

CHAPTER III

PHARMACY INDUSTRY AND CONSUMER BEHAVIOUR

Introduction

The global pharmaceutical industry as well as the Indian pharmaceutical industry has moved a long way in the last ten years. The Pharmaceuticals market is growing to the new heights and has realized that the most promising opportunities are to be found with world's emerging economies. The mounting ageing population globally and significant demographic shift would result in the global pharmaceutical market registering a healthy growth over the next decade. We also believe that going forward the pharmacy industry would witness a major shift from developed market to emerging economies, from primary care class to niche therapies and from chemistry to biotech.

In recent times, the global pharmaceutical industry has shown high interest in India due to its sustained economic growth, health care reforms. In the last few years Indian pharmaceutical industry has achieved significant momentum, making its presence felt in the global market primarily through its focus on global genetics markets.

The Indian generic players are making their presence felt across regulated and semi regulated market through merger and acquisition, alliances and agreement with big pharmacy MNCs. The product patent regime is believed to offer huge opportunity for the pharmacy MNCs as it will not only position India an important market to launch their block buster drugs but also a strategic destination for conducting clinical trails.

Indian as well as big MNCs are following the alliance and partnership model to foray into the new markets and geographies. Such model not only help them to capitalize on the latter company's knowledge as well as understanding of

the local market, technical know-how would also provide them with ready access to a strong distribution and supply infrastructure.

The increasing cost, drying up of research pipeline, increasing pricing pressure have led the companies outsource the R&D activities. Increasing outsourcing in the pharma industry has led the Indian players focus on outsourcing opportunities from their international counterparts.

Origin of Pharmacy and pharmacist

Greeks were one of the first in this profession. The word pharmacy originated from the Greek word “PHARMAKON”. In the 19th century it separated from medicine and developed as a separate profession. In 1821, first school of pharmacy was established in U.S at Philadelphia.

The 1852 Pharmacy Act, June 30 established a Register of Pharmaceutical Chemists in Great Britain, restricted to those who had taken the Society’s exams. However, the Act did not restrict the practice of pharmacy to examined and registered people, nor provide a legal definition for the trade and practice of pharmacy. This was first done by the Pharmacy Act 1868.

In some jurisdictions, pharmacists have prescriptive authority to either independently prescribe under their own authority or in collaboration with a primary care physician through an agreed upon protocol.

So now, pharmacists are health professionals who practice the science of pharmacy. In their traditional role, pharmacists typically take a request for medicines from a prescribing health care provider in the form of a medical prescription and dispense the medication to the patient and counsel them on the proper use and adverse effects of that medication. In this role, pharmacists ensure

the safe and effective use of medications. Pharmacists are often the first point-of-contact for patients with health inquiries.

Pharmacy Today and Tomorrow

Pharmacy, with its heritage of 50 centuries of service to mankind, has come to be recognized as of the great professions. Like medicine, it has come through many revolutions, has learned many things, and has had to discard many of its older ways. Pharmacists are among the community's finest educated people. When today's retail pharmacist fills a prescription written by a physician, he provides a professional service incorporating the benefits of the work of pharmacists in all branches of the profession - education, research, development, standards, production, and distribution. Pharmacy's professional stature will continue to grow in the future as this great heritage and tradition of service is passed on from preceptor to apprentice, from teacher to student, from father to son.

Global Pharmacy Industry

The global pharmacy industry posed a growth of 5% to 6% in 2008 and touched the level of US\$ 770 billion. North America, Europe and Japan turned out to be the key contributors to the growth and accounted to nearly 85% of the global pharmacy sales in 2011. The pharmacy industry across the globe recorded a slower growth due to the factors like increased volume for generic drugs, drying up of the new patented products in the market and economic downturn.

US Market

The pharmaceutical market in the US witnessed a slowdown in growth in the year 2008 mainly due to high level of generic penetration, economic climate, and less than expected demand for the recently introduced drugs. Going forward, the contraction in the demand for pharmaceutical drugs would continue resulting in the US market experiencing a continued slow down in the growth rate. The US

market with a mammoth size of \$ 312 billion is the largest pharmacy market across the globe.

Europe

Europe, the second largest pharmacy market contributes around US\$ 247 billion to the world's pharmaceutical market. It recorded a growth of around 5-6% in the year 2008, with the top 5 markets (France, Germany, the UK, Italy and Spain) in Europe together grew at 4%-5% in 2008 (up from 3%-4% in 2007). Going forward, we expect these markets to continue with its growth trend of 5%-6% led by increased demand from ageing population, rising need of preventive care.

Japan

Japan turned out to be the third largest market after US and Europe. It recorded a growth rate of 1%-2%, a sharpest fall in the growth compared to 5%-6% in the year 2007. The Japanese pharmaceutical market generated total revenues of US \$65.3 billion in 2008, representing a compound annual growth rate (CAGR) of 2.4% for the period spanning 2004-2008. According to IMS Health, the Japanese market is expected to increase to US \$ 79 billion by 2013 and nearly US \$ 105 billion by 2023. Japan is one of the most lucrative destinations for pharma players mainly because of the rapidly ageing population, increasing incidence of western life style diseases and also increasing scope of growth in obesity, metabolic diseases, cancers, central nervous system diseases, type II diabetes and cardiovascular diseases.

Emerging market - taking the centre stage

The pharma MNCs globally are targeting emerging markets mainly to overcome the slow growth recorded in the developed nations. According to the IMS Health Inc, the seven emerging pharmaceutical markets of India, China, Brazil, Mexico, South Korea, Turkey and Russia grew by 12% in the year 2008

mainly due to the expanding economies, increasing affordability and broader access to health care. In 2008 the seven emerging markets are expected to contribute nearly 25% to the global pharma sales, whereas, moving ahead we estimate this share to spurt up to 40%. China which is sixth largest market in the world at present is expected to become the third largest market by 2011. According to the forecast by IMS, the revenue contribution from emerging markets by 2017 would be between US \$ 290 billion to US \$ 320 billion, a CAGR of 12%-15%.

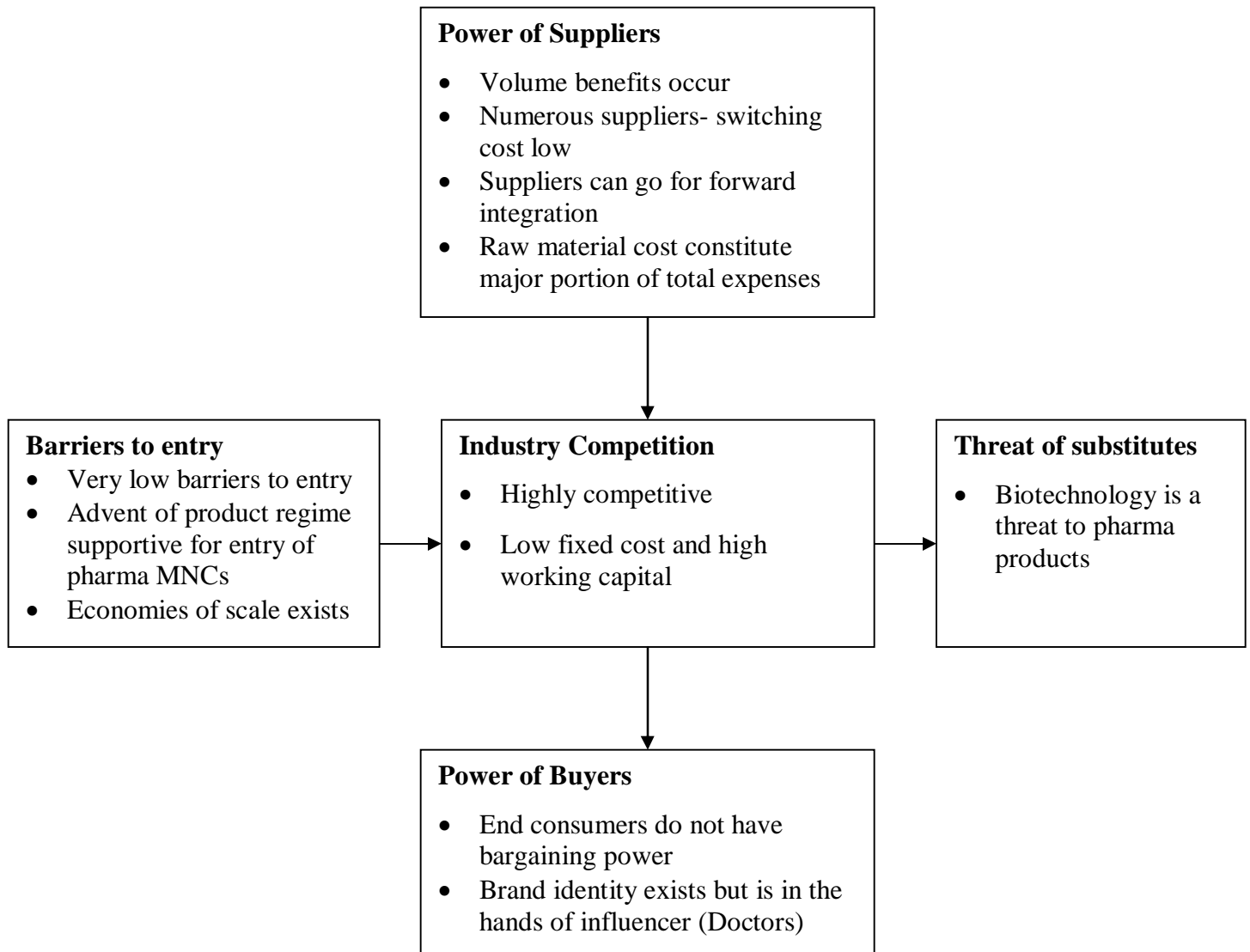
India

Indian market has emerged as a key destination for global pharmacy companies, thanks to its high growth prospects and conducive regulatory environment. According to industry experts, MNC pharmacy companies are likely to witness a sea change in their strategy and are aggressively scouting for growth options. The MNCs have embarked on a multi-pronged strategy to establish their stronghold in Indian market by introducing patented products, divesting non-core businesses, going in for acquisitions, strengthening sales and distribution network as well as developing India-centric portfolios.

India - expanding its footprints

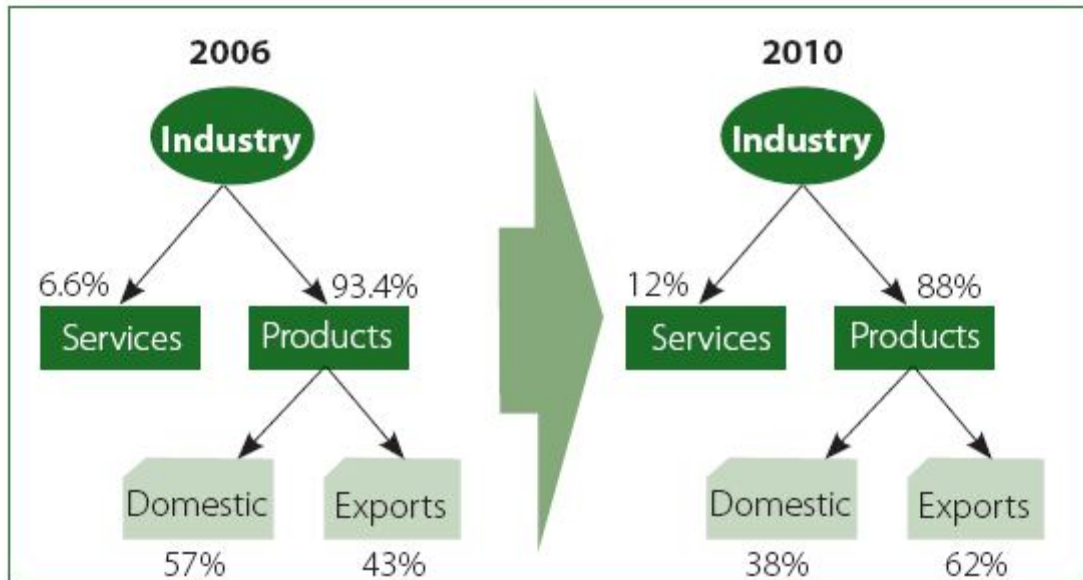
After the product patent was embraced in the Indian pharmacy industry, the Indian pharmaceutical sector started acquiring small global players, especially with strong marketing skills. In 2007, Indian pharmacy companies acquired around 9 global pharmaceutical companies increasing the count to 21 in 2008. Ranbaxy Fine Chemicals (RFCL) has also bought the US-based specialty chemicals major Mallinckrodt Baker, which is a part of the US\$ 10 billion healthcare giant Covidien, in a deal estimated at US\$340 million. Plethico Pharma also was in the news for buying the 20% stake in subsidiary of Tricon Holdings, Hong Kong.

Indian Pharmaceutical Market



The pharmaceutical industry has been witnessing a transformation in the recent past. Earlier, the industry followed a product centric approach, with manufacturing aimed towards fulfilling the domestic demand, while exports were largely confined to supplying pharmaceutical products and intermediates to less regulated markets. Further, contribution of services has been miniscule in the total revenues of the pharmaceutical industry.

Comparison of Indian pharmaceutical industry between 2006-2010.



Source: E&Y Analysis

In the year 2006, services account for only 6.6 per cent of the total revenues of the Indian pharmaceutical industry. However, it has increased up to 12 percent in 2010-11 due to continuous spurt in clinical research outsourcing, coupled with increase in discovery and preclinical research activities. The contribution of exports to the total product revenues in 2006-07 was 43 per cent. However, moving at a high CAGR of 30-32 per cent, contribution of export revenues would surpass the share of the domestic market in the total revenue mix. In 2010-11, exports would contribute 62 per cent to the total product revenues. Further, unlocking of US\$ 80 billion revenues patent expiry during 2006 – 2010 would present significant opportunities for generic players, especially the Indian companies who would be among the first to capitalise on this opportunity.

Increasing penetration driving growth

The growth fundamentals of the domestic market are undergoing a sea change. Over the past few years, new product launches have been the mainstay of

the growth in the domestic market. However, with expansion of healthcare facilities in the rural and far flung areas, increased penetration has been driving the growth. With total sales revenues of US\$ 1.4 billion, the Indian pharma market in rural areas witnessed a growth of 39 per cent as compared to the growth of 18 per cent in the overall domestic market. In 2006, the contribution of new sales from new product launches to overall sales declined to around 4.8 per cent from 5.1 per cent for the top 10 players and 8 per cent from 9.6 per cent for the next 15 players.

Expansion of healthcare infrastructure in rural areas has facilitated the said change. Increased government spending on roads, telecommunication and healthcare infrastructure has facilitated the foray of pharmaceutical companies into relatively distant pockets of the market.

Strengths of Indian Pharmaceutical Industry

1. India with a population of over a billion is a largely untapped market. In fact, the penetration of modern medicine is less than 30% in India. To put things in perspective, per capita expenditure on health care in India is US \$ 93 while the same for countries like Brazil is US\$ 453 and Malaysia US\$ 189.
2. The growth of middle class in the country has resulted in fast changing lifestyle in urban and to some extent, rural centers. This opens a huge market for lifestyle drugs, which has a very low contribution in the Indian markets.
3. Indian manufacturers are one of the lowest cost producers of drugs in the world. With a scalable labor force, Indian manufactures can produce drugs at 40% to 50% of the cost to the rest of the world. In some cases, this cost is as low as 90%.

4. Indian pharmaceutical industry possesses excellent chemistry and process reengineering skills. This adds to the competitive advantage of the Indian companies. The strength in chemistry skill helps Indian companies to develop processes, which are cost effective.

Weakness:

1. The Indian pharmacy companies are marred by the price regulation. Over a period of time, this regulation has reduced the pricing ability of companies. The NPPA (National Pharmacy Pricing Authority), which is the authority to decide various pricing parameters, set prices of different drugs, which leads to lower profitability for the companies. The companies, which are the lowest cost producers, are at advantage while those who cannot produce have either to stop production or bear losses.
2. Indian pharmacy sector has been marred by lack of product patent, which prevents global pharmacy companies to introduce new drugs in the country and discourages innovation and drug discovery. But this has provided an upper hand to Indian pharmacy companies.
3. Indian pharmacy market is one of the least penetrated in the world. However, growth has been slow to come by. As a result, Indian majors are relying on exports for growth. To put things in perspective, India accounts for almost 26% of the world population while the total size of industry is just 1% of the global pharma industry.
4. Due to very low barriers to entry, Indian pharma industry is highly fragmented with about 300 large manufacturing units and about 18,000 small units spread across the country. This makes Indian pharma market increasingly competitive. The industry witnesses price competition, which reduces growth of the industry in value term. To put things in perspective, in 2003, the industry actually grew by 10.4% but due to price competition, the growth in value terms was 8.2% (prices actually declined by 2.2%).

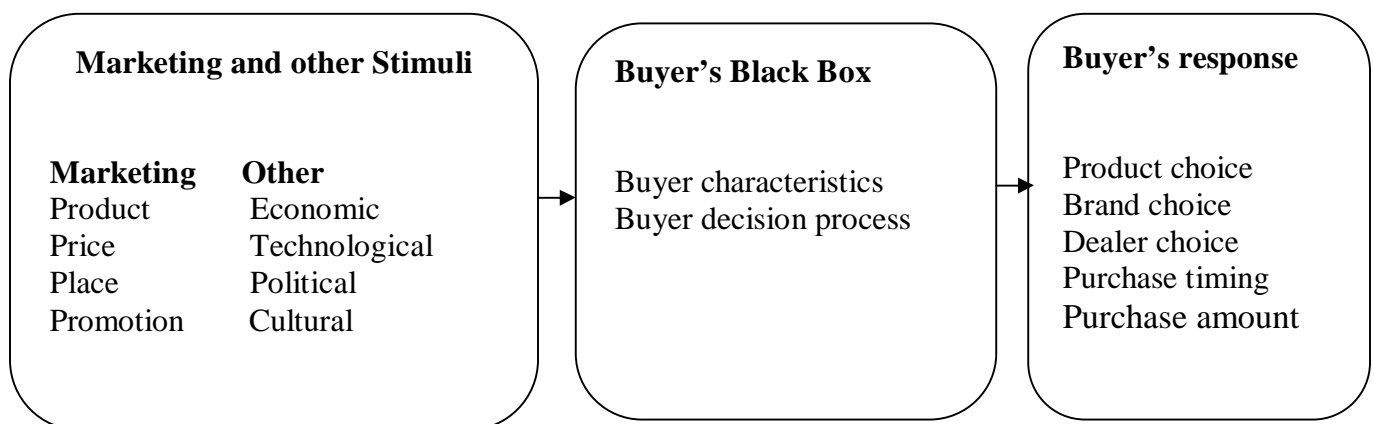
Consumer Attitude and Behaviour

Consumer Behaviour Analysis

Consumer behaviour is a complex pattern and sophisticated understanding for marketing researches, but simply defined; study of psychological, social and physical actions when people buy, use and dispose products, services, ideas and practices. Basic idea behind the consumer research was questioning of buying reasons, however researchers have to go deeper and also ask people how and in which circumstances they purchase and consume.

Consumer behaviour consists of ideas, feelings, experiences and actions of consumers with additional environmental factors like advertisements, prices and commends. Furthermore, consumer behaviour is a dynamic process, because of the continuous changes in ideas, perceptions and activities of consumer as an individual or in a group. Consumers' response to different types of marketing strategies is the major question to be answered. Stimulus-respond model is often used to explain this query as shown in the following figure. Buyer's black box is the vital point that companies and other actors in the market have to discover from various researches.

Model 1: Model of Buyer Behaviour



Source: Armstrong and Kotler, 2008, pp: 130

Determinants of consumer analysis

According to Peter and Olson, consumers should be analysed by looking into three objects; “affect and cognition”, “behavior environment” and their relations between each other. (Figure 3.2) Every single element can affect other elements or it can be a reason to realise. So, all elements should be considered when deciding for marketing strategy.

Model 2: Three Elements of Consumer Analysis



“Affect” represents persons’ emotions concerning a product like admiring or hating, while “cognition” can be explained as mental activities such as learning, interpreting and evaluating. When people are exposed to stimuli, they have the image of objects, situations, people or experiences in mind. Every individual has own way of understanding, perceiving and explaining the surroundings in his own environment. In some degree these specialties can be common depending on common attitude and beliefs. “Affect and cognition” are connected to each other intensively however they are originated totally in different ways as feelings and thoughts.

Due to the various explanations of “consumer behavior”, Peter and Olson defined this term as “overt consumer behavior”, that means, consumer’s activities which can be analysed by quantitative and qualitative methods. Successes of marketing strategies pass through not only changing of this behaviour of the

consumers but also affect and cognition. Although a person likes a product, it can be possible that she/he does not purchase it. Consumer environment is the surroundings and outside effects. All consumers are exposed to social pressure, culture, family, personal influence and situation effects.

Internal factors affecting consumer behavior

Demographics and personal choices

Demographics is especially an interest of marketers as it is important to see how population is changing in numbers, and distribution of genders, age, economic situation, birth rates and etc. For example, recent increase of women's economical activity put them in the first place for companies as women purchase much more than men. Furthermore, distribution of wealth is in focus as it has importance to determine buying power and market potential of the targeted consumers.

Family structure, marriage and divorce rates of countries have also effects on consumption habits like couples with children buy much more health concern than singles which can prefer prescribed medicine. Also, children have effects on changing buying decisions of the parents when they are shopping in a supermarket, therefore advertisements are more relevant to children in some countries with young population.

Another important factor is the personality that separates a single consumer from the whole society. Personality is described as consistent responses to stimuli. Having certain personal values in many ways could be a marketing tool to connect some people with definite products and brands.

Lifestyle of a person is a further key for buying habits and this attribute is important to be measured to know how consumers spend money, time and in which way a person is showing off own values and choices to consumption.

Lifestyle can be more adaptable to new circumstances than personality. If a person changes his job, that also affects his purchasing power as well as his buying behaviour.

Consumer attitude

Attitude is mentioned and used by society so often with various meanings. Simply, attitude has been defined by Allport as “a mental and neural state of readiness organised through experience, exerting a directive or dynamic influence upon the individual’s response to all objects and situations with which is related”. Attitude is shaped selectively to compromise consumers needs and could be changed by external effects such as joining a new community, gaining more knowledge and environment of a person.

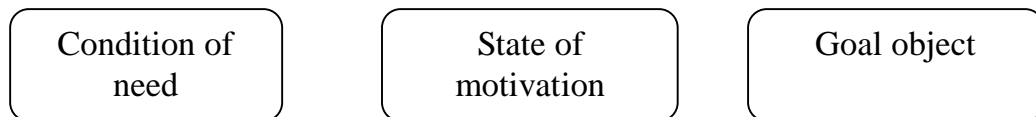
Attitude has a significant effect on purchasing a brand and choosing the place for shopping. Also, attitude measurement is necessary for finding out how marketing strategies and advertisements are influencing people. Moreover, new products emerge in the market or existing product’s future demand can be predicted by measuring consumers’ attitude.

Due to the various marketing strategies to increase consumer portfolio in the market, many companies conduct large scale consumer attitude surveys to catch changes over time. There have been examples in the past about how big companies end up with failure due to their lack of interest in society’s attitude changes toward their product or service while the new brands tract their consumers after handling sophisticated attitude researches. To sum up, attitude is not the exact forerunners that say which consumption behaviour will be in the future, but they can show the way what buyers are likely to do in a defined situation.

Consumer motivations

Marketers are aiming to satisfy the consumer's needs that rise in certain time or period. When there is a need, people seek solutions to diminish or sift. People's needs and motivations are intensively connected to each other which is shown by the following figure. Motivations start up behaviour and direct to a goal or a specific action. A motivated person's involvement to an activity is obviously more than unmotivated. (Figure 3.3)

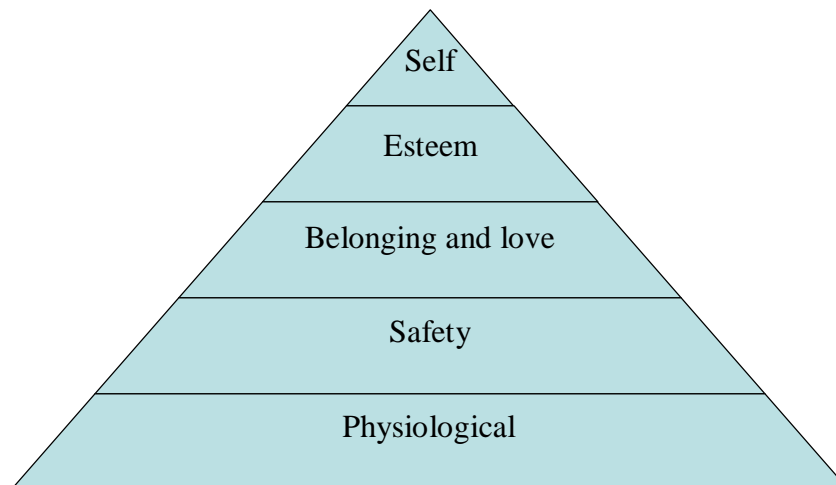
Model 3: Motivation links needs and objectives



Source: Chisnall, 1995, pp: 40

Psychologists have examined motivation and its importance in human behaviour in several ways and the most common ideas were propounded by Abraham Maslow and Sigmund Freud. Maslow has developed a theory that classifies needs as “lower” and “higher” wishes. (Figure 3.4)

Model 4: Maslow's pyramid: hierarchy of needs



Source: Chisnall, 1995, p. 43

Maslow puts the Physiological needs such as hunger and thirst activities in the bottom and need for self-actualization on the top of the pyramid as shown in the Figure 3.4. Besides, according to Sigmund Freud, people are not aware of their buying behaviour that is mostly shaped by our physiology. People have lots of wishes and these are driven by provoked forces deep within them. For instance, when a person buys a luxury sport car, he can claim that he likes the wind when driving. But in a psychological level he might want to show off the other how successful he is and moreover he might wish to feel younger and free.

Learning and Knowledge

Learning is gained by experience and it is affecting behavior. Scientists thought that almost all behaviors are learnt. Learning eventuates between a stimuli and a response and consumer behaviour as learnt attitude and how it is learnt and experienced is really vital for marketers. Companies have to examine consumers' knowledge about a product carefully. Finding out how consumers shopping habits are such as from where they buy, how often they purchase, which product groups have importance and how much they are aware of the products or brands help companies to motivate and reinforce consumer for buying behaviour.

For example, a person is willing to buy a digital camera and the idea of this buying behaviour can come into mind maybe from an advertisement or a friend. That stimulus is called "cues" which determines how, where and when a consumer corresponds. Finally, our consumer decides for a certain brand and buys after using several times if the consumer is satisfied; probably from the experience and positive image of the previous one he would buy the same brand as well.

Consumers think about a product according to desired properties, probable risks and advantages and then attribute occurs towards a product. Relative buying attributes are connected to personal values and needs, consumers build knowledge

bridges and this is examined by means-end chain theory. Some features are highly connected to personal values and beliefs while others are less.

External factors affecting consumer behaviour

Culture and Subculture

Culture is one of the main external factors that have a big effect on consumer behaviour, ideas and wishes. As mentioned in the learning and knowledge section, behaviour is almost a learnt process and culture has power on our behavior as we all grow up in a certain group of society with peculiar cultural properties.

Culture is the circulation of the values, norms and traditions among the society between the generations. A product introduced to a market that carries cultural specialties is expected to be well perceived from that targeted society. Furthermore, a product can point out the ongoing changes in the culture although it does not belong to objected population.

When consumers buy a product, they expect it to perform to compromise their needs. But these needs are differentiating between cultures. They obtained good sale results in Europe and Asia with the high selling price.

Another big trend in developed countries is the change of purchasing habits. Most of the societies start to choose more healthy medicines especially with balanced nutritional meals. This “health awareness” movement has boomed pharmaceutical products on the shelves of the supermarkets. Cultures can be also divided into various groups called subculture. These people belonging to the same subculture have more common values, religion and mostly coming from same region and ethnicity. Age groups can be a subculture in the society. For example while some brands are targeted to teenage groups the others can be offered to matured markets like health care products, pharmacy products .

Social class

Consumer's position in a society with income level, family background and profession are the indicators of a person's social class. The amount of money spent and the way of this expenditure are both considered in the social status. Social equality is trying to be kept in a certain level in European countries but of course there are social hierarchies like low, middle and high income consumer groups. The people in the common groups seemed to have similar lifestyles, jobs and tastes and they mostly socialized between each other and affect their behavior in the same social class.

Consumer behaviour and social class can be connected in different ways. For example, wealthy consumers mostly prefer medicines, health care products. Because these group of people have mostly interest on these subjects in common and these values are considered as high segment in the market and sold in special shops with higher prices. Social classes and their needs are continuously changing rapidly.

Family and Group Influence

A group is a cumulative of people that have something common and distinctive relations between each other. The most common and natural group in the society is the family that mostly act together with certain aims. Marriage mostly results with establishing a new place to live and people need to buy several new products and services and also forming a family is one of the important factors to change buying and consumption behaviour of an individual. Family members have different roles like initiator, influencer, decider, buyer and user. The impacts of family members on different assortments of products are changing depending on family size, structure and hierarchy in buying decision process.

Moreover, women are targeted in developed societies as their income and responsibilities are increasing day by day and result of togetherness in domestic work affects buying behaviour of men.

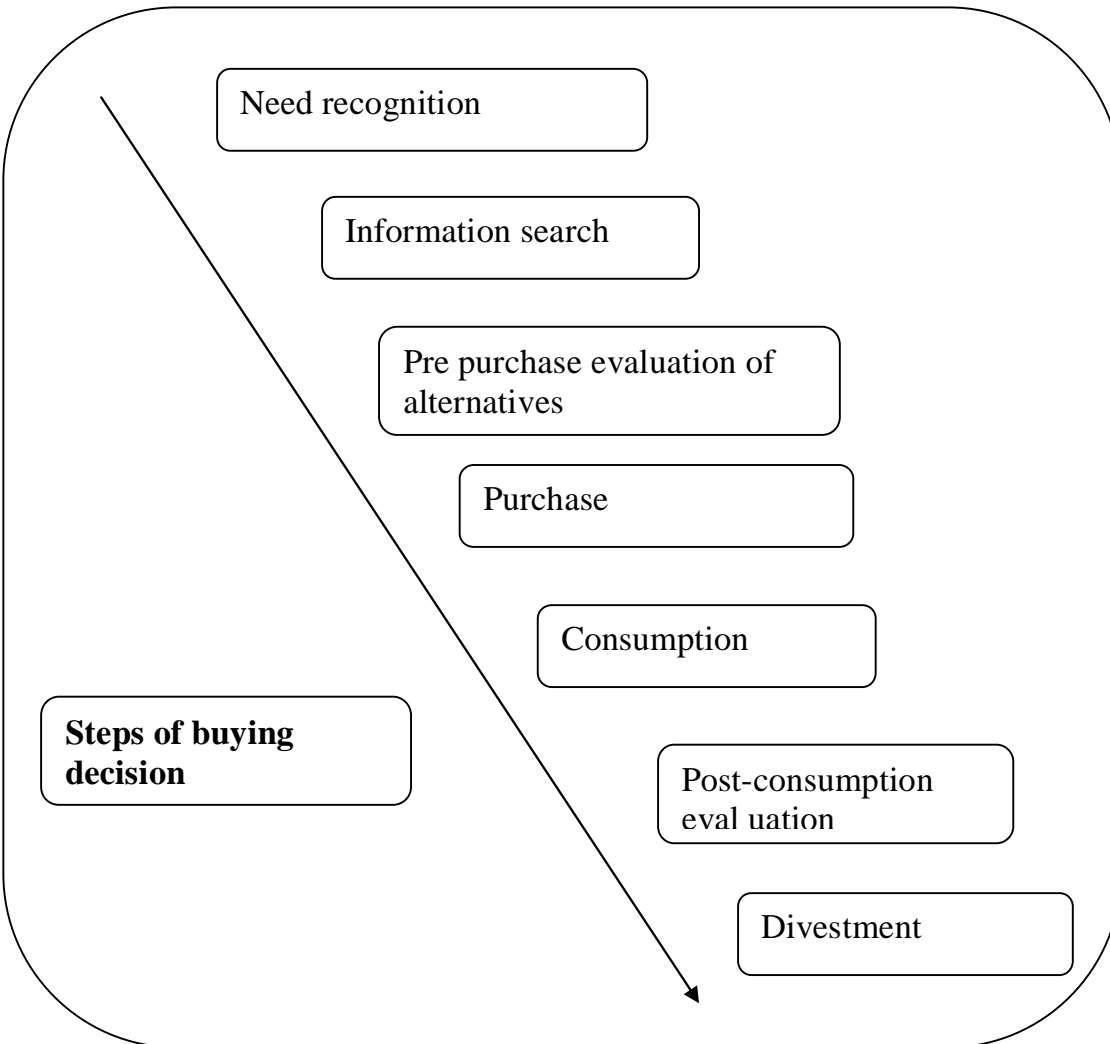
The other group of people can be formed by sharing the same profession, beliefs and hobbies. Reference group consists of one or more people and this group is taken as a reference when evaluating peoples' values and attitudes. Reference groups not only affect people's values but also they can change buying behaviour such as, products that are consumed, places to shop and brands that are used.

For a better understanding of reference group effect on consumer behaviour, first marketer should analyse the group features and find out why people are dedicated to these groups. Thereafter, brand managers and producers should know well the leaders of these reference groups and they need to consider their ideas and behaviour while concluding. It is known that, leaders are affecting group members with their ideology and distinctive abilities.

Consumer Decision Process

Consumer buying decision starts with a need recognition and end up with divestment process. These paths of purchase behaviour enable marketers to interpret the buyer in one of these steps and change his decision. Following Figure 3.5 shows in which ways consumers pass through before and after buying a good or a service.

Model 5: Schematic model of consumer decision process



Source: Blackwell et al., 2001, pp: 71

Need recognition: The first stage is the need of consumer towards a product. These needs can emerge from individual cause like physical necessities or from the environment of the person like ads or society. Manufactures and market actors should continuously trace the consumers' need and problems. Otherwise even the big companies can make a mistake of introducing wrong products to the market, where almost no demand is raised.

Information Search: After recognition of a need consumer start to seek for information in the external area. Also, there can be information in person's mind and additionally, the person can be so close to the targeted object. So, in this case consumer probably buys this product instead of searching. On the other side, some consumers like to go shopping and spend time for inquiring. In many cases search takes short time and consumers' actions depend on their memories such as remembering a brand or a price or they just repeat their old purchases.

Pre-purchase evaluation of alternatives: Consumer spends much of the time to choose in between alternatives. Some product groups have hundreds of different brands like medicines and on the other hand, some brands have so many different sorts like medicine in different pharmacies. Before purchasing, consumer will ask himself about his alternatives and try to select the best. Mostly consumers use the stored evaluation in the memory like, price, brand or services and choose between them. Moreover, consumers evaluate the shopping mall and choose between different offers that fits best to their needs. Consumers are mostly sensible to price, size, and quantity changes of the preferred brands. If there is a price raise in their preferred brand, they will evaluate if it is proper or not. If they perceive the change inconvenient, purchase probability will decrease. Marketers should survey how consumers evaluate the alternatives in the market.

Purchase: After evaluating the different products, a person came with a decision of purchasing. But this purchase step, sometimes does not end with the decided product. One of the factors can be, influence of the other such as a person close to us who recommends strongly another product or a salesman in the shop can convince the consumer that other brand is better than the selected product of the consumer. Another factor is the unexpected changes during the purchase. For example, one brand can decrease its prices relatively that day so that consumer can

change his mind in the shop or because of traffic, consumer is detained from the targeted retail chain and have to prefer the closer one instead.

Consumption: Following the purchase step, consumption of the product takes place. It is important to find out how consumers use the products as this will determine the satisfaction of the consumer and affect the pre-purchasing activities. Moreover, how the product is used as an indicator of lasting endurance.

Post-consumption Evaluation: As people begin to coalesce their purchased products to their habits, post-purchase evaluation starts. There are several researches showing that satisfaction of the consumers is decreasing in many sectors. When dissatisfaction arises, this will change attitude and behaviour towards that brand and will affect negatively the future consumption of the same product. Dissatisfaction sometimes occurs due to the big expectations of the consumed good and marketer advice sellers, not to exaggerate the properties of the products. So their consumers gain more satisfaction after the purchase and willing to buy again and circle this positive image among the other possible consumers in the sector.

Divestment: This is the last stage in the consumer decision process. Consumers can dispose, recycle or sell the product after they use. Depending on the environmental concern of the consumers, they can decide on whether to dispose or recycle the packing of the consumed good.

Consumer motivation towards pharmaceutical products

Health

Almost every consumer research indicates “health” as a dominant motivation towards consumption of medicines. People want to intake medical products for better health conditions or maintaining the present situation. Moreover, preventing and treating illnesses or food allergies is another health-related attribute.

Availability

For most consumers to go shopping that is near by the house has become a routine work and a way of time and money saving. Even if they want to buy medicines, they cannot reach their pharmacy, hence they prefer the retail pharmacies which could help them in door delivery.

Appearance

The appearances of the retail pharmacies have attracted by and large all the customers. The appearance of the retail pharmacy gives confidence about the availability of medicine. It also assures the different brands available for the consumption of single medicine. Major problem that keeps people away from retail pharmacies is the price difference. Most people are not willing to pay a premium for all medicines but, they wish to buy if there are more logical and affordable rates. Other reasons could be lack of availability and interest, doubts about chemical properties, poor quality and appearance.

Drivers of retail pharmacy:

- Increase in healthcare spending
- Growth in pharmaceuticals sector
- Changing disease profile
- Consumer attitudes
- Attractive margins
- Growth in OTC segment

Trends in retail pharmacy:

- Loyalty schemes
- Value added services
- Tie-ups with retail firms
- Rural expansion

- Entry of government in pharmacy retailing
- Entry of private labels
- Organized retailers starting pharmacy chains

Challenges of retail pharmacy:

- ❖ Fragmented industry
- ❖ Long distribution and supply chain
- ❖ Counterfeit drugs
- ❖ FDI regulations

Organised chain pharmacy:

The organized pharmacy retail market is dominated by big industrial houses like Ranbaxy's (**Fortis**), Pantaloon (**Tulsi**), Reliance Retail's (**Reliance Health and Pharma**) and Subhiksha as well as health care players like Apollo Hospitals Group's (**Apollo Pharmacy**) , **Medicine Shoppe** , Zydus Cadilla's (**Dial for Health**), Sagar Drugs & Pharmaceuticals' (**Planet Health**), Morepan's (**Life Spring**), Lifetime Healthcare's (LifeKen), Global Healthline (**98.4**), Guardian Lifecare's (**Guardian Pharmacy**), **MedPlus** to name a few.

Modes of Operation:

- Company Managed Stores - Company owned pharmacy outlets are owned and managed by company itself. Major pharmacy chains in India like Fortis, Apollo, Alchemist, Subhiksha and Dial for Health have their own pharmacy chains
- Franchisee - Medicine Shoppe, MedPlus, Medicine Shoppe operates through the model of franchisee stores in India.

Pharmacy Chain Formats:

- **Hospital Pharmacies** - They catered mainly to the requirements of patients admitted in the hospital. They were housed in the hospital building and

dispense a limited number of medicines. The average size of such stores is 150-200 sq. ft.

- **Retail Stores/Standalone stores** - The second category of stores, near the residential areas, provide the benefits of proximity to consumers. Some of these stores offered home delivery. The target customers of the store were educated middle and upper class households.
- **Malls/Shop-in-shops** - The biggest advantage, most retailers say, of having in-store outlets at supermarkets or departmental stores is the fact that popularity of either brand rubs off on the other. Guardian pharmacy recently signed an agreement to open outlets at Spencer's stores in East India and is negotiating rights for Northern India too. Spencer's has tie-up with LifeKen Medicines for store-in-stores at its daily stores in the South. New-u, retail outlet of H&B Stores Ltd. are located in malls.
- **Townships** - Many pharmacy chains are planning to set up their pharmacy chain in townships. Apollo is planning to set up Medicity near Pune. Apollo has signed an agreement with Hindustan Construction Co (HCC) to set up the Medicity inside the upcoming project named Lavasa near Pune.

Operational Pharmacy Chains in the Indian Market:

Apollo Pharmacy: A division of Apollo Hospitals Enterprises Ltd., is India's first and largest branded pharmacy network, with over 720 outlets in 17 states. Apollo pharmacy is accredited with International Quality Certification and is open for 24 hours. Apollo has more than 1000 pharmacies. It is giving free health insurance on purchase of above Rs. 6000 a year.

Fortis Healthworld: This pharmacy chain is promoted by the Singh family of Ranbaxy. It operates under two models - company owned and operated stores and franchisee owned stores. Currently Fortis has around 40 stores and planning to expand its presence to over 100 cities.

MedPlus Health Services: Hyderabad based pharmacy chain, MedPlus was launched in 2006 and currently operates more than 500 stores in Andhra Pradesh, Maharashtra, Karnataka, Tamil Nadu, Gujarat and Rajasthan. Mauritius based iLabs Management LLC has invested \$ 5.2 million in MedPlus.

Tulsi: Tulsi is a pharmacy retail chain of Future Group. Most of Tulsi outlets are located in Big Bazaar. Future Group currently has over 35 Tulsi outlets across the country.

LifeKen: Promoted by Lifetime Healthcare Pvt Ltd is a leading pharmacy retail chain in Bangalore and Chennai. LifeKen operates in total 82 stores in Bangalore, Chennai and Mumbai. The list comprises 37 LifeKen Stores, 11 Pill and Powder Stores and 7 stores in Spencer's Stores in Bangalore. LifeKen is planning to open new retail pharmaceutical chain in the cities of Mumbai, Pune, Hyderabad and Kochi and is also set to expand to other cities in South and West and then in North and East.

Guardian Lifecare Pvt. Ltd is North India's largest retail chain of pharmacy, wellness, health and beauty retail outlets. The company has 149 outlets in 16 cities. Guardian chain has grown to 400 stores by March 2010 and will be investing Rs.100 crore to fund its expansion.

98.4 Pharmacy: A pharmacy chain operating in Delhi and NCR is a brand of Global Healthline. Parent company has presence in Europe and the Middle East. 98.4 has 27 stores in India and is expected to ramp up the count to 300 by 2011.

SAK CRS: SAK Consumer Retail Services Ltd is a subsidiary of Delhi based business group, SAK Industries. Its store brand, CRS Health- the Wellbeing Place, is one of India's premier Retail Pharmacy brands. CRS Health stores have

representation in all major centres in India to include Delhi, Noida, Gurgaon, Pune and Chennai. There are more than 30 CRS Health stores in India.

Foreign Player:

Medicine Shoppe, the Indian arm of global chain Medicine Shoppe International started its operations in India in February 1999. Medicine Shoppe follows the model of franchisee stores in India.

Domestic Growth Drivers in Pharma Industry

Pharmaceutical sector is one of the most globalized sectors among the Indian industries. The downside is pharmaceutical sector traditionally has been immune to business cycles. The upside of Indian pharmaceutical sector, however, is influenced by a mix of global and local factors. Global factors are important as most Indian companies ship a major portion of their production to overseas markets. Also, multinationals operating in the Indian market follow central research and global marketing model. Their actions are largely dictated by global trends although local issues are given due importance. The domestic market is critical for both Indian companies and multinationals. For Indian companies, the domestic market lends stability to bottom line and offer means to cope with fluctuations in global demand. The growth drivers for Indian pharmaceutical market are:

- Growing population and improving incomes: Household incomes are rising in India; the proportion of middleclass in Indian population is also increasing. Statistics show a clear migration of population towards middle and upper classes. Rise in income levels is always accompanied by greater demand for medical facilities and pharmaceutical products. Middle class is already 70 million strong and is expected to grow even fast, accounting for a higher share of total population. Increase in living standards will lead to longer life expectance and higher consumption of drugs and health care services.

- **Changing lifestyles:** Rising incomes and improving literacy rates are leading to change in lifestyles. While incomes provide the means to access medical facilities and products, improving literacy boost awareness about diseases and lead to higher consumption of drugs. Changing lifestyles, however, is leading to a change in disease profile especially in urban areas. Hectic lifestyles and high cholesterol diets result in growing incidence of diseases such as cardiovascular diseases and cancer.
- **Research and Development:** The R&D efforts of Indian companies have been largely focussed on chemical synthesis of molecules and their cost effective production thereof. India has a large pool of technical and scientific personnel with good English language skills. Indian scientists have developed a high degree of chemical synthesis skills while engineers have developed competencies in producing molecules cost effectively. These skills have helped Indian companies tap generic markets abroad successfully in the past and will continue to do so.
- **Healthcare Expenditure:** Indian healthcare system is largely run by the govt with private sector playing a small, but important part. The healthcare system in India comprises government hospitals in cities and towns and a network of health centres in rural areas. This is supplemented by a string of private hospitals and clinics in largely urban areas. The public expenditure on health has been growing at a decent rate while private expenditure has been recording marginal growth.
- **Insurance sector giving a lift:** Indian insurance sector has been thrown open to private sector. Large sections of Indian population are not covered by health insurance schemes. Currently, less than 10% of the Indian population is covered by some form of health insurance.

Pharma Industry Advantages in India

Competent workforce:

India has a pool of personnel with high managerial and technical competence as also skilled workforce. It has an educated work force and English is commonly used. Professional services are easily available.

Cost-effective chemical synthesis:

Its track record of development particularly in the area of improved cost-beneficial chemical synthesis for various drug molecules is excellent. It provides a wide variety of bulk drugs and exports sophisticated bulk drugs.

Legal and financial framework:

India has a 53 year old democracy and hence has a solid legal framework and strong financial markets. There is already an established international industry and business community.

Information and technology:

It has a good network of world-class educational institutions and established strengths in Information Technology.

Globalisation:

The country is committed to a free market economy and globalization. Above all, it has a 70 million middle class market, which is continuously growing.

Consolidation:

For the first time in many years, the international pharmaceutical industry is finding great opportunities in India. The process of consolidation, which has become a generalized phenomenon in the world pharmaceutical industry, has started taking place in India.

Major Issues Concerning Pharmaceutical Companies in India

- **Failure of the new patent system:**

Prerequisites associated with Sec 3(d) of the Patent (Amendment) Act 2005 restrict the copyright of an existing drug. Moreover, mandatory licensing permits Indian companies to keep producing generics of copyright products for overseas selling to underdeveloped nations.

- **Lack of proper infrastructure:**

Issues associated with regular power cuts and lack of suitable transport infrastructure will decelerate the expansion of the sector.

- **Inadequate funds:**

Restricted funding from FIs, venture capitalists and the government may decelerate the expansion of biotechnology sector in India.

- **Regulatory impediments:**

Rising of due meticulousness and conformity with product standards leads to high costs and interruption in the launch of new products.

- **Severe competition:**

Low margins and restricted capital to assist research and development is the result of intense pricing competition among local producers. This rivalry will further deepen from the joining in of the big drug companies in the Indian market to control the cost benefit and large reserve sources.

Steps to Strengthen Pharma Industry

Indian companies need to attain the right product-mix for sustained future growth. Core competencies will play an important role in determining the future of many Indian pharmaceutical companies in the post product-patent regime after 2005. Indian companies, in an effort to consolidate their position, will have to increasingly look at merger and acquisition options of either companies or products. This would help them to offset loss of

new product options, improve their research and development efforts and improve distribution to penetrate markets.

Research and development has always taken the back seat amongst Indian pharmaceutical companies. In order to stay competitive in the future, Indian companies will have to refocus and invest heavily in research and development.

The Indian pharmaceutical industry also needs to take advantage of the recent advances in biotechnology and information technology. The future of the industry will be determined by how well it markets its products to several regions and distributes risks, its forward and backward integration capabilities, its research and development, its consolidation through mergers and acquisitions, co-marketing and licensing agreements.

The Future of Indian Pharmaceutical Industry

The dream of Indian pharmaceutical companies for marking their presence globally and competing with the pharmaceutical companies from the developed countries like Europe, Japan, and United States is now coming true. The new patent regime has led many multinational pharmaceutical companies to look at India as an attractive destination not only for research and development but also for contract manufacturing, conduct of clinical trials and generic drug research. With market value of about US\$ 45billion in 2005, the generic sector is expected to grow to US\$ 100billion in the next few years.

Indian companies are using the revenue generated from generic drug sales to promote drug discovery projects and new delivery technologies. Contract research in India is also growing at the rate of 20-25% per year and was valued at US\$ 10- 120million in 2005. India is holding a major share in world's contract research Clinical Research Outsourcing (CRO), a budding industry valued over US\$ 118 million per year in India, is estimated to grow to US\$ 380 million by

2010, as MNCs are entering the market with ambitious plans. By revising its research and development policies the government is trying to boost research and development in domestic pharmaceutical industry. It is giving tax exemption for a period of ten years and relieving customs and excise duties of all the drugs and material imported or exported for clinical trials to promote innovative research and development.

The future of Indian pharmaceutical sector is very bright because of the following factors:

- Clinical trials in India cost US\$ 25 million each, whereas in US they cost between US\$ 300-350 million each.
- Indian pharmaceutical companies are spending 30-50% less on custom synthesis services as compared to its global costs.
- In India investigational new drug stage costs around US\$ 10-15 million, which is almost 1/10th of its cost in US (US\$ 100-150million).
- Treatment to prevention, from generalised to personalised medicine, from distribution chain to direct consumer sales and from multilateral to unilateral regulatory regime.
- With market value of about US\$ 45billion in 2005, the generic sector is expected to grow to US\$ 100billion in the next few years.
- Clinical Research Outsourcing (CRO), a budding industry valued over US\$ 118 million per year in India, is estimated to grow to US\$ 380 million by 2010