health products under guidance from a trained pharmacist, and a pleasant retail ambience.

Limitations of the Proposed Format

- It is capital-intensive in the first phase as the company wishes to own a few mother stores and roll them out to test the concept.
- The proposed store is positioned on experience rather than convenience platform and no research was done on target customers about their expectations about such stores, limitations of existing stores, and how they would respond to such formats. The assumption made about the gap in the market is based on the consultant's own experience and not on consumer research.
- Even if the target group is upper to middle class, SECA, their actual buying behaviour in medical shops has not been studied and hence poses a real problem while executing the retail design.
- Since there are restrictions from the government as well as pressure from the local wholesalers about the direct purchase of the stock, it will be difficult for the store to sell the medicine at a cheaper rate and hence will not have any price competitiveness.
- The format is experiential; it might give an impression of an expensive store as back in 2000, the shoppers in Ahmedabad were not exposed to bigger formats like supermarkets/hypermarkets and their early adoption of this concept might be a challenge.
- The store's catchment area is not more than 2 km and hence it will face serious competition from the existing shops which are patronized by the customers. Also, because of its high working capital requirements, it will face problems in competing with local chemists whose cost of operations would be less.

Limitations of Category Planning

A quick glance at the planned categories reveals that too many categories have been planned which might not contribute to the overall sales of the store. It becomes a hybrid between a medical shop and a cosmetics shop. The category contributions have to be calculated to ensure the shelf space allocated to them. The GMROF calculations are missing from the analysis. Also, it is not clear on what basis the sales (revenues) are calculated.

The local chemists might score over Planet Health customers on the following parameters:

- Existing customer base — most of the customers have a personal relation with the chemist and are patrons of the shop.
- Credit facilities that make it easier for the customers to pay at the end of the month.
- Most shoppers are averse to shopping for medicines and would prefer home delivery.
- Low cost of operations.
- Dedicated catchment of ½-1 km and saturation of too many shops fighting for the same customer base making it difficult to convert them into Planet Health buyers.

Existing Buyer Behaviour[1]

Independent research conducted at local chemist shops in Ahmedabad reveals that in most cases it is a forced purchase; people would actually appreciate home delivery than venturing out to buy medicines. Most of the customers prefer brand-specific and company-specific products especially in over the counter categories. On an average, they spend 5-10 minutes in the whole transaction. Most shoppers did not do any real checking of the medicines they were given.

Recommendations

- The format suggested in the case needs fine tuning and a thorough analysis of buyer behaviour at such shops.
- A projected footfall analysis needs to be carried out apart from conversion rate and average bill size.
- Performance metrics like GMROF, GMROI need to be included.
- A research needs to be carried out among target group about the proposed positioning and their response to the same.
- The need gaps in the market, both in terms of trade as well as customers, need to be identified.
- A more detailed category analysis should be carried out to remove categories which are not contributing to the revenue but blocking expensive shelf space.
- A proposed roll out plan along with site/location analysis needs to be carried out.
- A proper buying and merchandising plan needs to be in place.
- It is not clear as to store of which size is finally proposed. A mother store of 1,000 sq. ft. and daughter stores of 250-300 sq.ft. is recommended.
- Home delivery needs to be emphasized every time a customer walks in.

1. Observational research conducted by MICA at various chemist shops.

Case Analysis IV

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Sagar Group of Industries was established in 1956. The group grew through vertical integration and by 2001, it had ten companies which were engaged in the process of manufacturing and marketing of pharma and related products. The products were bulk pharma, drug intermediaries, drug formulation, fine chemicals, dyes, dye intermediates, and food preservatives. It had two manufacturing facilities at Ahmedabad. Its customer base consisted of pharma companies, textile companies, leather companies, and food processing industries. Its export market consisted of countries in Europe, South East Asia, and the US. The changes in environmental conditions made it review its strategy and exercise its options for diversification.

The major changes in the environment were:

- China emerging as a major player in the chemical export
- Implementation of product patent regime under WTO
- Decrease in the number of branded generic medicine in India
- A shift towards generic medicine in the Indian market and dropping margins in generics.

In order to diversify, Sagar Group looked for emerging opportunities existing in the environment and identified the sunrise sectors where the opportunity existed. Software and retail were identified. However, software was soon dropped from the consideration set while pharma retail was selected for its synergy with its current operations and leverage on its existing knowledge of the pharma industry.

There exists immense potential for growth in the retail sector. Retail is estimated to be a Rs 12 lakh crore* market. *(Economic Times,* March 29, 2007*)*. The Indian Healthcare industry covering all aspects including pharmacy, spa, fitness beauty centre, and health clinics is expected to be around $3 trillion industry. (*Economic Times,* Feb 15, 2007). The pharma retail industry is expected to be close to Rs 35,000 crore (*Economic Times,* Feb 6, 2007). In pharma retailing, only 2-3 per cent is in the organized sector, the remaining 97-98 per cent being in the unorganized sector. This comprises 60,000 distributors distributing to 8 lakh pharmacies. Therefore, it can be firmly concluded that the corporitization of retail pharma is long overdue.

Some of the major reasons why pharma retail is catching up are discussed below:

In many developing economies, including India, the epidemiological profile is changing. It is evolving from infectious and less expensive diseases, to chronic degenerative diseases such as cancer, diabetes, and cardiovascular diseases. Tobacco use, prolonged and unhealthy physical inactivity, and excessive alcohol use are major causes and risk factors for these diseases. Nutritional transition due to the increase in the intake of high fat and fast food products, a sedentary life style, and also pressure to perform promote cardiac diseases. All this leads to an early onset of lifestyle diseases and the resultant rise in the awareness of health and fitness.

Further, public health programmes cover the healthcare costs of the population worldwide. Most of the time, these funds are not sufficient to meet the needs of the growing population. The Human Development

*1 crore = 10 million

Report (HDR), 2006, released by the UNDP, shows that in most countries including India, improvement in HDI has slowed down in the period 1990-2004. (Refer Table 1). India may be among the fastest growing economies in the world, but the UNDP Report suggests that this growth has not translated into better public healthcare for the citizens. India spends a meager 1.2 per cent of the GDP in health sector with 82 per cent of the health spending being private. (Refer Table 2)

Further, most public health programmes supply drugs through old, outdated, and complex supply chains. Hence, critical drugs may not be available when they are needed; instead, counterfeit and spurious drugs are sold. Therefore a private sector in healthcare is fast emerging and thriving on the deficiency of the public healthcare sector. Also, a private, efficient, and reliable delivery channel is emerging.

Consumers are increasingly becoming aware of health hazards and conscious of their health-concerns. The old system of a fragmented array of hospitals and clinics and small-time retailers run by the government and private unorganized players is giving way to a regime of managed care run by a more organized private sector. The concept and ascent of managed care has brought about an increasing number of takeovers and mergers (consolidation) among pharma companies looking for ways to capture market share.

A market-driven healthcare setup is fast emerging. Patients are putting a premium on convenience and the ability to determine their own medical care. Today, healthcare is meant to cater to increasingly demanding and well- educated patients (while the government/ public sector is meeting the needs of the poor). Today a more conscious breed of consumers is emerging who are willing to bear medical expenses from their own pockets.

Today, people do not want healthcare to be merely an agreeable experience. The goal of healthcare is loud and clear. It is 'cure for all ills.' And they are willing to pay any price for this. This is one major change that has taken place. Another significant change is the one that has taken place in the social environment. Further, the exposure to media and infiltration of modern life. styles have fuelled the aspirations of the consumer. They increasingly desire a pleasant ambience and a shopping experience even while purchasing their monthly drugs and formulation requirements.

Market surveys suggest that healthcare occupies the third slot on the Indian consumers' spending list, aided not only by the rise in disposable income of the Indian middle and upper classes, but also by a growing awareness of health issues. (Even drugs are sold in style these days, *Economic Times,* Feb 6, 2007). Therefore, consumers are increasingly looking for quality, service, and ambience.

Thus the environmental factors responsible for the acceptance of pharma retail are:

- Low involvement by public/government sector
- Rise in disposable income.
- Shift from curative to preventive care.
- An upward swing in personnel expenditure on health-care. (Healthcare expenses in India are the 3rd on the spending list, above apparel and entertainment (*Economic Times*, Feb 6, 2007).
- Private final consumption expenses on medical and healthcare services have made a quantum jump of 92 per cent from 1990-91 to 2000-2001, (refer to Exhibit-3).
- Consumption of packaged food product is increasing while that of grain-based food is decreasing causing deficiency in the intake of food. The consumption of nutritional products is therefore expected to increase.
- Gennext consumers are increasingly aspiring for a shopping experience even while purchasing the monthly drugs and formulation requirements.

Under these conditions, the Sagar Group must go ahead with its pharma retail venture.

For the success of Planet Health, it is necessary to first devise a strategy which would revolve around the following questions:

- Why should a customer come to your store and not go to the already existing chemist? (Positioning)
- What are the differentiating factors against the unorganized sector? (Differentiation)
- USP: It should adopt a unique selling proposition. Its USP should be the availability of all drugs (generic and branded, life-saving, ete), allopathic, homeopathic as well as ayurvedic at the parent outlets.

Thus, Planet Health needs to first analyse how the chemists and the druggists in the organized sector are flourishing and then chalk out a strategy to beat them in their own field. What benefit (value added services) are they providing to the customer?

Their services range from giving false bills, giving medicine without prescription, sale on credit, and also home delivery if need be. They are closer to the customer than a modern retailer, can gauge and react to consumer needs in the shortest possible time, manage all the affairs of the outlet themselves rather than delegate powers to the sales team and be dependent on them for communicating with the consumers. However, there are also disadvantages of this set up, the major ones being:

- very small stores measuring 150-250 sq.ft.
- consumers often having to wait outside the store to get products because of the small shop size and too many consumers to cater to at the same time.
- absence of pharmacist
- unethical practices followed, e.g., replacing the prescribed drug with a costlier one
- no assurance of quality and integrity of drugs
- non-compliance to expected norms like AC, refrigeration, etc. (Mashelkar Committee Report had recommended the use of AC; but most stores do not have one)
- supply of contaminated and drugs counterfeit to the detriment of human health.

There are certain moral, economic, and technological issues concerning the existing network which Planet Health could address.

Planet Health also needs to provide value-added services. It needs to differentiate its offerings to the customers from that of the organized sector apart from fulfilling the general requirements that the small time drug stores provide, like personalized services.

It should stress on providing 'genuine medicine in standard environment,' a wide assortment of drugs with options of availability of alternative drugs, value-added services like maintenance of centralized database of consumers and patient history, reminder services, prescription record, and home delivery. It could also maintain and distribute literature on health information as consumers are increasingly becoming conscious of health and wellness. Further, it should provide a similar look and feel at all the outlet chains, provide professional advice (from pharmacist), and create a consumer-friendly atmosphere.

It should try to create a loyal customer base through a mix of superior services, consistent image, differentiated positioning, and create an upscale shopping ambience. Value - added services like free blood test and blood-pressure check-up could attract the consumers. Free health insurance for frequent customers could be a good USP. Also, adding to the portfolio could be the CSR (corporate social responsibility) like tying up for Health Melas with NGOs for the underprivileged within the society.

Which Model should it Adopt?

The company should adopt a mix of both models–company-owned outlets as well as franchise. First, it should firmly, position itself in the place of origin in Ahmedabad where it should set up a company-owned mother outlet while the other daughter outlets would be through franchise operations. The franchise operations could be existing family-owned drug stores willing to sign up as franchisees. Its expansion plans, for instance, in downtown *Navrangpura*, should be through a franchise system where a daughter outlet could be set up. Any expansion to other cities should be on these lines. For instance, expansion to a metro like Calcutta could be made possible by first setting up a company-owned parent outlet and further expansion within the city and beyond could be through franchise system. This will require investing only once in the real estate of the company-owned outlets and reducing the cost of setting up of the franchise system. Further, the existing mom-n-pop drug stores also have the option to upgrade by becoming a franchisee.

It should adopt a franchise model and replicate it elsewhere. In a franchise set up, a licensing arrangement is entered into by the franchisor and the franchisee for the use of its name in exchange of a payment (fee). It is a tried and tested model by most international brands entering India (US-based Medicine Shoppee followed this route to open outlets in India) and also by domestic brands to spread into different cities. *Subhiksha*, for instance, is using this model to expand.

For a pharma store, the same or a standard set of offerings will be expected by the consumers. Further, for a pharma outlet, maintaining quality standards, service, cleanliness and integrity are of paramount importance. Therefore, a franchise model should be adopted and replicated when spreading out into various towns and cities. The success of this model would depend on product and service standardization, high identification through promotion, and effective cost control.

The advantages of a franchise model are:

- maintenance of quality standards
- co-coordinated marketing policy
- lack of need for adapting to local markets
- collective buying power for the entire franchise

system
- investment in real-estate by the franschise, to start with, freeing capex investment.

Even while adopting the franchise model for the daughter stores, the following would be under the control of the Sagar Group:

- Standardization in stores format, design
- Procurement and supply chain management
- Quality control
- Drug stocking / SKU, and inventory management
- Customer experience
- Recruitment and staffing
- Information technology
- Accounting practices
- Marketing

To ensure standardization of service, Planet Health could impart training to its franchisee covering every aspect from maintaining quality to customer service to management of HR. The service of professional consultants can also be used to impart knowledge in stock control and ordering, accounting, and computers.

How should the Company Position itself and Expand?

Positioning: The model should address:

- Prevention
- Diagnostic
- Breakdown
- Enhancement.

These encompass the entire range of health and wellness concerns.

The company has, therefore, correctly positioned itself on the *health and wellness plank.*

Product Portfolio: Prevention is totally concerned with the supply of drugs by the retail centre diagnostics is concerned with the availability of self-diagnostic equipments; (medical equipment industry pegged at Rs 9,790 crores in 2006 is growing at the rate of 15 per cent per annum, *The Hindu, Business Line*, Jan 15, 2007), enhancement with availability of beauty care, nutritional products and health supplement products. The market size for beauty services alone is estimated at Rs 2,753 crores growing at the rate of 18 per cent per annum. (*Economic Times*, Feb 15, 2007, p7). Therefore the company has been correct in its approach of incorporating healthcare, personal care, nutritional care, and baby care products in its product portfolio. The other related products (like self-help medical equipments) would get the walk in and translate into sale.

Sagar Industries proposes to offer its services round the clock. It should therefore maintain a pool of doctors who could be contacted at any odd hour to meet an emergency need. This is one way by which breakdown could be addressed. In the long term, a further step could be taken by tying up with a hospital in the local area. Expansion plans could also be taken up for specialty treatment like diabetic care and cardiac care, and for other life style diseases.

Place: The success of a retail centre is largely influenced by the choice of location. (Nanz in its maiden venture in New Delhi failed only because of wrong location). Different strategies have to be adopted for the planet and the satellite centres. The company-owned outlets could be at major market locales/shopping centres while the smaller franchise outlets could be located near residential areas or RWAs to meet the concern of urgent or untimely need and also facilitates visits because of easy access.

Promotion: In the present setup for entering into Ahmedabad, promotion campaign in a local paper is acceptable. But, after establishing itself firmly in the city and initiating expansion into other cities to gradually attain national presence, it would become necessary to advertise on TV on a national scale to create awareness and mental acceptance prior to launch. There should also be a signage which could be identified both with the parent and the daughter outlets. Web 2.0 should be used as a tool to cater to the expectations of Generation Y.

Competition: There are already many players in this area like the Apollo chain, Health and Glow, Model Pharmacy, Medicine Shoppe to name a few. Further competition is expected soon as Cadila, Dr. Morepen, Frank Ross, Dhanwantri, Cipla, etc., also have plans to enter the pharma retailing. Therefore, the company could also expand to Class A/B cities as consumers there are increasingly becoming aware of quality of life and conscious about health and wellness. It can also tie up with other players like hospitals in the local area.

For the success of a retail centre, following are some of the other issues of importance:

- *Supply chain management:* As long as the outlets are only in Ahmedabad, the existing setup of procuring locally would work. However, the moment it expands to other cities, it would need to make arrangements for central procurement to cut down on the procurement costs and also establish an efficient distribution set up. It would have an option of managing it in-house or take services of a third-party logistic service provider. Also e-procurement could help in drastically cutting down costs.

- *Merchandising and management information system:* With the wide array of product categories and so many SKUs in each category, management of inventory becomes critical. Real time enterprise management information is an essential requirement to enable efficient inventory control and back office operations. For instance, a point of sale software 'Fusion Retail' has been launched for the convenience of retail store owners. The software provides easy operation with an extensive MIS reporting for owners of hundreds of stores helping in fast billing, inventory, and stock control.
- *The HR pool:* The success of the retail centre depends upon the commitment, dedication, and sincerity of the retail team. Skill requirements range from visual merchandising, store management, supply chain, logistics, and customer service.

Table 1: Share of Government Health Spending (to total health expenditure)

(Investment in HDI %)

RANK	COUNTRY	1957-90	1990-04
138	Nepal	42	24
134	Pakistan	27	16
93	Sri Lanka	15	7
126	India	25	19
81	China	19	22
137	Bangladesh	22	26

Table 2: Share of Government Health Spending (to total health expenditure)

HDI RANK	COUNTRY	PERCENTAGE
160	Guinea	16.7
167	Congo	17.5
130	Myanmar	17.9
129	Cambodia	19.3
80	Armenia	20.0
122	Tajikistan	20.5
169	Burundi	22.6
126	India	25.0
97	Georgia	25.0
99	Azerbaijan	25.0

- *Front end sales staff and customer support:* Apart from being a pharmacist and rendering of medical advice, the front end staff would play a very important role for the success of a retail centre. These staff can be trained in retail at specialized centres. For instance, The Indian School of Business (ISB) at Hyderabad has started a course on Pharma sector. Also, the Organization of Pharmaceutical Producers of India (OPPI) has designed a course for the ISB students on the pharmaceutical industry. These specialized courses ensure knowledge and also deepen engagement of the sector with the student (*Economic Times,* Feb 6, 2007).
- *CRM exercise:* The success of specialty retail centres depends largely on the loyalty of consumers. Therefore, CRM exercise should be initiated in a big way to improve relationship with consumers, engage in loyalty programmes, create emotional bonds with them, and tie the consumers to its outlets. A further step could be to maintain a database of blood donors with details of blood group who could be contacted for emergency blood supply at any point of time.
- *ERP implementation:* Business processes need to be integrated to enable operational efficiency in the business. It would be needed to integrate the functioning of all its outlets. This would help in revealing inter-product and inter-store profitability.

Conclusion

The strategy to be adopted by Planet Health should be a mix of company-owned centres as well as franchise system. Further, it should differentiate itself from the existing drug stores by providing the ambience the consumers aspire for and also the value-added services provided by the existing drug stores. The company has correctly positioned itself on the health and wellness plank. It should address the different aspects of health — prevention, diagnostic, breakdown, and enhancement. These encompass the entire health and wellness concerns. Also, other concerns for successful retail management like merchandising, managing back-end operations, supply chain management, and management of front-line staff need to be looked into.

Case Analysis V

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This case is about the decision problem of Sagar Group of Industries (SGI) regarding the feasibility of the proposed retail business concept. The group has grown from Rs. 4 million in the late 1970s to Rs. 750 million in 2000. It is involved in manufacturing and/or marketing of bulk pharmaceuticals, drug intermediates, drug formulations, fine chemicals, dyes, dye intermediates, and food preservatives. Its two manufacturing facilities are located at Ahmedabad. It has a strong presence and brand recognition in Gujarat. The client base includes companies in pharmaceutical, textile, leather, and food processing industries. It believes in delivering high quality products and following ethical business practices.

Due to changes in the global pharmaceutical industry, implementation of product patent regime, and China emerging as a major player, SGI aptly identified the need for diversification. After consultation within the group and with consultants, they zeroed in on the choice of retailing in the pharmaceutical sector, which is the concept behind the idea of 'Planet Health.'

An important assumption, as mentioned in the case and which is taken as the basis for proposing the solution to the problem of Planet Health is that to be financially feasible, the adopted model (the combination of mother and daughter pharmacies) should be able to generate Rs. 1,000 per sq.ft. per month. As per the case, a mother pharmacy has to be located in a big city. It is, therefore, proposed to start with pharmacies in Ahmedabad due to SGI's prominent presence in Gujarat. Other daughter retail outlets have to have specific dimensions depending on the marketing strategies designed. Three types of outlets are discussed in the case, those:

- attached to hospitals
- around the concentration of consultants' chambers
- in residential or shopping areas.

Thus, when designing the product mix, both financial feasibility and marketing mix, should be taken care of. Table 1 outlines the revenue for the three different models that are feasible based on the above mentioned assumption and Figure 1 gives the net profit per annum for each model.

It is further assumed that some of the salts falling in the product basket of SGI, like Sulphamethoxazole, Ciprofloxacin Lactate and Ciprofloxacin Hydrochloride, Analgin, Astemizole, Omeprazole and others are produced by the plants of SGI at Ahmedabad and sold to other pharmaceutical companies. Depending upon the demand and recommendations of the consultants/doctors and prevalent practices, other preparations shall be procured on a central basis with the highest retailer margins in infusions and surgical products (100%), followed by other medicines (25%), and FMCG (10-15%).

To start with, the shelf space occupied by medicines should be around 25 per cent and other FMCG should be 75 per cent (revenue contribution however, shall be 75% and 25% respectively). FMCG have to be included to attract customers and assist in providing complete healthcare solutions to consumers. When brand 'Planet Health' starts commanding 'top of the mind recall' in complete health solutions, then the company can plan to restructure its product mix with medicines and FMCG occupying the same shelf space. But in this situation, 60 per cent of the revenue contribution will come from pharmacy and 40 from FMCGs. Thus, the volume of sales will be governed by FMCG and brand building will come from the pharmacy of Planet Health.

The number of products to be offered will increase as the outlet size and type varies, e.g., a 250 sq.ft. outlet near the hospitals will have more of surgical and infusion products along with Rx and OTC drugs.

Now let us consider the financial and marketing implications of the models.

Model 1: It comprises a mother pharmacy (1 x 2,000 sq. ft.) which shall serve as a benchmark for shopping experience and shall create an identity for Planet Health. It will also add value to the brand 'Planet Health' per se. The

Table 1: Proposed Business Models for Planet Health

Model 1	Year	Mother Pharmacy 1 x 2,000 sq.ft. Revenue (in Rs. '000)	Daughter Pharmacy 4 x 250 sq.ft. Revenue (in Rs. '000)	Daughter Pharmacy 1 x 500 sq.ft. Revenue (in Rs. '000)	Total Revenue/ month/sq.ft.
	1	13,870	24,820	8,760	**1,130**
	2	18,031	32,268	11,388	**1,469**
	3	23,440	41,944	14,804	**1,909**
	4	29,300	52,432	18,506	**2,387**
	5	36,625	65,540	23,132	**2,983**
Model 2	**Year**	**Mother Pharmacy 1 x 2,000 sq.ft. Revenue (in Rs. '000)**	**Daughter Pharmacy 3 x 250 sq.ft. Revenue (in Rs. '000)**	**Daughter Pharmacy 2 x 500 sq.ft. Revenue (in Rs. '000)**	**Total Revenue/ month/sq.ft.**
	1	13,870	18,615	17,520	**1,111**
	2	18,031	24,201	22,776	**1,445**
	3	23,440	31,458	29,608	**1,878**
	4	29,300	39,324	37,012	**2,347**
	5	36,625	49,155	46,264	**2,934**
Model 3	**Year**	**Mother Pharmacy 1 x 2,000 sq.ft. Revenue (in Rs. '000)**	**Daughter Pharmacy 2 x 250 sq.ft. Revenue (in Rs. '000)**	**Daughter Pharmacy 3 x 500 sq.ft. Revenue (in Rs. '000)**	**Total Revenue/ month/sq.ft.**
	1	13,870	12,410	26,280	**1,095**
	2	18,031	16,134	34,164	**1,423**
	3	23,440	20,972	44,412	**1,850**
	4	29,300	26,216	55,518	**2,313**
	5	36,625	32,770	69,396	2,891

daughter outlets shall comprise four outlets of 250 sq.ft. each (covering hospitals and consultant's premises) and an outlet of 500 sq.ft. covering a residential colony targeting the educated upper middle class. The expected total revenue per sq.ft. per month for the first year comes to Rs. 1,130 which is favourable. This value increases further and reaches Rs. 2,983 in the fifth year. Looking at the net profit for Model 1, in the first year, the set up costs are high as compared to the revenue and hence, there is a loss of Rs 8.25 lakhs*.

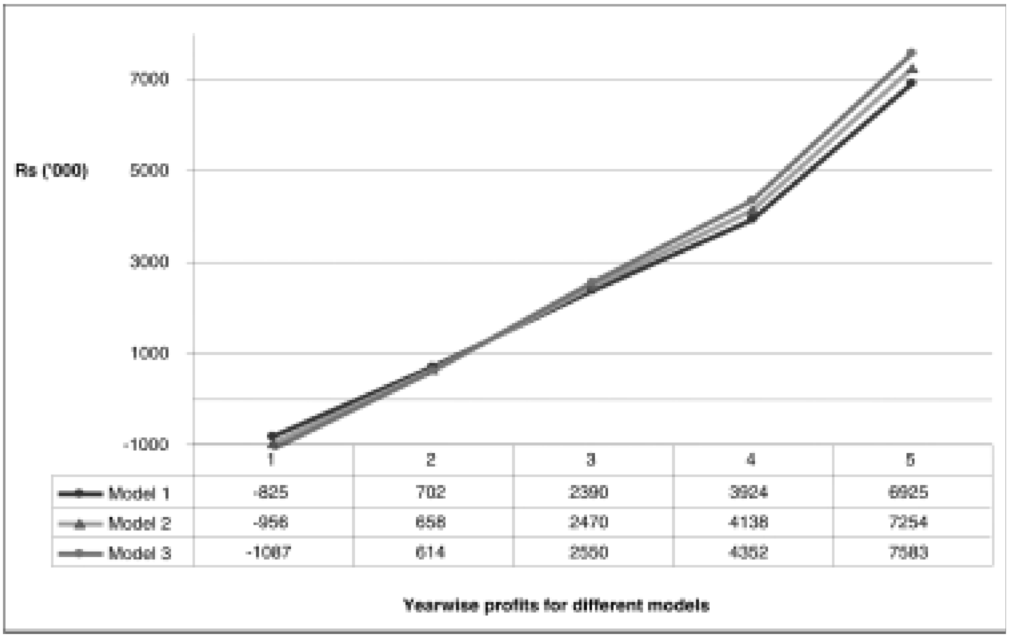
In terms of net profit, the break-even occurs in the second year and thereafter, the net profit rises and reaches Rs. 69.25 lakhs in the fifth year. The marketing perspective indicates that this model shall cover Ahmedabad with one premium location/residential colony being targeted with 500 sq.ft. outlet and different hospitals and concentration of consultants apart from one mother pharmacy.

Model 2: This model covers Ahmedabad with a mother pharmacy of 2,000 sq. ft., 2 outlets of 500 sq. ft. each in residential colonies, and 3 outlets of 250 sq.ft. each near hospitals/consultants. Total revenue per sq.ft. per month in the first year comes to Rs. 1,111 and Rs 2,934 in the fifth year. This model also looks financially viable. There is a net loss of Rs 9.56 lakhs in the first year. Break-even occurs in the second year and the net profit of Model 2 takes over Model 1 during the third year. Thereafter, the rate of increase of net profit of Model 2 is more than Model 1 and thus, the net profit of Model 2 after the 5th year would be Rs 72.54 lakhs. From the marketing point of view, this model is better than the previous one. With two residential outlets, it has an increased visibility in the target market and also covers the hospitals and consultants which take care of the bulk sales.

Model 3: This model has one mother pharmacy (2,000 sq.ft.), two outlets of 250 sq.ft. each near the hospitals, and three outlets of 500 sq. ft. each in the target residential colonies of Ahmedabad. This model is also financially feasible with revenue being generated to the tune of Rs.1,095 per sq.ft. per month in the first year and rising to Rs. 2,891 in the fifth year, thus crossing the threshold figure of Rs. 1,000 each year, set by the consultant. This model shows a loss of Rs 10.85 lakhs in the first year which rises to Rs. 75.83 lakhs in the fifth year. This loss seems to be huge but taking into consideration the fact that SGI group has enough capital to sustain itself and that it can bear such losses, we can carry on with this model. In the long run, this model is more

*10 lakh = 1 million.

Figure 1: Net Profit per Annum (in Rs. '000)



favourable than the other two. This model has strategic advantages as compared to the other models discussed above as in the long run, brand Planet Health should be promoted, not the small hospital outlet (eg., a medical store). This brand building is done by the mother pharmacy which is centrally located and the other residential outlets which provide proper services to the targeted educated upper middle class segment. The more number of residential outlets actually help in building brand awareness and visibility across the city. The CAGR of revenue generated by all the models comes to 27.47 per cent; it does not really help in taking decision. (Model 1: 27.466%, Model 2: 27.478 %, Model 3: 27.470%).

The Proposed Model

Going by the financial feasibility and the marketing perspectives, Model 3 is healthy in the long run. Thus, it is recommended that Model 3 be adopted by SGI. After gaining sufficient experience in Planet Health in Ahmedabad, SGI can move to other metro cities, as well, where it will have to wisely choose the franchisee model to work on and build the 'Planet Health' brand further.

Initially the company plans to launch 'Planet Health' in only one city, i.e., Ahmedabad. To create visibility, one mother store (2,000 sq.ft) and five daughter stores have been planned. The procurement will be done from the local distributors. Since the volumes required will be large, they can procure from more than one dealer to ensure availability of drugs at all times.

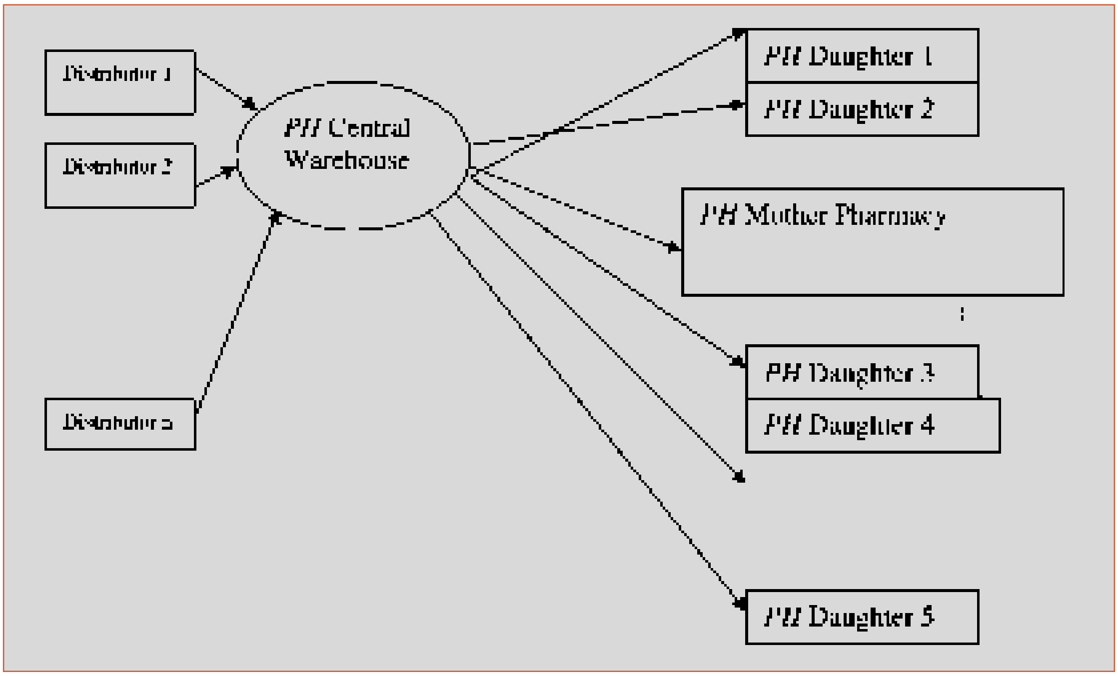
The proposed model is shown in Figure 2. The PH central warehouse will be used for temporary storage of all drugs procured from the distributors. Every product will have a bar code generated and affixed to it. The mother and daughter outlets will be directly connected to the central warehouse in an online integrated system so that all the information will be available real time which will also lead to greater efficiency in the system.

The features of the proposed system are as follows:

- Real time data available to all the components of Planet Health distribution network.
- Barcodes on each product will help in reducing shrinkage and pilferage which has been a major problem with the existing retail model.
- Better inventory management:
  - Online updating of the sales from all the retail outlets will help initiate the procurement of products which are going to be out of stock.
  - Optimum reduction of inventory levels.
  - The system should show which products have reached their expiry date so that they can be sent back to the manufacturers at the right time.
- Help in monitoring and gauging demand for various products at different places which will help in further optimization of the inventory levels.
- Scalable model which can be used even for a nationwide implementation in future.

This model has to be modified when the company goes for a nation-wide setting up of retail stores. The

Figure 2 : Distribution Plan of the Proposed Model



local distributors can be bypassed and the products can directly be procured from the manufacturers due to high volumes. Instead of having one warehouse, the company can have warehouses placed at strategic locations in different parts of the country which will help transport the goods to different retail outlets in the most efficient manner.

Promotion Plan

The company has rightly identified mass media as the main tool for its promotional strategy. Advertising on TV is not the ideal means of promotion for a retail store like Planet Health and hence will lead to ineffective and wasteful expenditure. The mass marketing strategies that the company can adopt are given below:

Canvassing

In the initial phase, the promotion strategy needs to have canvassing as an important component. The sales people/canvassers can visit the households which are near the locations where company plans to set up its outlets. This will help in creating the initial awareness and communicating Planet Health's positioning to the potential customers. The fact that SGI is already well known in Ahmedabad will lend even more credibility to the canvassing campaign. This canvassing campaign can also be used to collect data such as e-mail id of the members of the household and gauge their initial interest levels.

Website

Planet Health can come up with a website which has all the information about the retail outlets mainly concentrating on the context, content, and community. It can have a subscription facility for a health e-magazine. This will also help the company in getting the necessary database of interested people which in turn could help in the promotion.

Direct Mail

The company can use direct-mail strategy very effectively for the inauguration of daughter pharmacies in the suburban areas and a central pharmacy. The company can send invitations to all the households in the residential areas near the pharmacy for the inauguration of a new pharmacy.

The direct mail strategy is more expensive as compared to the print media but ensures more effective reach to the target audience. This can then be followed by personalized e-mails, to update the customers/potential customers regarding the various schemes and products that Planet Health plans to offer.

Other promotional tools like loyal customer programme (e.g., 5% discount to customers whose Rx purchase exceeds Rs. 1,000), referral programmes, discount coupons, etc., can also be used.

Brand Building

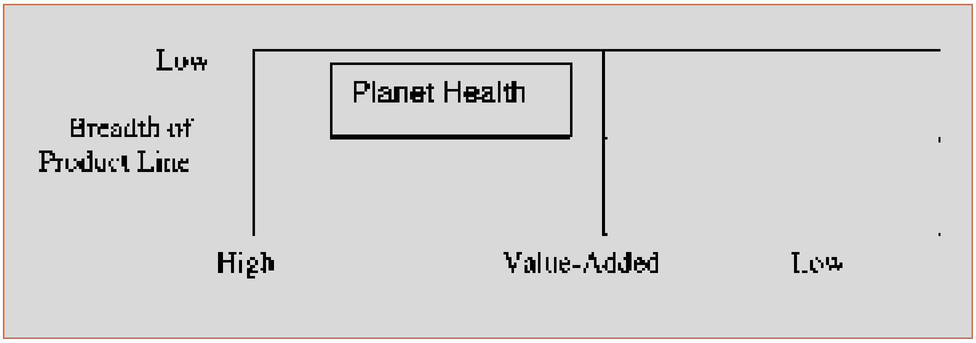
It is suggested that the brand building strategy must have the mother pharmacy as its main component. Some suggestions are as follows:

- Follow the global pharmacy model where the pharmacist would play the most important role of an advisor to the customers.
- Hold regular consultations with leading doctors. The mother pharmacy can have consulting rooms within its premises.
- Offer free check-ups for diabetes, blood pressure, etc. This will also help Planet Health demonstrate its latest offerings of equipments for self monitoring of diabetes, blood pressure, etc.

Positioning Strategy

Planet Health is a retail store which sells only healthcare products. Therefore, it will have a narrow product assortment and high value addition. This store will tend to have an exclusive image and will operate on high margins. Thus, planet health can be placed in the narrow product line-high value-added grid in the retail positioning map (Figure 3).

Figure 3: Retail Positioning Map



Acknowledgement • The author wishes to sincerely acknowledge the contribution of the students of MBA (P), 2006-2007, at IIT Roorkee in preparing the initial draft of this manuscript and extensively discussing the issues involved. Special thanks are extended to Mr. Apoorv Bhatt and Mr Karthik Ananthanarayanam of the same batch for helping the author in preparing the final draft.

Case Analysis VI

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Two sectors are having an exponential growth in India, one is the pharmaceutical and health care products and the other is alcoholic beverage segment. The former treats while the latter retreats you. Though both the sectors have existed in India for sometime now; the change in their retailing format is now visible to the ordinary customer. Today, the economy is witnessing a retail boom; instead of asking the shopkeeper for a specific product, the customer is now experiencing a cool shopping experience with many products to choose from in a well organized place with better ambience. This type of experience was earlier rare in India and was a luxury for a few wealthy people, available in branded showrooms, in metro cities.

The case is about an entrepreneur, Mr Rohit Patel and his strong need to diversify in a sector that is half related to his current business. He is in the chemicals manufacturing but wants to venture out into retailing. A SWOT analysis of SGI is done to see whether they are adequately prepared to enter into pharmaceutical and healthcare retailing.

Strengths of SGI

- Sound business philosophy – delivering high quality products and following ethical business practices.
- Experience in backward integration.
- Leader's willingness to grow through diversification —an entrepreneurial orientation.
- A financially stable company.

Weaknesses of SGI

- SGI has no competency for retail.
- SGI has no experience in terms of B2C selling.
- Pharma and healthcare retail market is complex, risky and costly.

Opportunities for SGI in Retail

- A large operating margin (upto 45%) in pharma and healthcare sector.
- Pharma retail is just opening up, so the firm could have first mover advantage.
- Growing consumer base; consumers more aware and educated.
- Growth in related products and categories, e.g., health foods, personal hygiene products, neutraceuticals, etc.
- Pharma retail is not prone to macroeconomic factors and recession.

Threats for SGI in Retail

- Prevalent retail practices could force a retreat as it happened with Muthu Group.
- Regulatory framework for retail is weak.
- Pharmacists still do not play an active role in advising the patients; so it could create a conflict in the minds of the customers.
- Growing competition from cash-rich competitors.
- High operating costs and problem of shrinkage and pilferage.
- A large unorganized sector in drug and healthcare retailing exists where most of the bulk purchase done by retailers from c&f agents or from manufacturers, to the end customers is unaccounted to save excise and sales tax.

Given this scenario, it seems more of a challenge than a risk to enter pharma retailing. Though SGI has no experience in B2C selling, with proper planning and resource commitment, Rohit can undertake this initiative. What needs to be realized at this stage is that the time is ripe for such players to enter pharma retail, as opportunities tend to overwhelm the challenges. Besides having a first mover advantage, SGI would have an opportunity to create a brand name for itself. It would also have an opportunity to extend its business philosophy of serving the end customers.

SGI has gathered good insights about the market and has also judged the changing consumer trends. The following factors should help SGI understand who is targeted, what their needs are, and how it can communicate with them:

• ***Target market***: Planet Health should target customers who belong to middle, upper middle, and high income groups, are educated and are looking for benefits other than medicines. So, Planet Health could cater to the need of the entire family by being positioned as 'healthy living' shoppe. It could offer curative and preventive medicines, supplements, and other health products.

• ***Location issues***: It has been proposed to start Planet Health with six stores in Ahmedabad and later on in the metros and in cities adjoining the metros. Only after getting fully established in these areas, should it think of offering franchisees to other smaller cities. Franchising should actually be thought of at a later stage.

• ***Demographics***: Planet Health should target all age groups, educated, middle and high-income groups; people who are health-conscious and willing to take the advise of the pharmacist and those who are willing to seek additional information and understand the rationale behind various alternatives.

• ***Market needs*** – Since it is launching the community concept, SGI should be able to offer the following benefits to the customers:

- Proper and relevant advice (interaction)
- Ethical and quality products
- Choice to the customer for non-prescribed and other products
- Medical counselling on certain days
- Health camps if possible
- Customer services like free home deliveries, reminder calls, health cards, etc.

• ***Market trends and growth***: It is already known that the private final consumption expenditure (PCFE) has more than doubled in the last few years. The trend is expected to grow as the lifecycles of the customers are changing leading to noticeable changes in health and families becoming more aware of the 'healthy living' concepts.

• ***Competition***: SGI may have to face competition from the traditional pharma retailers as well as the established ones like Apollo pharmacy chain, 98.4, Guardian, Subhiksha, Health & Glow, and many others but still the entry barrier is low and the market has a lot of potential to absorb new entrants. And, since the customer participation in purchase experience is increasing and the modern retailers are providing additional benefits, SGI should not have to face a roadblock situation. It would also have to think of innovative ways to distinguish its services from its competitors.

Similarly, the issues of marketing mix, financials, and the operational issues like the use of IT, layout design of the store, and the skills of the employees need to be taken care of so that the profits can be maximized with respect to per square foot of store sales. It is therefore suggested that SGI should venture into the proposed business and take, careful steps to overcome the initial bottlenecks.

Go confidently in the direction of your dreams! Live the life you've imagined. As you simplify your life, the laws of the universe will be simpler.

— Henry David Thoreau