Introduction to India’s Retail Sector:

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

India’s retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and big cities alike, introducing the Indian consumer to an unparalleled and new shopping experience.

The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India’s GDP.

<table>
<thead>
<tr>
<th>Country</th>
<th>Traditional</th>
<th>Organised</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>15</td>
<td>85</td>
</tr>
<tr>
<td>Taiwan</td>
<td>19</td>
<td>81</td>
</tr>
<tr>
<td>Malaysia</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>Thailand</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Indonesia</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>China</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>97</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Ernst & Young, the Great Indian Retail Story, 2006
Large Indian players like Reliance, Ambanis, K Rahejas, Bharti AirTel, ITC and many others are making significant investments in this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale. Hence, discounting is becoming an accepted practice. Proper infrastructure with modern facilities is a pre-requisite in retailing, which would help to modernize India and facilitate rapid economic growth. This would help in efficient delivery of goods and value-added services to the consumer making a higher contribution to the GDP.

**Segment analysis**

The structure of Indian retail is developing rapidly with shopping malls becoming increasingly common in the large cities and development plans being projected at approximately 150 new shopping malls by 2012. However, the traditional formats like hawkers, grocers and tobacconist shops continue to co-exist with the modern formats of retailing. Modern retailing has helped the companies to increase the consumption of their products for example: Indian consumers would normally consume the rice sold at the nearby kiranas viz. Kolam for daily use. With the introduction of organized retail, it has been noticed that the sale of Basmati rice has gone up by four times than it was a few years back; as a superior quality rice (Basmati) is now available at almost the same price as the normal rice at a local kirana. Thus, the way a product is displayed and promoted influences its sales. If the consumption continues to grow this way it can be said that the local market would go through a metamorphoses of a change and the local stores would soon become the things of the past or restricted to last minute unplanned buying.

**Food and grocery retail**

The food business in India is largely unorganized adding up to barely Rs.400 billion, with other large players adding another 50 per cent to that. The All India food consumption is close to Rs.9,000 billion, with the total urban consumption being around Rs.3,300 billion. This means that aggregate revenues of large food players is currently only 5 per cent of the total Indian market, and around 15-20 per cent of total urban food consumption. Most food is sold in the local ‘wet’ market, vendors, roadside push cart sellers or tiny kirana stores. According to McKinsey report, the share of an Indian household’s spending on food is one of the highest in the world, with 48 per cent of income being spent on food and beverages.
**Apparel retail**
The ready-mades and western outfits are growing at 40-45 per cent annually, as the market teams up with international brands and new entrants entering this segment creating an Rs.5 billion market for the premium grooming segment. The past few years has seen the sector aligning itself with global trends with retailing companies like Shoppers’ stop and Pantaloons entering the fray to entice the middle class. However, it is estimated that this segment would grow to Rs. 3 billion in the next three years.

**Gems and Jewellery retail**
The gems and jewellery market is the key emerging area, accounting for a high proportion of retail spends. India is the largest consumer of gold in the world with an estimated annual consumption of 1000 tonnes, considering actual imports and recycled gold. The market for jewellery is estimated as upwards of Rs. 650 billion.

**Pharmaceutical retail**
The pharma retailing is estimated at about Rs. 300 billion, with 15 per cent of the 51 lakh retail stores in India being chemists. Pharma retailing will follow the trend of becoming more organised and corporatized as is seen in other retailing formats (food, apparel etc). A few corporates who have already forayed into this segment include Apollo Pharmacies, Dr Morepen (with Lifespring and soon to be launched Tango), Medicine Shoppe, Dial for Health (Zydus Pharma), 98.4 from Global Healthline Pvt Ltd, and the recently launched CRS Health from SAK Industries. In the south, RPG group’s Health & Glow is already in this category, though it is not a pure play pharma retailer but more in the health and beauty care business.

**Music Retail**
The size of the Indian music industry, as per this Images-KSA Study, is estimated at Rs.11 billion of which about 36 percent is consumed by the pirated market and organized music retailing constitutes about 14 percent, equivalent to Rs.1.5 billion.

**Book retail**
The book industry is estimated at over Rs. 30 billion out of which organized retail accounts for only 7 per cent (at Rs.2.10 billion). This segment is seen to be emerging with text and curriculum books accounting to about 50 per cent of the total sales. The gifting habit in India is catching on fast with books enjoying a significant share, thus expecting this sector to grow by 15 per cent annually.
Consumer durables retail

The consumer durables market can be stratified into consumer electronics comprising of TV sets, audio systems, VCD players and others; and appliances like washing machines, microwave ovens, air conditioners (A/Cs). The existing size of this sector stands at an estimated US$ 4.5 Billion with organized retailing being at 5 per cent.

Investment Policy:

FDI Policy in the Retail Sector

India has kept the retail sector largely closed to outsiders to safeguard the livelihood of nearly 15 million small storeowners and only allows 51 per cent foreign investment in single-brand retail with prior Government permission. FDI is also allowed in the wholesale business. Single-brand retailers such as Louis Vuitton, Fendi, Lladro, Nike and Toyota can operate now on their own. Metro is already operating through the cash-and-carry wholesale mode.

The policy makers continue to explore areas where FDI can be invited without hurting the interest of local retail community. Government is considering opening up of the retail trading for select sectors such as electronic goods, stationery, sports goods, and building equipment.

The policy of permitting 51 per cent FDI in single-brand product retailing has led to the entry of only a few global brands such as Nike (footwear), Louis Vuitton (shoes, travel accessories, watches, ties, textiles ready-to wear), Lladro (porcelain goods), Fendi (luxury products), Damro (knock-down furniture), Argenterie Greggio (silverware, cutlery, traditional home accessories and gift items) and Toyota (retail trading of cars), into retail trading. A 12-billion euro French luxury industry is also eyeing the domestic luxury segment to make a presence through retailing directly.

An overview of Pharmaceutical Retailing:

The Pharmacy Retail Market in India is a considerably big market already but has tremendous scope to grow further. Retail pharmacy outlets happens to be the most dominant distribution channel that is responsible for satisfying customer needs of pharmaceutical and allied products directly.
The driving factors that are encouraging the pharmacy retail market among which the growing pharmaceutical market finds a prominent position. Increased healthcare spending, changing disease profile, growing OTC segment, consumer's attitude towards their disease and illness and lucrative profit margins evolve as the possible reasons for the industry to prosper. The key challenges of the industry have also been analysed of which fragmentation of the market into organized and unorganized sections is a primary reason. Others include long distribution and supply chain that involves too many middlemen in the business and the existence of counterfeit drugs.

The emerging trends that are being applied for improved pharmacy retail services that include aspects like loyalty schemes, value added services, counterfeit drug tracking, tele consultation service, government's participation in pharmacy retailing, organized players setting up retail pharmacy chains, entry of private labels and expansion of pharmacy outlets to rural belts of the country and availability of health insurance kits in the pharmacy outlets. The technological trends being adopted by the retail chains to draw in more customers by providing the loyalty and value added services. The technological advancements being used include Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) and Supply Chain management (SCM).

The $6 billion pharmaceutical retail market in India is witnessing major changes, with large drug producers, corporate hospitals and retail majors setting up pharmacy chains. India’s $6 billion domestic pharmaceutical retail market is in the midway of change as the old order is giving way to the new format. The crowded, neighborhood medicine stores are being replaced by swanky, large format pharmacy chains promoted by organized players that allow shoppers to browse through a vast range of products including not just medicines, but also body-care products in air-conditioned comfort.

The entry of organised players is changing the face of the pharmacy business, which today is highly fragmented. According to Technopak Advisors, of the total 800,000 stores across the country, the share of the organised market is just about three to four per cent. This is expected to grow to about 10 per cent within the next few years as the organised players expand fast. According to rough estimates, organised pharmacy is expected to grow at the rate of at least seven stores a month. The
sector is seeing the entry of new players including big industrial groups, retailers and independent entrepreneurs. New players include not just those with a pharmaceutical or healthcare background, but corporates from other sectors too. The Mukesh Ambani-led Reliance Group, the Aditya Birla Group, Pantaloon and Dabur, among others, are corporates that are likely to add pharma retail to their diversified portfolios.

The existing players too are on an expansion spree. Industry sources estimate that the sector could see investments of about $150 million over the next couple of years. This does not include big ticket investments by the likes of Fortis HealthWorld (over $200 million) and a possible $630 million by Reliance Retail.

The widespread interest in the pharmacy business is not without reason. The retail side too has been posting high growth rates. “The total retail pharmacy market will be growing at a rate of around 15 per cent, while organised retail pharmacy will be seeing a growth of anywhere between 35 and 40 per cent,” according to Technopak Advisors. Besides, the high margins – between 25 and 35 per cent – despite price controls, makes it a lucrative business.

Currently, the leading players in the organised pharma retail market include corporates like Apollo Hospitals Group’s (Apollo Pharmacy) and Ranbaxy’s (Fortis HealthWorld), international drug retail chain (Medicine Shoppe) and pharmacy chains set up by independent retailers like Guardian Life Care (Guardian Pharmacy), Lifetime Healthcare Pvt. Ltd. (LifeKen) and Global Healthline (98.4 degrees), Pantaloon (Tulsi), Reliance Retail’s (Reliance Health and Pharma), Manipal Group (Care & Cure), Zydus Cadila (Dial for Health), Sagar Drugs & Pharmaceuticals (Planet Health), Rosch Pharmaceuticals (Franc Rosch Pharmacy) and Optival Health Solutions (MedPlus)

According to industry estimates, almost $120 million has been invested in retail pharmacy so far. Apollo Pharmacy, which is part of the Apollo Hospitals group, has over 300 outlets (open 24 hours) across 17 states in India. One of the oldest corporate pharmacies, Apollo opened its first store in Chennai in 1983.

For Fortis HealthWorld, which kicked off operations last year, pharmacy is a logical extension for its healthcare business, notes Shivinder Singh, principal promoter and
director, Ranbaxy Laboratories (India’s largest pharma company) and managing director, Fortis Healthcare (a hospital chain).

Fortis plans to open a chain of 1,000 stores across India by 2014, of which the promoters have committed over $200 million. “We opened the first store in March last year and are likely to close this year with 50 stores,” says Ashish Pandit, ceo, Fortis HealthWorld.

Medicine Shoppe India is the master franchisee in India of US-based Medicine Shoppe International, the largest franchisor of independent community pharmacies in America. Medicine Shoppe started its operations in India in February 1999 and plans to open 1,000 stores by 2010.

“Apart from Tier I cities, we are also focussing on the fast growing Tier II cities like Pune, Baroda, Nashik, Lucknow, Varanasi and Mysore,” says Viraj Gandhi, ceo, Medicine Shoppe India.

An independent pharmacy retailer, the north-based Guardian Pharmacy currently has 100 stores, out of which 90 are company owned and the rest are franchises. The figure is expected to go up to 400 stores by March 2014.

The company has invested about $16 million in the stores so far. “We plan to invest an additional $50 million by March 2010,” says Ashutosh Garg, chairman and managing director, Guardian Life Care. Guardian has been posting a growth of 200 per cent each year and expects turnover to jump from nearly $20 million to $100 million within the next two years.

Other pharmacy chains too have planned major expansions. Delhi-based pharma retail store 98.4 Degrees, for instance, announced the opening of 300 stores. LifeKen plans to expand to 700 stores. Med Plus, in which private equity firm Labs has invested about $5.8 million, plans to set up 800 retail outlets.

Among the new players, Reliance is planning dedicated pharmacy stores, while the Aditya Birla group is planning to have pharmacy stores within supermarkets. The increasing competition in the sector is unlikely to result in a squeeze. “There definitely is space for many more players in the organised sector, but players must get the cost structure right,” says Mr. Subramanian. This would also help them to survive the wave of consolidation that is likely to sweep the sector in the future.
Almost all the major foreign players are eagerly waiting for policy changes to enter India. Currently, regulations permit 100 per cent foreign direct investment (FDI) only in single brand stores. “Pharma retail falls into the multi-brand category,” according to Technopak Advisors.

Alliance Boots, a UK-based $27.5 billion pharma, health and beauty retail major, is said to be planning its entry in the Indian retail market. Besides, local pharmacists too are learning to adapt themselves to new ways to ensure survival. For instance, pharma retailers in Ahmedabad in Gujarat have joined hands to start a retail pharmacy chain called Healthcare Pharmacy. They have opened a dozen stores in Ahmedabad. Pharmacies are also tying up with retailers to ensure wider distribution across new geographies. Apollo has tied up with Indian Oil.

Retailing, it is an emerging trend in India and Gujarat is not far behind which is also witnessing the stupendous growth and opportunities presented by this sector. Many institutions- Manufacturing, Wholesalers and retailers – do retailing, but most retailing is done by Retailers. A business wholesales come primarily from retailing. It is a proven fact that in India the retail industry has become the 2nd largest employer after agriculture. Indian retail sector is in boom period and many reasons are contributing to it.

The retail scenario in India is unique. Much of it is in the unorganized sector, with over 12 million retail outlets of various sizes and formats. Almost 95% of these retail outlets are less than 500 sq. ft. In size, the per capita retail space in India being 2 sq.
ft. compared to the US figure of 16 sq. ft. Thus India’s per capita retailing space is the lowest in the world.

With more than 9 outlets per 1000 people, India has the largest number of outlets in the world. Most of them are independent and contribute as much as 95% to the total retail sales. Because of the increasing number of nuclear family, working women, greater work pressure and increased commuting time, convenience has become a priority for the Indian consumers.

Though the growth numbers are encouraging, a key issue faced by the industry is management of the supply chain. Supply chain in India is highly fragmented with more than 550,000 retail pharmacies in the country. According to a report by bioplan Associates, though the number of distributors have increased by 4 fold in the last three decades, from 125,000 in 1978, the volume of prescriptions distributed have not increased proportionally. Hence it is evident that though there is a growth in the number of distributors and retail pharmacies, distribution is not very efficient. Also the rural markets remain highly untapped.

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

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

As per the report by Retail Mantra that provides updates on retail industry in India, India’s pharmacy retail is growing at rate of 20-25% annually with a current size of around $9 billion. The organized retail pharmacy outlets in India are close to 10,000 which operates either through the company owned and managed stores or through franchise model. Table 4.1 gives a list of major pharmacy retail chains in India.

<table>
<thead>
<tr>
<th>Company</th>
<th>Promoter’s</th>
<th>Outlets</th>
<th>Mode of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appollo Pharmacy</td>
<td>Apollo Hospitals Enterprises Ltd.</td>
<td>&gt;1000</td>
<td>Company Managed Stores</td>
</tr>
<tr>
<td>Fortis Healthworld</td>
<td>Fortis Healthcare</td>
<td>500</td>
<td>Both company owned &amp; franchise model</td>
</tr>
<tr>
<td>MedPlus Health</td>
<td>Dr. Madhukar Gangadi</td>
<td>800</td>
<td>Franchise Model</td>
</tr>
<tr>
<td>MedPlus Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tulsi</td>
<td>Future Group</td>
<td>35</td>
<td>Company Managed Stores</td>
</tr>
<tr>
<td>Lifeken</td>
<td>Lifetime Healthcare Pvt. Ltd.</td>
<td>82</td>
<td>Company Managed Stores</td>
</tr>
<tr>
<td>Guardian</td>
<td>Lifecare Pvt. Ltd.</td>
<td>400</td>
<td>Company Managed Stores</td>
</tr>
<tr>
<td>98.4</td>
<td>Global Healthline</td>
<td>300</td>
<td>Company owned</td>
</tr>
<tr>
<td>CRS Health- The</td>
<td>SAK Industries</td>
<td>30</td>
<td>Company owned</td>
</tr>
<tr>
<td>Wellbeing Place</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicine Shoppe</td>
<td>Medicine Shoppe International</td>
<td>1000</td>
<td>Franchise Model</td>
</tr>
<tr>
<td>Reliance Health &amp;</td>
<td>Reliance Retail</td>
<td>150</td>
<td>Company owned</td>
</tr>
<tr>
<td>Pharma</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planet Health</td>
<td>Sagar Drugs &amp; Pharmaceuticals</td>
<td>150</td>
<td>Company owned</td>
</tr>
<tr>
<td>Dial For Health</td>
<td>Zydus Cadila</td>
<td>200</td>
<td>Company owned</td>
</tr>
</tbody>
</table>
Apart from the companies listed in the table Surya healthcare is planning to have a pan India presence in the pharmacy retail market through 500 outlets of its new brand “Viva”. Besides the urban concept Surya Healthcare also plans to enter the rural sector with strategic tie-ups where the stores will provide basic healthcare, liaison on behalf of the patient with city hospitals along with providing branded and low cost generic medicines. Furthermore, provide low cost insurance, with meaningful health coverage to all strata of the rural sector (Source: www.vivayourfamilychemist.com). Life spring, owned by Morepan, is also planning to invest more than more than $ 10 million to set up another 50-60 stores by next year.

The organized retail in India is on a strong growth path and is expected to improve the pharmaceutical distribution system in India by improving the standards and bringing in latest technologies for supply chain management. These chains are also expected to cut down the counterfeit medicine distributed in India. Some pharmaceutical companies like Zydus Cadilla also see this as a big opportunity to improve the margins by cutting down the huge commissions that are being offered to the retail pharmacy stores. The industry is expected to boom with the easing of the foreign direct investment (FDI) norms in the pharmacy retailing.

The Wellness stores will offer health foods, personal care and healthcare products. Currently, seven stores have been set up – three each in Hyderabad and Bangalore and one in Mumbai and plans are on the anvil to set up 30 stores shortly. Reliance Retail plans to invest $6.3 billion in the retail business including investments across several retail segments.

Pharmacies are increasingly becoming an important part of most multi-format retailers. ‘More’ supermarkets launched by Aditya Birla Retail will house a pharmacy apart from the usual product categories available in the supermarket including fruits and vegetables, personal care and household general merchandise. “Aditya Birla Retail intends to be among the leading players in India,” says Sumant Sinha, ceo of the firm. The group ultimately plans to have a national presence in both the supermarket and hypermarket formats.

Pantaloon’s foray in pharmacy is through Tulsi, the Medicine Bazaar, a pharmacy housed within Big Bazaars and Food Bazaars at over 35 locations all over India. It allows customers the convenience of having their wellness needs met while they
shop. Dabur India has announced its foray in the retail business through a wholly-owned subsidiary, H&B Stores Ltd. Besides, companies like The Himalaya Drug Company, which specialises in ayurvedic products, are opening stores to showcase and sell their products. “We have 100 outlets currently and plan to double the number over the next two years,” according to a spokesperson of the company.

Pharma companies like The Himalaya Drug Company are opening stores in malls of large retailers to showcase their products at exclusive stores. There exist huge opportunities in the rural markets where healthcare facilities are minimal. While the poor would obviously go to the public healthcare facilities, affluent consumers in rural areas are under serviced at present. Realising the need to cater to this significant segment, many firms are customising their offerings for rural areas. Apollo Pharmacy, for instance, has tied up with ITC E-choupals (Choupal Sagar) and Godrej Aadhaar to provide quality medicines to rural India. Guardian has joined hands with DCM Shriram to set up its ‘Aushadhi’ chain of rural pharma retail outlets within the Haryali Kisan Bazaars, the rural initiative of DCM Shriram. Medicine Shoppe plans to open 350 Sehat stores (Sehat is a low cost clinic adjacent to the shop, present mainly in low income areas) in the next four years.

“The demand for medicines is likely to increase as diseases are diagnosed earlier,” says Gandhi of Medicine Shoppe India. The retail revolution sweeping across the country is changing the way Indians go about their healthcare spends. Consumers are now willing to pay a little more for convenience and quality. The growth of the organised sector ends in a win-win situation for both retailers and customers.

While the former have their eyes on the growing bottom-lines, customers are assured that the drugs they buy are genuine. In the future, India will continue to be seen as a promising market for pharma retailers as it has a large middle income consuming population that will increase its spending on healthcare and medicines as it ages.