

Planet Health

Mr. Rohit Patel, Managing Director, Sagar Group of Industries (SGI) was reviewing the plans for entering the retail business of pharmacy and health care products in early 2001. On the basis of a report submitted by SGI's consultants, Rohit Patel had to decide whether to enter the business and he had to chalk out the entry strategy and plans.

COMPANY BACKGROUND

Situated in Ahmedabad, Gujarat, a Western state of India, SGI was started in 1956 as Shanker Chemical Works by Mr. J. S. Patel, father of Rohit Patel. The group had grown from a turnover of Rs. 4 million in late 1970s to Rs. 750 million in 2000. While annual turnover had witnessed fluctuating growth trends, the group had registered a whopping increase of 660% in the net worth during the past ten years from 1990-91 (Exhibit 1). The group had grown primarily through vertical integration. In 2001, SGI had ten companies that were involved in manufacturing and/ or marketing of bulk pharmaceuticals, drug intermediates, drug formulations, fine chemicals, dyes, dye intermediates, and food preservatives (Exhibit 2). Its two manufacturing facilities were located at Ahmedabad. The major customers of SGI comprised quality conscious companies in pharmaceutical, textile, leather, and food processing industries. Its products were mostly exported to countries in Europe, South East Asia, and the US. SGI's business philosophy revolved around delivering highly quality products and following ethical business practices. This helped it in building trust among its buyers. The group had received several prestigious awards for its outstanding export performance from the central and state governments as well as from the industry associations. Ahmedabad Management Association (AMA) adjudged Mr. Rohit Patel as the Outstanding Entrepreneur of the Year for 1997 (Exhibits 3 a & b). SGI was also involved in various social and professional activities including sponsoring a computer-training centre at AMA that would be run by IBM.

THINKING ABOUT DIVERSIFICATION

By the year 2000, while the group was performing well in its current business, Rohit Patel realized that while China was emerging as a major player in chemical exports, the pharmaceutical business was likely to undergo a major change. The implementation of product patent regime under the WTO agreement by 2005¹ would lead to a significant change in the competitive situation. Since most Indian pharmaceutical companies had not focused on R&D for development of new molecules, it was expected that many of them would either produce for large brand owners or manufacture only off-patent drugs. While the share of generic medicines in the Indian market was likely to increase, the number of branded generics was likely to decrease. In such a scenario, the market might become very competitive for the manufacturers of bulk drugs, suppliers of formulations to larger companies, and

the formulation manufacturers themselves. This change would exert considerable pressure on the margins.

¹ The WTO agreement required a change from the current regime of "process patent" to "product patent". This was expected to have major impact on all industrial sectors including pharmaceutical industry.

Under these conditions, Rohit Patel felt a strong need to look for diversification opportunities. The natural choice that came to his mind was to do something related to pharmaceuticals due to the group's long association with the sector. Two other sectors, software and retailing, were also identified based on their growth opportunities. Software was dropped from further consideration due to rapid technological change, high attrition rate of skilled manpower, high investment, and severe competition. It was also felt that even though the group had the financial resources and the knowledge of international markets to enter the business, the investments might not be recoverable in the event that the business did not perform as expected.

The retailing sector in India, as a whole, was showing strong signs of 'modernization'. The size of the retail market in 2000 was about Rs. 9000 billion, of which the organized² sector contributed about Rs. 200 billion. Of the various important segments of retailing, Rohit Patel zeroed in on pharmaceutical retailing. This was because of the in-house knowledge of the pharmaceutical industry and the relative lack of know-how and resources in other segments. In pharmaceutical retailing, prescription (ethical) drugs accounted for around Rs. 140 billion, while non-prescription (OTC) drugs accounted for about Rs. 20 billion.

INITIAL ASSESSMENT OF PHARMA RETAILING

Rohit Patel had known that the pharmaceutical drugs business was characterized by high trade margins of up to 40%. The margins remained primarily with the retailers. In his assessment, this scenario of the pharma industry was unlikely to change in the near future even after the implementation of WTO.

Almost the entire retail pharma business was with the traditional retailers. Organized pharma retailing had seen some developments in the recent past. A large business house, RPG Group, had started a chain, Health and Glow, for retailing drugs, health, and beauty products. Some of the newly multi-specialty hospitals, like Apollo Group of hospitals, were entering the pharmacy business. Rohit Patel noticed encouraging changes in the consumer profile. Among the consumers, average age, education level, income, and awareness about health care were going up. Nuclear families and shift to urban centres were on the rise. There were also indications of an increasing behavioural and attitudinal shift from curative to preventive medicines. These, together with early onset of lifestyle diseases such as diabetes, hypertension, asthma, and arthritis, were contributing significantly to the growth in expenditure on health and personal care especially for children and old members of the families. The availability of health products under all categories, such as cold and cough remedies, pain relievers, remedies for stomach disorders, medicated derma, hair and oral care products, personal hygiene products especially for women, and health foods and beverages (neutraceuticals) had increased significantly. There were clear evidences of a desire for better quality products. Consumers were also showing a preference for alternative systems of medicine, like Ayurvedic and herbal products. For Rohit Patel, the most interesting aspect of the business was that the recession and other macro-economic factors had insignificant effect on the business of medicines.

PREVALENT RETAIL PRACTICES

The above initial assessment helped Rohit Patel to think about venturing into pharmacy retailing. Since SGI did not have experience in retailing, it was planned to buy 50 on-going stores. However, he requested a team of SGI to make an in-depth analysis of the pharma retailing opportunity. The team found that almost all the pharma retail stores were family-run and small in size, measuring between 150 and 250 sq. ft. Many of them did not have the necessary equipment to properly preserve the medicines. In many outlets, even the mandatory refrigerator was either switched off during the non-working hours for saving electricity or was not working being under repairs. In many areas, there were regular power cuts, but there were no standby arrangements for power supply. This situation could lead to reduction in efficiency of the drugs that needed to be kept under refrigeration. Also a significant

² Organized retailing is a phrase used in the industry to differentiate the new retailers, with institutionalized systems and procedures, from the traditional retailers where the operations are person/owner dependent and there is a problem of scalability.

number of medicines were supposed to be stored at temperatures ranging between 8°C and 24°C. This required air-conditioning. However, very few stores were air-conditioned.

The drug stores/ chemists³ could be classified into three categories: those attached to hospitals, those around concentration of chambers of consulting doctors, and those in residential or market areas. The “hospital” stores were generally attached to hospitals or nursing homes. They catered mainly to the requirements of patients admitted in the hospital and hence planned their merchandise accordingly. They were housed either in the hospital building or its compound and dispensed a limited number of medicines. Most of them measured about 120-sq. ft., on an average. The stores located around the consulting doctors’ chambers, though part of the main marketplace, dealt in medicines prescribed by the consulting doctors. Selection of merchandise was guided by the specialities of the doctors and their brand preferences. Some of the doctors also had interest either in formulation manufacturing or in a nearby medicine store. The third category of stores, near the residential areas, provided the benefits of proximity and personalized service to consumers. Some of these stores offered home delivery and credit to regular customers. Almost all stores dealt in other consumer goods, especially products of personal consumption. However, in large number of stores, the shoppers had to stand outside the store, be it hot summer or monsoon. Rohit Patel reflected, “The most important person in the business is the most neglected.”

The SGI team found that pharma retail business was fraught with irregularities in adhering to laws and had other malpractices. The sale of medicines was regulated by Foods and Drugs Act. However, the Act was followed more in letter than in spirit. For example, every store was required to have a pharmacist for dispensing medicines in the store. However, a pharmacist, was either only on payroll or was generally absent during important working hours. The team also reported that a part of the business transactions was done in cash to evade government taxes. In such a system, a pharmacy employee could replace the prescribed drug by a more profitable one. He could also get the drug from a neighbouring store and pocket the customary trade margin without the owner ever coming to know about it.

The country had about 300,000 pharmacy outlets, of which about 12,000 were in Gujarat. They dealt in all forms of medicines, including the Alternative Systems of Medicine. The Allopathic drugs were dispensed more in urban markets. India had about 27,000 manufacturers that produced about 60,000 brands/ SKUs (stock keeping units) of drugs. Any pharmacy, depending on its size and location, would have to keep about 500-10,000 SKUs. In comparison, a small grocery store would keep 200–500 SKUs. The problem of counterfeit drugs was also rampant. Retail outlets had little control over their inventories. Most of them were carrying about six months’ inventories and many times failed to even return expired medicines to respective manufacturers within the prescribed time.

The report was not very encouraging for starting the business for a corporate like SGI that valued ethical working. Rohit Patel was skeptical about managing the existing outlets because of the prevailing business practices and style of working of staff in the sector. He kept the plan of entering the pharma retailing on hold.

RETHINKING ON ENTERING THE PHARMA RETAILING

In the year 2000, Rohit Patel sought advice of an independent consulting firm for the SGI’s generic formulations business and to explore avenues for business diversification. Mr. K. K. Sureka, an independent consultant, who had the experience of managing the pharmaceutical business of one of the leading business houses in the country (Torrent), participated on behalf of this firm. He observed that, in the past decade while all disciplines of healthcare business—drug manufacturing, hospitals, diagnostics, investigations, surgical equipment, and procedures as well as medical specialities—had witnessed tremendous modernization on par with global standards, pharma retailing was one area that

³ Drug Store: A retail shop where medicine and other articles are sold. Chemist: A health professional trained in the art of preparing and dispensing drugs. (<http://www.hyperdictionary.com>)

had made no progress. This was because the business was still in the hands of small time private traders. The discipline was highly fragmented and no new investments were coming in. The retailers were highly united and resisted change. They could also carry on like this due to lack of effective regulatory set up. Sureka felt that time was ripe to take an initiative as customers would welcome a change for the better. He suggested that as in the case of large-scale retailing of other products such as grocery and apparel, it was possible to corporatize pharma retailing. He advised that the scope of drug retailing itself could be enlarged to cover a whole range of healthcare and wellness products. He suggested that it would be possible to achieve large volumes of business through a franchisee model, which in turn would help in spreading risks and improving procurement costs and efficiencies. This discussion led to exploring the retail pharmacy business once again. Discussions revealed that it would be possible to take care of Rohit Patel's earlier concern about management through a proper implementation of systems and the use of information technology. It was felt that, investment in real estate could be considered quite safe in the context of increasing real estate prices. The investment in inventory could be recovered through discount sales in case the venture did not succeed. Having thought through the risk attached to the business, Rohit Patel requested the consultants to proceed with the detailed feasibility of the proposal and recommend a suitable strategy.

DEVELOPING THE CONCEPT OF PLANET HEALTH

The consultants proposed to study the pharmacy market in India and abroad, mainly the US and Europe, so as to develop a model that would suit the company's objectives and values. Field visits of leading pharmacy retailers of the country and desk research were carried out.

Pharmacy Practices in US and Europe

The pharmacies in the US were well organized and dealt in many products, including photography and personal products while mainly focusing on personal consumption products. Medicines accounted for 50 to 70% of their sales. The number of medicines stocked was less than 1,000 and about 100 of them contributed to a large part of the revenue. There was no price control in the US market, but due to IPR protection, drug prices were 15 to 20 times more than those prevailing in India. Also the prices of products remained relatively stable over their lifecycle. The likelihood of new product introduction was limited to new FDA approvals. The power of the doctors to switch the medicine was limited as only a few brands of an active ingredient and its analogues⁴ were available. The customers had limited influence on the selection of medicines, though they were far more knowledgeable about the drugs because of higher education and a higher exposure to medicinal literature and media. Pharmacists played an important role as a link between the doctor and the patient. Some of the pharmacies were licensed to make drug compounds as well.

The role of pharmacists in the developed world, including Europe, was very important both in the hospitals and in the pharmacies. The pharmacists were supposed to be a repository of the knowledge regarding available drugs in the market. They knew about their properties, mechanism of action (MOA), adverse effects, and their interaction with other drugs and food items as well as their administration and compliance. They also kept themselves abreast of the newly reported side-effects and the off-label uses of the existing drugs as well as the introduction of new drugs. In major hospitals, there were pharmacists who accompanied the doctors on their rounds. In such cases, doctors diagnosed the disease and prescribed a class of drugs, while the pharmacists decided on the specific brands and their doses. They advised the pharmacy on stocking of drugs. They also guided and advised the patients in proper administration of drugs. In Europe, the pharmacies, called Apothecaries⁵, were not merely drug dispensing outlets. The attached pharmacists played the role of advisors in the consumption of medicines. They were authorized to do compounding of drugs as well.

⁴ Analogues: A structural derivative of a parent compound that often differs from it by a single element. (source: <http://www.hyperdictionary.com>)

⁵ The word "**Apotheca**" was originated in the 14th century from the Greek word "**apotheke**" to describe one who prepares and sells drugs or compounds for medicinal purposes.

Study of Pharmacy Retail Chains in India

The consultants made field visits to understand the working of key retail chains in Chennai, Delhi, and Mumbai. These were the major towns where the organized retailing of medicines was beginning to appear in India. Chennai, the capital of Tamil Nadu, a Southern state of India, could truly take credit for successfully pioneering the culture of chains of drug store in the country. Apollo (a large chain started by Apollo group of hospitals)—a family-owned chain, Muthu Pharma; two multi-product chains—Health & Glow and Subhiksha; and another chain—TRUVALUE, were studied in Chennai. During their field visits in Delhi, the Model Pharmacy Project at Hamdard University, the pharmacy outlet at Indraprastha Apollo Hospital, and Lifespring were among the major chains studied in Delhi. In Mumbai and Vadodara, Medicine Shoppe, a franchisee-based retail drug store chain promoted by Cardinal Healthcare Inc., USA was studied. The US chain operated 1,400 stores in 10 countries (USA, Canada, Mexico, Taiwan, Philippines, Indonesia, Thailand, Malaysia, and Australia).

The visit report (Exhibit 5) outlines the different formats of the pharmacies, their strategies and operations, and broad results and prospects. Each of the stores differed in their business models. Most of them sold cosmetics and toiletries, while Subhiksha, mostly sold groceries from the store. Most of the stores were operated through franchisees. Some, especially Apollo, practised central purchasing, while Medicine Shoppe had authorized its franchisees to source locally. Lifespring in Delhi, promoted by an Indian from Australia, was also planning to attach a gym and a spa to the store. Other stores sold products similar to the current pharmacies.

Evolving the Concept

Sureka was influenced the most by the Model Pharmacy Project, Delhi. In this pharmacy, a qualified pharmacist advised the shoppers. The concept was similar to the pharmacies in Europe where the pharmacists played the role of advisors in the purchase and consumption of medicines. This was unlike in India where pharmacy was merely a drug-dispensing unit for the shoppers. From his experience, Sureka knew that drug consumption in India was based more on cure than on prevention and in a large number of cases, the patients did not complete the course as they 'felt' that they had been cured. The doctors did advise the patients about dosages but most of them had no time to explain the rationale for a particular drug or its dosages. Moreover, the explanation provided by the doctor might not be fully comprehended by the patient or the accompanying person. Some patients sought such advice from other staff in the doctor's clinics. Many others tried to gather the information at the chemists. The person at the counter, not necessarily being a pharmacist, was not able to provide the information sought. This, reportedly, led to a higher death due to negligence in the administration of the drugs. Sureka felt that this void at the retail outlets needed to be filled. It would add a lot of value to the consumers. He decided to recommend that SGI should follow the business model of a retail chain of community pharmacies. In this model, the pharmacist would counsel and educate the shoppers about the drugs and their consumption (administration). They would serve as a link between the doctors and the patients whenever required. The core value of this concept resided in the duties and responsibilities of a pharmacist that was developed based on a document of the International Pharmaceutical Federation, Netherlands that described the Standards for Quality of Pharmacy Services, referred to as the "good pharmacy practices" (GPP). GPP requires that:

- a pharmacist's first concern in all settings is the welfare of patients.
- the core of the pharmacy activity is the supply of medication and other health care products of assured quality, appropriate information and advice for the patient, and monitoring of the effects of use.
- an integral part of the pharmacist's contribution is the promotion of rational and economic prescription and an appropriate use of medicines.
- the objective of each element of the pharmacy service is relevant to the patient, is clearly defined, and is effectively communicated to all those involved.

The role of a pharmacist for the proposed pharmacy was adapted keeping the Indian conditions in mind while retaining the basic values. The modified description, as given in Exhibit 6, was utilized to draw up the guidelines for developing the business concept. The consultants also proposed that this

distinct concept could be operationalized through a chain of franchised stores to successfully tap the pharma retailing opportunity in India.

OPERATIONALIZING THE CONCEPT

The concept of community pharmacist required a total shift from the current practice of pharmaceutical retailing. The focus was to shift from diseases or medicines to wellness. The key decisions in operationalizing the concept were to be in line with the corporate philosophy of ethical practices and business excellence. The broad decisions were in the areas of brand name, operating philosophy, merchandise to be offered, retail formats to be adopted, and the level of customer service and relationship management to be practised.

Corporate Philosophy

The cornerstone of corporate philosophy of SGI was that the law of the land, even though it meant much higher investments in men and materials, must be followed in letter and spirit. This would imply that, for its new venture, among other things, SGI would also have to hire qualified pharmacists, provide air conditioning and refrigeration facilities, arrange standby storage and power supply equipment, and sell all merchandise on bills. This would definitely increase the costs of running the stores compared to the existing drug store format.

Selecting Brand Name

An observation of the names of current stores revealed that they were based on the names of the owners' family members, gods/goddesses or something that did not mean anything. There was a lot of debate on whether the name should be in Hindi, Sanskrit or a local language (Gujarati). As Rohit Patel wanted the chain to be pan-Indian, Hindi and local language were discarded in favour of English and Sanskrit. It was decided that the name of the store had to connote health or medicine and should have a national appeal. It was then felt that a foreign sounding name would be important in making an impression on the prospective shoppers. The consultants generated a large number of names for the chain (Exhibit 7). After evaluation by the internal team, the name 'Planet Health' was chosen. This reflected a range that encompassed health activity. Health products and medicines formed a core part of the business. At a later date, it could also encompass other disciplines of the healthcare business. This name would also serve well when Planet Health would decide to expand its operations outside India.

Operating Philosophy

The operating philosophy of the business would be to provide the best service and world-class ambience and shopping experience of pharma products to the customer. This was translated into:

- ◆ genuine and properly stored products
- ◆ health-related merchandise, including monitoring devices
- ◆ multiple products and brands, including Ayurvedic products
- ◆ counselling for shopping
- ◆ counselling for proper administration of products especially medicines
- ◆ home delivery
- ◆ 24 X 7 service
- ◆ tie-up with doctors and other paramedical services
- ◆ loyalty programme for a long-term relationship.

It was realized that such a business model would involve high investment in real estate and equipment and increased costs of energy and manpower. It would also involve the problem of shrinkage, so common in large scale retailing, while earning the same margin as other retailers. Sureka believed that as a pioneer in providing world class drug retailing suitable for Indian conditions, these costs would have to be incurred. These could be recovered through attaining high volumes in quickest possible time by providing superior service and products (especially better preserved) as compared to what the

customers had so far experienced in India. In the beginning, it was envisaged that, as in the current pharmacy retail format, medicines would contribute 70-80% of the sales while occupying 20-25% space. The higher ratio of medicines would be reduced slowly with the increase in the sale of other items without compromising the growth in medicines.

In the initial phase, it was proposed that SGI should run some stores on its own. It was felt that after gaining sufficient experience in managing the store, it would be possible to design a good franchisee model as also guide the franchisees better.

Merchandising

The guiding principle of the merchandising policy of Planet Health was that all products should have a bearing on health care. In the area of drugs, as far as possible, the store was to adjust the mix in such a way as to satisfy the largest numbers of customers in their first visit. The relevant product categories besides prescription and OTC medicines were to be: alternative medicines; nutraceuticals, health food and health supplements; personal care, baby care and mother care products; pet care products, surgicals and rehabilitation products; and health monitors and devices. There were doubts, however, about the food and snacks category. For recommending the mix of medicines, an analysis of the stocking patterns of the retailers obtained from the study of retail business was used.

It was found that although they carried a wide variety of drugs (2,000-10,000 SKUs), about 20% of them contributed to more than 75% of their sales. The merchandise mix varied with the location and more significantly with the association to hospitals or nursing homes. The prescription drugs accounted for more than 80% of the medicine sales in most of the stores. For providing a high level of service, it was proposed to include a number of sub-categories that had several products and brands. The total number of SKUs was planned to be about 20,000 and the number of brands around 600. The proposed merchandise mix and its classification are given in Exhibit 8.

The merchandise was to be procured locally, especially in the beginning, as the order size was not going to be large enough for approaching the manufacturers directly. This would also avoid double taxation and other formalities related to it⁶. However, there was a threat of the likely resistance from traders' association due to the organized nature of the proposed business. This threat had to be managed well for the business to succeed. It was also decided not to carry any of the suppliers' products if their business practices conflicted with the ethical values of the group, even though this might result in non-stocking of some highly profitable items.

It was planned to carry stock with a targeted fill rate of 95%. A one to two day order cycle was planned. To tackle the problem of shrinkage, a system of bar codes was proposed. The proposed code consisted of several digits of which some would not be accessible to the operating personnel. Only Rohit Patel could decide these "non-accessible" codes. Nevertheless, shrinkage of 1% was expected. The estimated investment in hardware and software for this purpose would be Rs. 2 million. The information system was proposed to be specially developed, as the available retail softwares did not suit the requirements of Planet Health.

Store Format and Location

Experience of drug buying by consumers indicated that a visit to a pharmacy was a forced visit. The shoppers were always in a hurry to pick the medicines and leave the store. In order that a good shopping experience was provided, it was planned to provide relaxed but efficient shopping environment to the customer. Keeping this in mind, it was decided to locate the stores in residential areas. The presence of doctors or hospitals in the area would be an added advantage.

⁶ The country's sales tax policy required that companies paid central as well as state taxes if the purchase and sale happened in two different states.

The target customers of the store were the educated middle and upper class households. Residential localities having many high-rise buildings in the trading area were to be preferred. The trading area was expected to be about one kilometre radius from the location of the store. The sites were to be selected in such a way that the store had prominent visibility and there was enough parking space. The location, if possible, could also attract shoppers who would walk in at leisure.

In order to deliver the shopping experience, it was proposed to open a set of “mother and daughter” combination in each town. The mother store, measuring about 2,000 sq. ft., was to be the largest store and was expected to set the benchmark for shopping experience and create an identity for Planet Health, distinct from other pharmacies. It would also deal in all the health-related merchandise. The daughter stores, smaller in size but having a similar identity, were to be designed to suit the requirements of the trading areas they served. They were classified as: base, suburban, and central pharmacy. The smaller cities may have only daughter stores. A description of the stores is given in Exhibit 9.

Store Design and Layout

All stores were to have a similar identity. The design was to be based on building trust among the shoppers through purity, transparency, and openness. It would provide for a full view of the store to passers-by, a complete view of the layout to the customer at entry, and a separate entry and exit so that a customer would walk through the shop. To facilitate the walk-through, the merchandise on display, prescription medicines, and billing counters were to be as distant from the entry as possible. The store had to look rich and elegant without being opulent like a lifestyle store.

Unlike in the developed countries, where the prescription needed to be fed into the system and the shoppers would wait for long for billing and deliveries, the Indian shoppers were always found to be in a hurry. Therefore, the store was to be designed in such a way that the shoppers spent more time buying or browsing before reaching the billing counter. It was thought that this would not only give the opportunity to expose the store to the shoppers but also increase the bill size and value. The prescription drug section was to be separated from the other products by the billing counter. There was also to be a provision to dispense the medicine from a side window during late night. The window could be open to a drive-through. Separate entry and exit points were planned. Near the exit point, an information kiosk and a counter that provided information on loyalty programme, was to be placed. It also had to provide for night working with adequate safeguards. Guidelines were to be developed and given to the interior designer.

Promotion

The launch of Planet Health was to be planned in one town. Ahmedabad was the obvious choice as the home of SGI. Six stores (5 daughters and 1 mother) were planned in Ahmedabad to create visibility for capturing the differences on shopping behaviour across the city. It was found that initially for one or two stores, the mass media would not be cost-effective for creating awareness. TV would be wasteful and print very expensive. The local language newspapers would be far more costlier than the English newspapers. The campaign was planned to open with teaser advertisements that would be carried in the city supplement of the largest English daily. It would be supported by bi-lingual (Gujarati and English) freestanding inserts in both English and local language newspapers so as to reach about one hundred thousand households.

It was felt that customer loyalty would play a crucial role in building the business quickly as well as in increasing the stakes for competition. The loyalty programme would entitle the members to several value-added services related to their health needs. It was planned to approach about 5,000 households personally by a team of canvassers. The shoppers would be explained about the importance of properly preserved and professionally dispensed genuine medicines in a professionally run medicine store through a presentation. The canvassers would also approach doctors and hospitals to build a network and to provide health services to its customers. The total cost of promotion, including advertising, was estimated at Rs.1 million during the first year.

ORGANIZATION OF PLANET HEALTH

It was proposed to have a team of six general managers at the corporate office, one each for procurement, finance, sales, marketing, franchisee and regulatory affairs (Exhibit10). It was felt that till the business grew to a certain size, Planet Health could draw upon SGI's resources for managing procurement and finance functions and have one person looking after sales and marketing. A Franchisee Manager would be appointed after finalizing franchise policy.

A key decision which would help in the process design and management was to organize the stocking of drugs by alphabetical order so that a mere English knowing person could **locate/ and** fill the orders. The current practice was to stock the drugs according to the manufacturers' name. This was followed as the supplier's salespersons could visit the store and book requirements for replenishing the stock without disturbing the store personnel. However, this resulted in difficulties in providing quick service to customers as persons having the knowledge of individual manufacturer's brands could only fill the customer prescriptions.

Recruitment of suitable pharmacists and recruitment and training of front-room and back-room staff was thought to be crucial for success. The staff was to have a proper uniform matching the image of the store.

THE DECISION

The consultants met Rohit Patel regarding the feasibility of the proposed retail business concept and guidelines for implementation. Detailed financial projections for different store formats were presented (Exhibits 11a & b) by Sureka. At the end of presentation, Sureka added, "If we are able to generate a revenue of about Rs. 1,000 per sq. ft. per month, we can venture into this business." While the concept was appealing, Rohit Patel reflected on the higher investment and operating cost as compare to competing retail formats. He was concerned whether the revenue projections would come right. He looked at the statements and said to the presenting team, "The whole thing sounds interesting. But let me sleep over it" and he left the room.

Exhibit-1: Sales and Net worth Growth

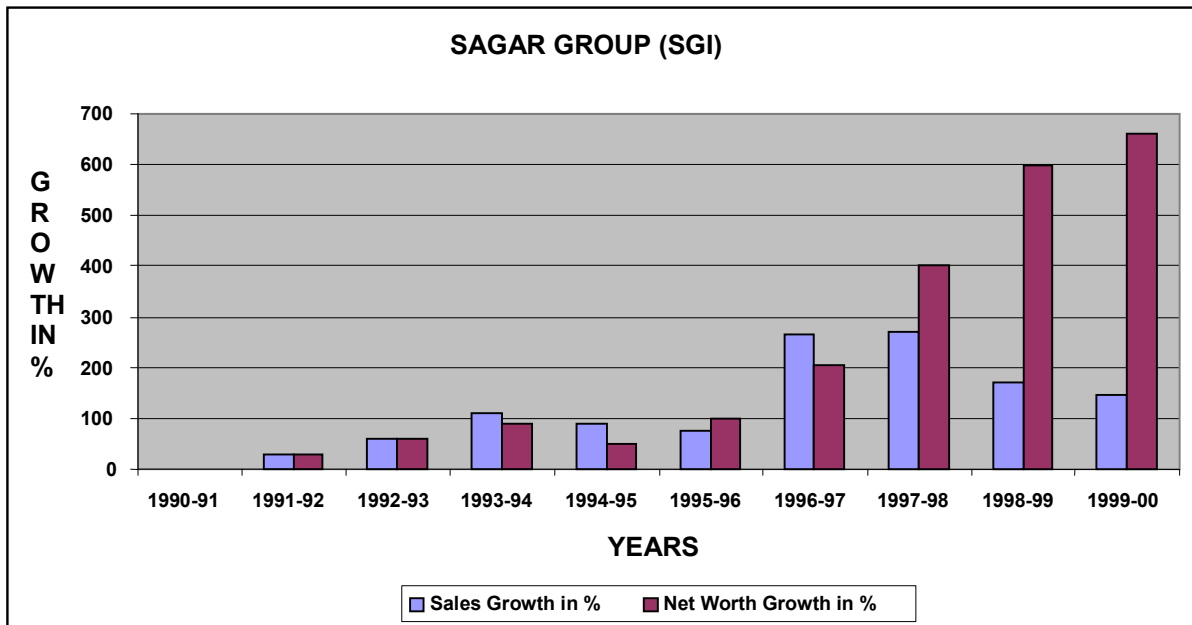


Exhibit 2: Range of SGI Products

Dye and Dye Intermediates	Bulk Pharmaceuticals
▪ Vinyl Sulphone Ester (Acetanalide Base)	▪ Sulphamethoxazole I.P., B.P.
▪ Vinyl Sulphone Ester(Ortho Anisidine Base)	▪ Ciprofloxacin Hydrochloride U.S.P.
▪ Vinyl Sulphone Ester (Para Cresidine Base)	▪ Ciprofloxacin Lactate
▪ Vinyl Sulphone Ester (2:5 Dimethoxy Aniline Base)	▪ Analgin I.P.
▪ Acetanalide	▪ Sodium Methoxide Solution in Methanol
▪ 4'4' Diamino Stilbene 2'2' Disulphonic Acid	▪ Trimethoprim I.P., B.P.
▪ 4'4' Dinitro Stilbene 2'2' Disulphonic Acid	▪ 2- Mercapto-5- Methoxy Benzimidazole
▪ 4' Nitro 4' Amino Stilbene 2'2' Disulphonic Acid	▪ Astemizole
▪ Para Amino Azo Benzene 4' Sulphonic Acid	▪ Enalapril Maleate U.S.P
▪ Para Amino Azo Benzene 3'4' Disulphonic Acid	▪ Omeprazole
▪ 1,3 Phenelene Diamine 4 Sulphonic Acid	▪ Acetamide
▪ 3 Amino Acetanilide 4 Sulphonic Acid	
▪ 1,3 Diaminobenzene 4,6 Disulphonic Acid	Fine Chemicals
4 Nitro 2 Amino Phenol	▪ Sodium Bi Sulphite
1,4, Phenelene Diamine 2 Sulphonic Acid	▪ Sodium Sulphite
▪ Nigrosine (Spirit Solution)	▪ Stannous Chloride
▪ Nigrosine (Water Solution)	▪ Aniline Salt
▪ Nigrosine (Oil Solution)	Ammonia Bi Sulphite
	Fatty Acids & Derivatives
	▪ Stearic Acid
	▪ Rice Bran Fatty Acid

Source: Company Records.

Exhibit 3a: Awards and Contributions
A AWARDS**1. From Gujarat Dyestuff Manufacturers Association :**

- | | | |
|-----|---|-------------------------|
| (a) | Award for outstanding Export Performance | 1988 - 89 & 1992 - 93 |
| (b) | Second Award for Export Performance | 1989 - 90 & 1990 - 91 |
| (c) | Export Trophy for the year | 1995 - 96 |
| (d) | First Award for Direct Export of Self
Manufactured Dye Intermediates | 1996 - 97,
1997 - 98 |

2. From Government of Gujarat:

- | | | |
|-----|---|-------------------------|
| (a) | Export award Small Trophy | 1989 - 90 |
| (b) | Silver Trophy for Export Performance
(Four Years in a Row) | 1990 - 91
to 1997-98 |

3. From Chemexcil (Basic Chemicals, Pharmaceuticals & Cosmetic Export Promotion Council):

- | | | |
|-----|--|-----------|
| (a) | Top Award in Small Scale Sector for Best
Export Performance for Dye Stuff and Dye
Intermediates. | 1989 - 90 |
| (b) | Second Award in Small Scale Sector for Best
Export Performance (Over all second amongst
All Chemexcil Categories in various trades.) | 1993 - 94 |

4. From Ahmedabad Management Association :

- | | | |
|-----|---|------|
| (a) | AMA Atlas Dyechem Outstanding
Entrepreneur Of the year Award.
(Citation Enclosed) | 1997 |
|-----|---|------|

B CONTRIBUTIONS

Sagar Group is the promoter of **Sagar Drugs - AMA Computer Centre** at Ahmedabad Management Center, where IBM has taken the training responsibility.

Exhibit 3b: Citation from AMA

A H M E D A B A D
M A N A G E M E N T
A S S O C I A T I O N

**AMA-ATLAS DYECHEM OUTSTANDING
ENTRPRENEUR OF THE YEAR AWARD 1997**

*In recognition of his outstanding contribution towards
environmental protection, innovative R & D initiatives,
successful business diversification, commitment to human
resource development and for achieving spectacular export
growth through his admirable leadership qualities*

Mr. Rohit J. Patel

Managing Director, Sagar Drugs and Pharmaceuticals

is presented with this

AMA -Atlas Dyechem Outstanding

Entrepreneur of the Year Award 1997

June 11, 1998

Chairman
Award Committee

Exhibit 4a: Private Final Consumption Expenditure (PFCE) at Current Prices

Item	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00*	1999-00**	2000-01*
Medical Care and Health Services (in Rs. Crore)	14698	16065	17557	19543	27859	32923	37341	45899	65340	83253	83517	98168
% to PFCE in Domestic market at current prices	3.8	3.6	3.5	3.4	4.2	4.3	4.1	4.7	5.7	6.6	6.6	7.3

Source: National Accounts Statistics of India, 1950-51 to 2000-01, EPW Research Foundation.

* Quick Estimates

** Provisional Estimates

Exhibit 4b: Health Indicators

Health Indicators		1990-91	2000-01
Population	National	846,387,888	1,027,015,247
	Urban	253,916,366	285,354,954
Income Classes (in Million)		1995 - 96	2000 - 01
The Very Rich (Rs. 2,15,000 p.a.)	National	7	15
	Urban	5	11
Consuming Class (Rs. 45,000 - 2,15,000 p.a.)	National	186	265
	Urban	93	150
Climber (Rs. 22,000 - 45,000 p.a.)	National	312	429
	Urban	94	98
Aspirant (Rs. 16,000 - 22,000 p.a.)	National	254	192
	Urban	40	22
Destitute (Less than 16,000 p.a.)	National	191	140
	Urban	30	16
Life Expectancy	National	58	61
	Urban	NA	NA
Literate	National	359,284,417	566,703,280
	Urban	133,140,330	200,031,868
Avg. Size of Family	National	5.8	5.7
	Urban	6.1	5.5

Source: The Marketing Whitebook: 2003 -04, Business World; and www.censusindia.net

Exhibit 5: Visit Reports

Ownership/ Pharmacies	Places	Area Sq.ft.	Sale (Daily) Rs.	Inventory Level	Stock (Rx Brands)	Format	Purchasing	Storage & Distribution	No. of Employees	Promotion programs
Apollo Group Apollo Hospital Pharmacy	Chennai	250/ 300	0.30 mn		6,000		Centralized	Chennai Central Unit	33	
	Hyderabad Delhi Coimbatore ¹ Madurai ¹ Chennai ¹		0.10 mn 0.15 mn				Rx Contribution 34% (20% Retailers' Margin, 10% Stockist's Margin, 4% Discount against cash payment)	Area 1,200 sq.ft. Operation Days 365 Frq. of Delivery Alternate days Stock		
Apollo Clinic Pharmacy	Chennai Hyderabad Vishakhapatnam		0.60 mn			24x7	OTC Contribution 10- 20%	6,000Rx brands 4,000Non-Rx brands		
IOC Pharmacy	Chennai Delhi Hyderabad Ahmedabad Gandhinagar									
Stand Alone Pharmacy	Chennai Rest of Tamil Nadu Hyderabad Bangalore	150/ 350	4- 4.5 mn			24x7				

Ownership/ Pharmacies	Places	Area Sq.ft.	Sale (Daily) Rs.	Inventory Level	Stock (Rx Brands)	Format	Purchasing	Storage & Distribution	No. of Employees	Promotion programs
RPG Group	Chennai	400-800							100	
Health & Glow ³ Muthu Pharmacy	Bangalore		.20 mn - .40 mn							
	Chennai		.65 mn 70%- Rx 30%-Non Rx			8,000				
Sun Pharma Ltd.	Chennai									
Tru Value ² Pentagon/ Enfield Group	Chennai		.40 mn (avg. per outlet)							
Subhiksha										
M/S Apothecaries Ltd.	New Delhi		.26 mn	10 -12 mn			Procurement is done on "Retailers margin" basis * 9-10% for well advertised FMCG/Cosmeti cs	licenses for wholesale and retailing	14	* Screening Sessions
Model Pharmacy project		600(stores 100(coun seling)				3 shift x 365 days				* Disease work shop
							* 12-13% for other FMCG products * 18-20% for Rx products * above 20% for generic Rx products * 100% for surgical products * 15-45% for OTC and proprietary products			* Counseling Sessions * Discount coupons

Ownership/ Pharmacies	Places	Area Sq.ft.	Sale (Daily) Rs.	Inventory Level	Stock (Rx Brands)	Format	Purchasing	Storage & Distribution	No. of Employees	Promotion programs
Apollo Group	Chennai		Out Patient pharmacy: 600-800	1.5-2.0 mn by "Out Patient" pharmacy				Procurement is done directly from companies or through Key Med Ltd. (a subsidiary of Apollo Group)		
Indraprastha Apollo Hospital	Delhi		In Patient pharmacy: 2000	Rest by "In Patient" pharmacy						
All India Chemist & National Medical Store	Delhi	150	4-4.5 mn							
Master franchisee of Melrose Trading Company Ltd., Mumbai and Cardinal Healthcare Inc. USA	Andheri		4 mn/ month(after 15 months)			14 hours (2 Shifts)	proposed Centralized purchase of the prescription drugs in the long run	franchisee outlets obtain their Rx supplies directly from local distributors of respective companies		* Retail outlet membership s * Loyal Customer Programme * Referral Programme * Display shelves Hire Scheme * Promotion Schemes * Free Checkup/Scr eening * Free Counseling Sessions
Medicine Shoppe	Kolkata		3.5 mn/ month(after 15 months)							
	Vashi		2.75 mn/ month(after 14 months)							

Ownership/ Pharmacies	Places	Area Sq.ft.	Sale (Daily) Rs.	Inventory Level	Stock (Rx Brands)	Format	Purchasing	Storage & Distribution	No. of Employees	Promotion programs
	Nerul Ahmedabad*		2.50 mn/ month(after 12 months)							

¹New upcoming hospital projects.

² Chain is closed.

³ Range of products in Health and Glow (RPG Group): medicines, cosmetics, skin/ hair/ medical care products, food/ drinks, special diet products, fitness products, music cassettes and CDs, personal use items.

Exhibit 6: I AM A PHARMACIST

- ◆ I have information about most of the drugs.
- ◆ I provide medicines and pharmaceuticals.
- ◆ I sincerely attempt to keep myself abreast of current developments in my profession.
- ◆ I help patients to understand the proper use of medicines.
- ◆ I assist patients in their choice of OTC (non prescription) drugs.
- ◆ I encourage and promote sound personal health practices.
- ◆ My professional services are available to all at all times.
- ◆ I promote the laws governing the practices of pharmacy and help in their proper implementation.

This is my calling

This is my pride

Exhibit 7: List of Brand Names

Pink Health	Health Street	Medimall	Rapheal	Dawa Ghar
Green Health	Health Square	Medipoint	Your Health	Dawasthan
Precious Health	Health Point	Medisquare	My Health	Dawa Sagar
Glowing Health	Healthway	Medimart	Wellness Home	Charak
Golden Health	Health Star	Medimind		Meri Dawa
Healthy Happy	Health Mart	Mediwall		Chikitsa
Healthy Wealthy	Health Sagar	Medihome		ILAJ
Health Wealthy	Planet Health	Mediplus		Suraksha
Happy Healthy	Health Planet	Medirelief		
Mega Health	Health Home	Medishop		
Good Health	Health Plus	Medihatt		
Pure Health	Health Shop	Medihut		
True Health	Health Shoppee	Mediindia		
	Health India	Medicross		
		Medigreen		

Exhibit 8: Categories Planned

First Level Categories	Second Level Categories	Third Level Categories
Health Care Products	Pain relief	11
	Cough & Cold	8
	Stomach Remedies	10
	Diabetes Management	8
	First Aid	17
	Anti-Allergens & Sinks	4
	Anti-Smoking	2
	Bandages & Supports	6
Vitamins and Nutritional Care Products	Diet & Nutrition	10
	Vitamins	12
	Minerals & Nutrients	9
	Other Supplements	12
Baby Care Products	Accessories	6
	Diapers & Bath Needs	5
	Food & Formula	2
	Health Remedies	8
Personal Care Products	Deodorants & Antiperspirants	6
	Eye & Eye Care	10
	Family Planning & Contraceptives	6
	Feminine Care	8
	Foot Care	10
	Hair & Scalp Care	7
	Health Appliances	11
	Incontinence	6
	Mouth Care	12
Shaving Needs	6	
Beauty Care Products	Bath & Spa	8
	Cosmetics	16
	Fragrance	3
	Skincare	14
	Manicure / Pedicure	8
	Hairstyling & Colours	9
Foods & Snacks Products	Candy & Gum	4
	General Grocery	8
Alternative Medicines & Other Products	Nutritional Products	2
	Hosiery	8
	Personal Gymnasium Equipment	3
	Ayurvedic Preparations	na
	Homeopathic Preparations	
	Herbal Products	2

Exhibit 9: Comparison of Different Formats

Base Pharmacy	Suburban Area	Central Pharmacy	Mother Pharmacy
Near/ Hospital/ Near Consultants	Residential Area	Mid Town/ Shopping	Central
250+ sq.ft.	500 sq.ft.	1000 sq.ft.	2000+ sq.ft.
Prescription (Rx) Drugs	Prescription (Rx) Drugs	Prescription (Rx) Drugs	Prescription (Rx) Drugs
Proprietary Drugs	Proprietary Drugs	Proprietary Drugs	Proprietary Drugs
Non-Prescription (OTC) Drugs	Non-Prescription (OTC) Drugs	Non-Prescription (OTC) Drugs	Non-Prescription (OTC) Drugs
Infusions & Surgicals Products	Infusions & Surgicals Products	Infusions & Surgicals Products	Infusions & Surgicals Products
Health Care Products	Health Care Products	Health Care Products	Health Care Products
Vitamins & Nutritional Products	Vitamins & Nutritional Products	Vitamins & Nutritional Products	Vitamins & Nutritional Products
	Baby Care Products	Baby Care Products	Baby Care Products
	Personal Care Products	Personal Care Products	Personal Care Products
	Herbal Preparations	Beauty Care Products	Beauty Care Products
	Ayurvedic Preparations	Herbal Preparations	Food & Snacks
		Ayurvedic Preparations	Pets Products
		Homeopathic Preparations	Herbal Preparations
			Ayurvedic Preparations
			Homeopathic Preparations

Exhibit 10: Organization Chart

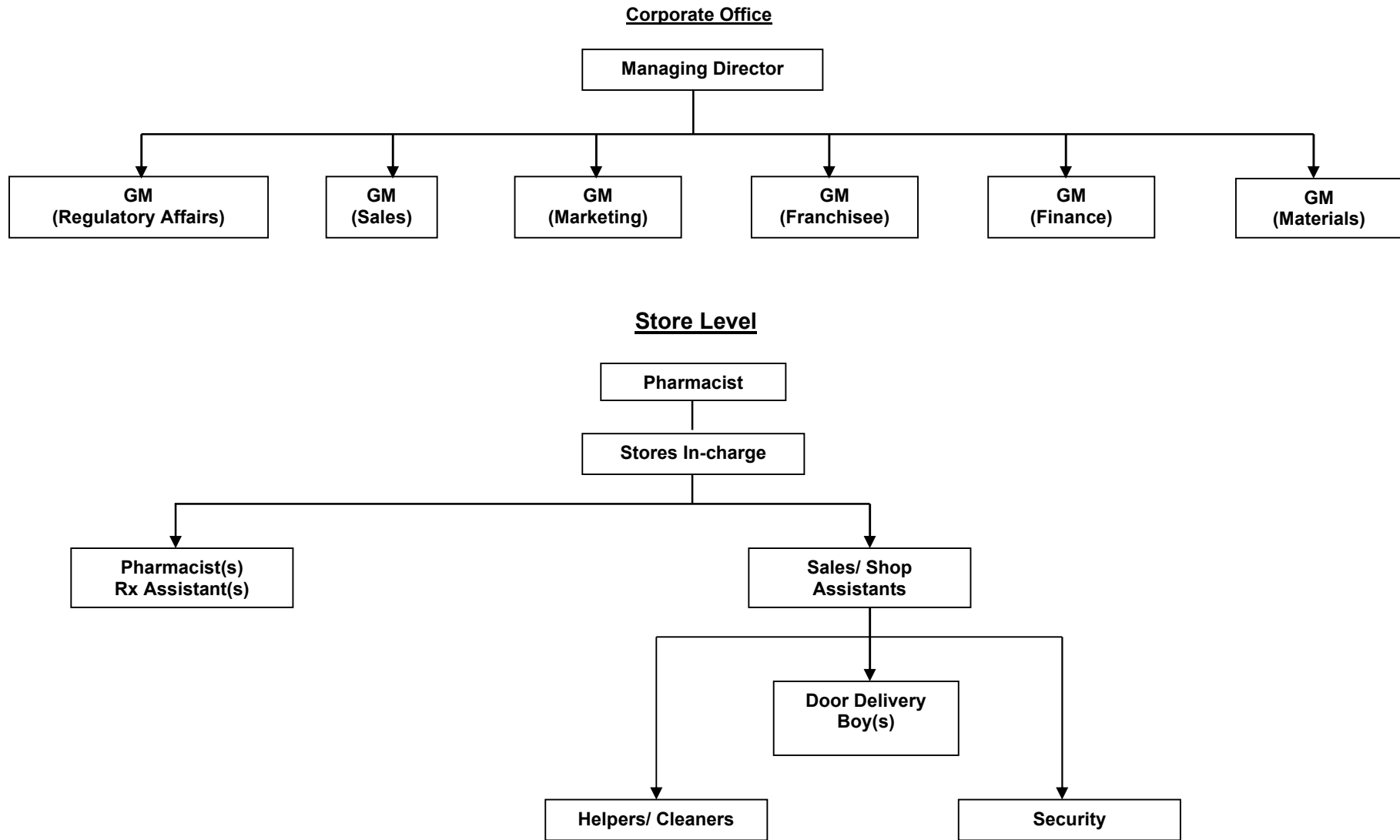


Exhibit 11a: Profitability Analysis

Summary Profit & Loss Estimates (in Rs. '000)										
Particulars	250 Sq. ft. Store					500 Sq. ft. Store				
	1	2	3	4	5	1	2	3	4	5
Gross Sales/ Daily	17	22	29	36	45	24	31	41	51	63
Gross Sales/ Annual	6205	8067	10486	13108	16385	8760	11388	14804	18506	23132
% Contribution from Sales	18.40	18.94	19.21	19.48	19.75	18.15	18.69	19.23	19.77	19.77
Contribution from Sales	1142	1528	2014	2553	3236	1590	2128	2847	3659	4573
Gross Income	1212	1638	2168	2756	3498	1703	2310	3097	3986	4992
Interest on FV of Premises	112	112	112	112	112	224	224	224	224	224
Gross Expenses	1259	1499	1835	2255	2642	1882	2215	2684	3271	3808
Net Profit	-48	139	333	501	855	-179	95	413	715	1184
Cash Profit	250	426	612	781	1140	314	575	883	1187	1661
Cumulative Cash Flow	250	676	1288	2070	3210	314	888	1771	2958	4619
	1121	745*	215*	960	2081	2243	1688*	354*	1442	3684
Particulars	1000 Sq. ft. Store					2000 Sq. ft. Store				
	1	2	3	4	5	1	2	3	4	5
Gross Sales/ Daily	29	38	49	61	77	38	49	64	80	100
Gross Sales/ Annual	10585	13761	17889	22361	27951	13870	18031	23440	29300	36625
% Contribution from Sales	19.25	19.79	20.06	20.33	20.60	20.45	20.72	20.99	21.26	21.80
Contribution from Sales	2038	2723	3588	4546	5758	2836	3736	4920	6229	7984
Gross Income	2160	2916	3854	4892	6201	2975	3950	5213	6610	8471
Interest on FV of Premises	449	449	449	449	449	897	897	897	897	897
Gross Expenses	2428	2808	3344	4018	4625	3428	3899	4568	5406	6150
Net Profit	-268	108	509	875	1576	-454	51	645	1205	2321
Cash Profit	608	970	1361	18	2437	1064	1551	2135	2694	3820
Cumulative Cash Flow	608	1578	2939	4667	7103	1064	2615	4750	7444	11264
Capex/P-C-F/F+C/Total	4485	1918	494	2412	6897	8970	2938	642	3580	12550

Exhibit 11b: Profitability Estimates (500 sq.ft)

	Capex	Year 1	Year 2	Year 3	Year 4	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	11,388	14,804	18,506	23,132
Contribution from Sales		1,590	2,128	2,847	3,659	4,573
Annual Display Space Rental Income		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	2,310	3,097	3,986	4,992
EXPENSES						
Salaries & Wages		468	538	619	712	819
Energy		309	340	374	411	452
Others		161	172	184	197	211
Operating Expenses		938	1,050	1,177	1,320	1,482
Membership Programme		20	10	12	13	16
Discounts		169	219	285	356	445
Advertising & Promotion Expenses		175	228	296	370	463
Marketing Expenses		364	457	593	739	924
Marketing Expenses (%)		4.20	4.00	4.00	4.00	4.00
Royalty Fees		88	228	444	740	925
Direct Expenses		1,389	1,735	2,214	2,799	3,331
Interest on Inventory		55	42	32	35	40
Interest on Fair Value of Premises	2243	224	224	224	224	224
Amortization	354	53	53	53	53	53
Depreciation	1088	142	142	142	142	142
Deferred Revenue Expenditure		18	18	18	18	18
Int., Amortiz., Dep. & Def. Rev. Exp.		493	480	470	472	477
Gross Expenses		1,882	2,215	2,684	3,271	3,808
Net Profit/Loss		-179	95	413	715	1,184
Cash Profit/Loss		314	575	883	1,187	1,661
Cumulative Cash Flow	3684	314	888	1,771	2958	4,619