MANAGEMENT CASE

describes a real-life situation faced, a decision or action taken by an individual manager or by an organization at the strategic, functional or operational levels

Planet Health

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In early 2001, 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. On the basis of a report submitted by SGI's consultants, Rohit Patel had to decide whether to enter the business or not and, in case the decision was favourable, chalk out the entry strategy and plans.

COMPANY BACKGROUND

Situated in Ahmedabad, Gujarat, 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 the late 1970s to Rs. 750 million in 2000. While the annual turnover had witnessed fluctuating growth trends, the group had registered a whopping increase of 660 per cent 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. The Ahmedabad Management Association (AMA) adjudged Rohit Patel as the Outstanding Entrepreneur of the Year for 1997. SGI was also involved in various social and professional activities including sponsoring a computer and training centre at AMA that would be run by IBM.

NEED FOR DIVERSIFICATION

By the year 2000, while the group was performing well in its current business, Rohit Patel realized that since China was emerging as a major player in chemical exports, the pharmaceutical business was likely to undergo a major change. The implemen-

KEY WORDS

Pharma Retailing

Customer Value

Retail Strategy

Category Management

tation of product patent regime under the WTO agreement by 2005[1] 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.

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. 9,000 billion of which the organized[2] 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.

[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.

[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.

INITIAL ASSESSMENT OF PHARMA RETAILING

Rohit Patel had known that the pharmaceutical drugs business was characterized by high trade margins of up to 40 per cent. 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 new 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 the 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. In the last decade, private final consumption expenditure (PFCE) on medical and healthcare services had doubled. The life expectancy was on the rise leading to increased consumption of health and lifestyle drugs (Exhibit 3). For Rohit Patel, the most interesting aspect of the business was that the recession and other macroeconomic factors had insignificant effect on the business of medicines.

PREVALENT RETAIL PRACTICES

The initial assessment helped Rohit Patel to think about venturing into pharmacy retailing. Since SGI did not have experience in retailing, he felt that it would be better to buy 50 on-going stores and, therefore, 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 because it was under repairs. In many areas, there were regular power cuts but there were no stand-by arrangements for power supply. This situation could lead to reduction in the efficacy of the drugs that needed to be kept under refrigeration. Also, a significant number of medicines were supposed to be stored at temperatures ranging between 8^0C and 24^0C. This required air-conditioning. However, very few stores were air-conditioned.

The drug stores/chemists[3] could be classified into three categories: those attached to hospitals, those around the 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 a large number of stores, the shoppers had to stand outside the store, be it hot summer or monsoon. As Rohit Patel rightly remarked, "The most important person in the business is the most neglected."

The SGI team found that the 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.

In 2000, 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 a times they even failed to return the expired medicines to the 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 PHARMA RETAILING

In the year 2000, Rohit Patel sought advice of an independent consulting firm for the SGI's generic formulations business and for exploring 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 equip-

[3] Drug store: A retail shop where medicines and other articles are sold. Chemist: A health professional trained in the art of preparing and dispensing drugs (http://www.hyperdictionary.com).

ment, and procedures as well as medical specialities—had witnessed tremendous modernization on par with global standards, pharma retailing was one area that 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 the time was ripe to take new initiatives in pharma retailing 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. According to him, 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. Moreover, 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 and carried out field visits of leading pharmacy retailers of the country and desk research.

Pharmacy Practices in the 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 per cent 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 analogues[4] 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 (other uses that are not clearly specified) 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 Apothecaries,[5] 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.

Study of Pharmacy Retail Chains in India

The consultants made field visits to understand the

[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' originated in the 14th century from the Greek word 'Apotheke' to describe one who prepares and sells drugs or compounds for medicinal purposes.

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 could truly take credit for successfully pioneering the culture of chains of drug store in the country. Apollo (a large chain started by the 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 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 ten countries (USA, Canada, Mexico, Taiwan, Philippines, Indonesia, Thailand, Malaysia, and Australia).

The visit report (Exhibit 4) outlines the different formats of the pharmacies, their strategies and operations, and broad results and prospects. Each of the stores differed in its business models. Most of them sold cosmetics and toiletries while Subhiksha mostly sold groceries. Also, many of them 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 a 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 which 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 pharmacists 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. Referred to as the 'good pharmacy practices' (GPP), it described the standards for quality of pharmacy services. 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 healthcare 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 5, 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 stand-by 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 Gujarati. As Rohit Patel wanted the chain to be pan-Indian, Hindi and Gujarati 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. 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 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
- 24X7 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 or pilferage, 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 per cent of the sales while occupying 20-25 per cent 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 healthcare. 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 the retail stores carried a wide variety of drugs (2,000-10,000 SKUs), about 20 per cent of them contributed to more than 75 per cent 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 per cent of the medicine sales in most of the stores. For providing a high level of service, it was proposed to include a number of subcategories in Planet Health 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 6.

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 it.[6] However, there was a threat of the likely resistance from traders' association in terms of boycotting the products and stopping their sale 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 per cent. 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 decode these 'non-accessible' codes. Nevertheless, shrinkage of 1 per cent was expected. The estimated investment in hardware and software for this purpose would be Rs. 2 million (for six stores). 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 up the medicines and leave the store. In order that a good shopping experience was provided, it was planned to provide a 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.

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 a complete 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 7.

Store Design and Layout

The following guidelines were kept in mind while designing the layout of the store. 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 and 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 have to wait for long for billing and deliveries,

[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 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. The store also had to provide for night working with adequate safeguards.

Promotion

The launch of Planet Health was to be planned in one town and 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 media would also be very expensive. The local language newspapers would be, in fact, 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) free-standing 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 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 (Exhibit 8). 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 General 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 in alphabetical order so that even someone with minimum knowledge of English could locate and/or fill the orders. The current practice was to stock the drugs according to the manufacturers' name. This was followed to facilitate the supplier's salespersons who 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 attend to the customers' requirements.

Recruitment of suitable pharmacists and recruitment and training of front-room and back-room staff were 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 and presented the detailed financial projections for different store formats (Exhibits 9a and b). At the end of the 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 compared to the competing retail formats. He was concerned whether the revenue projections would turn out to be right. He looked at the statements and said to the presenting team, "The whole thing sounds interesting but let me sleep over it" and left the room.

Exhibit 1: Sales and Net Worth Growth

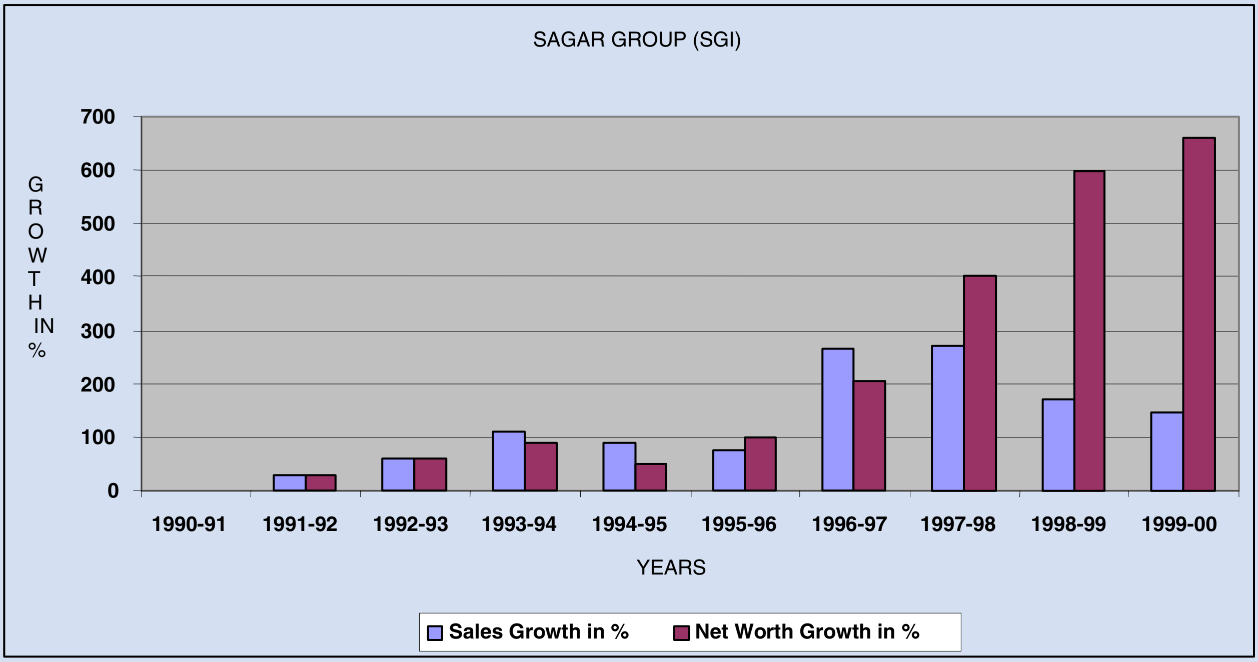

Exhibit 2: Range of SGI Products

Dye and Dye Intermediates

- Vinyl Sulphone Ester (Acetanalide Base)
- Vinyl Sulphone Ester(Ortho Anisidine Base)
- Vinyl Sulphone Ester (Para Cresidine Base)
- Vinyl Sulphone Ester (2:5 Dimethoxy Aniline Base)
- Acetanalide
- 4'4' Diamino Stilbene 2'2' Disulphonic Acid
- 4'4' Dinitro Stilbene 2'2' Disulphonic Acid
- 4' Nitro 4' Amino Stilbene 2'2' Disulphonic Acid
- Para Amino Azo Benzene 4' Sulphonic Acid
- Para Amino Azo Benzene 3'4' Disulphonic Acid
- 1,3 Phenelene Diamine 4 Sulphonic Acid
- 3 Amino Acetanilide 4 Sulphonic Acid
- 1,3 Diaminobenzene 4,6 Disulphonic Acid
  4 Nitro 2 Amino Phenol
  1,4, Phenelene Diamine 2 Sulphonic Acid
- Nigrosine (Spirit Solution)
- Nigrosine (Water Solution)
- Nigrosine (Oil Solution)

Bulk Pharmaceuticals

- Sulphamethoxazole I.P., B.P.
- Ciprofloxacin Hydrochloride U.S.P.
- Ciprofloxacin Lactate
- Analgin I.P.
- Sodium Methoxide Solution in Methanol
- Trimethoprim I.P., B.P.
- 2- Mercapto-5- Methoxy Benzimidazole
- Astemizole
- Enalapril Maleate U.S.P
- Omeprazole
- Acetamide

Fine Chemicals

- Sodium Bi Sulphite
- Sodium Sulphite
- Stannous Chloride
- Aniline Salt
  Ammonia Bi Sulphite

Fatty Acids and Derivatives

- Stearic Acid
- Rice Bran Fatty Acid

Source: Company records.

Exhibit 3: 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)	14,698	16,065	17,557	19,543	27,859	32,923	37,341	45,899	65,340	83,253	83,517	98,168
% 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 4: Other Pharmacy Retailers in India

Apollo Hospital Pharmacy Chain

Apollo Hospital, Chennai has set up a chain of 60 pharmacies under the following categories:

Hospital pharmacies: These are pharmacy stores attached to the Apollo Hospital. They are presently operating at Chennai, Hyderabad, and Delhi. The Chennai hospital pharmacy (admeasuring 250/300 sq. ft.) records a daily sale of Rs. 0.3 million (Rs 110 million/annum). The pharmacy stocks around 6,000 Rx brands/presentations. Almost the entire business comes from Rx products. The consumption of Rx and other hospital products is not included in this turnover. The pharmacies at Hyderabad and Delhi have achieved daily sales of Rs. 0.1 million and Rs. 0.15 million respectively. During the current year, additional hospital pharmacies were planned to be set up at Apollo's upcoming and new hospital projects at Coimbatore, Madurai, and Chennai.

Clinic pharmacies*:* These are pharmacy stores attached to an Apollo Clinic. The Clinic pharmacies are attached to Apollo Clinics at Chennai, Hyderabad, and Vishakapatnam. The pharmacy attached to Apollo Clinic, T. Nagar, Chennai has a daily sale of Rs. 60,000. Depending on the location and flow of visitors to the attached clinics, other clinic pharmacies are registering daily sales of between Rs.15,000 and Rs. 40,000. The interior of each pharmacy changes from place to place depending on the availability of space although one common feature is that the furniture is made of white cedar wood finish. All clinic pharmacies are open round the clock, seven days a week.

IOC pharmacies*:* Apollo has entered into an agreement with IOC, the country's largest petroleum retail company, to set up around 100 pharmacy stores at their petrol pumps. About 20 such stores have been set up in Chennai, Delhi, Hyderabad, Ahmedabad, and Gandhinagar. Under the present arrangement, the Apollo Hospital is required to pay to the IOC a lumpsum amount of annual lease rent based on the location of the respective petrol pump and 4 per cent royalty on the sale of its products.

Stand-alone Day and Night Pharmacies*:* Apollo operates around 45 stand-alone day-and-night pharmacy stores. The size of these stand-alone stores, depending on the location and its residential/commercial potential, could vary from 150 to 350 sq. ft. Most of the stores in this category, however, are close to 150 sq. ft in size. The standalone locations could include high traffic areas like the airport. All these stores operate on 24x7 format. Apollo has plans to start stand-alone pharmacies in all district headquarters of Tamil Nadu and a couple of stores in New Delhi soon. The total sales of the stand-alone day-and-night pharmacy stores in Chennai are estimated to be between Rs. 0.4 – 0.45 million per day (average daily sale: Rs. 20,000 per store). These pharmacies record higher sales (55 – 60%) in the night shift. The sale of Rx products (approximately 6,000 brands/presentations) accounts for 80 per cent of total sales by value. The non-Rx products account for the balance 20 per cent of total sales by value.

Purchasing

Apollo has centralized all its procurement operations of pharma products by obtaining stockistship of 160 pharma companies in the respective states through its group company, Keimed, headquartered in Hyderabad. OTC and FMCG products are procured through local stockists of the respective companies. Apollo places a lot of emphasis on direct procurement of Rx products as they offer the highest contribution of around 34 per cent comprising 20 per cent retailer's margin, 10 per cent stockist's margin, and 4 per cent discount against cash payments. Against this, while the contribution on OTC products varies from 10 to 20 per cent, it varies between 8 and 12 per cent on FMCG products. For this reason, Apollo is not too keen on promoting the sale of non-Rx products.

Storage and Distribution

Apollo's central storage and distribution units are located in Chennai, Hyderabad, and Bangalore which service the requirements of stores located in respective territories. The distribution of Rx and non-Rx products to pharmacies in Chennai (except for hospital pharmacies) is centralized through the central distribution cell. The salient features of the Chennai central unit are as under:

Area:	1200 sq.ft.
No. of employees:	33
Transportation vehicles:	LCV – 1, Van – 1
Operating days:	365
Frequency of delivery:	Alternate Day
Stock:	6,000 Rx brands and 4,000 non- Rx brands. A few Ayurvedic products are stocked. Imported products are not stocked.

Health & Glow

'Health & Glow' is a pharmacy retail chain promoted by RPG Guardian Ltd. (an RPG Group company) in a 50:50 joint venture with Dairy Farm International (DFI) and is modelled on the famous 'Guardian' chain stores of Singapore. DFI is a large international retailer based in Hong Kong with over 2,500 outlets spread over Singapore, Hong Kong, Malaysia, Australia, and New Zealand and has a turnover of US$ 12.8 billion. Health and Glow launched it first store in February 1997 in Anna Nagar, Chennai. In a year's time, more stores were started in other areas of Chennai. The stores stock over 4,500 products consisting of a wide range of medicines, cosmetics, skin care products, hair care products, medical care products, health foods/drinks, special diet products, fitness products, music cassettes and CDs, and many more items of personal use. The stores are aesthetically designed and offer a very pleasing environment although the materials used for making display shelves is of average quality. The Rx section in true multinational style stands out as the franchiser company's Hong Kong outfit has provided the décor. Currently, the chain operates about ten pharmacy outlets in Chennai and three retail outlets in Bangalore. The retail outlets range from 400 to 800 sq.ft. in size and register a daily sale of Rs. 20,000 to Rs. 40,000. All the outlets are operated on company ownership basis with premises on lease rent. The company has approximately 100 employees to manage their

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retail outlets in Chennai. Health & Glow believes in encouraging bulk purchases by its customers. It offers 10 per cent discount on single Rx purchase of over Rs. 1,000/-.

Muthu Pharmacy

Muthu Pharmacy operates a chain of 14 pharmacy stores in Chennai. The main pharmacy located in Pursawalkam area of Chennai has a daily turnover of Rs. 65,000 (70% Rx products and 30% Non-Rx products). This outlet is considered to be the largest-sized pharmacy outlet in South India. The company stocks approximately 8,000 pharmaceutical (Rx plus OTC) products. The pharmacy offers counselling and door delivery facilities to its customers. It proposes to start quick delivery service with two independent telephone lines to book telephonic orders from its customers. It does not believe in offering discounts to its customers as it feels that the customers are most interested in timely availability of genuine products and quick delivery of required items at the customer's doorstep.

Tru Value

Tru Value was a pharmacy chain promoted by TDPL (Tamil Nadu Dadha Products Ltd., a company taken over by Sun Pharma Ltd., Mumbai). The chain operated around 15 pharmacy outlets in Chennai. The outlets used to offer Rx products at an across-the-board discount of 10 per cent and hence ran into trouble with the local trade (distributors + retailers). The trade association stopped supplies through its members and the chain was forced to close down its business.

Subhiksha

Subhiksha, meaning excellent health in Sanskrit, is a chain of pharmacy and grocery stores in Chennai. The chain operates about 80 stores in Chennai and 20 stores in the rest of Tamil Nadu with an average daily sale of Rs. 40,000 per outlet. Subhiksha's main emphasis is on items of grocery and provisions which account for 90 per cent of its total sales. Rx products account for the remaining 10 per cent. Most of the private medical stores look cleaner and well presented than Subhiksha.

Model Pharmacy Project, New Delhi

M/S Apothecaries Ltd., New Delhi, has set up a 'Model Pharmacy' at Hamdard University. The pharmacy was commissioned in April 2000 and operates on a 24 X 7 basis. The daily sale has grown from Rs. 15,000 on the first day to Rs. 26,000 in May 2001. The store occupies an area of 600 sq. ft. with an additional area of 100 sq. ft. for counselling. The average inventory level is Rs. 1 to 1.2 million (equivalent to 40/45 days sales). The stores employ a total of 14 pharmacists (ten regular employees and four trainees). The medicine sales (Rx + OTC products) account for almost 85 per cent of total sale. Cosmetics and other FMCG products contribute the balance 15 per cent of total sales. The sale of Rx products is around 60 per cent of medicine sales. The OTC products contribute 35 per cent of total sales. The peak sale hours are from 8 am to 2 pm as 60 per cent of daily sale happens during this period. The night shift (8 pm to 8 am) accounts for only 10 per cent of daily sale. The location of the outlet within the hospital premises (especially OPD timings) governs the peak sale period. The pharmacy caters to the needs of Hamdard University campus population (1,000 families) and residential population of surrounding areas like Alaknanda.

The pharmacy does not dispense the medicine without prescription and dispensed prescriptions are marked as 'Dispensed'. However, at times, dispensing without prescription is undertaken (a) to a known patient suffering from chronic ailments and known to be consuming the medicine on a regular basis or (b) to a patient appearing genuine. The dispensed medicines are marked with patient useful instructions and are packed in a paper envelope/box or plastic bag displaying the Model Pharmacy catch line 'Rx Pharm Assist' in bold. The supply of medicines is invoiced using custom software and every dispensing is invoiced. The small value supplies (where the customer does not care to have invoice) are invoiced through an 'open bill' for the shift/day. The pharmacy does not undertake 'substitution' without consulting the doctor and substituted supplies are marked as "Please refer to your doctor." The pharmacy does cut strips and stocks the balance quantity in packets. The inventory is maintained using an alphabetical classification system and all brands containing the same AI are kept in a common box. The procurement/purchase of medicines is done through the local distributors and hence the store has to work on 'retailer's margin' basis. The average margins are: 9-10 per cent for well-advertised FMCG goods/cosmetics, 12-13 per cent for other FMCG products, 18-20 per cent for Rx products, above 20 per cent for generic Rx products, 100 per cent for surgical products, and 15-45 per cent for OTC and proprietary products. The pharmacy store has obtained licenses for wholesale as well as retailing of all categories of medicines. The pharmacy occasionally runs promotion programmes (screening sessions, disease workshop, counselling sessions, etc.) in the community area. Sometimes, during these programmes, a discount coupon (worth Rs.10) is given to attract the customers. The pharmacy does not seem to make any other promotional effort in a serious manner. It has so far not been able to expand to multi-locations (except for a very small outlet in Delhi with a daily sale of Rs. 6,000) in spite of willingness to offer franchising free of cost. The lack of strong marketing and commercial capabilities appears to be the key reason for absence of growth.

All India Chemist and National Medical Store

The All India Chemist and National Medical Stores has two stores located in the subway connecting AIIMS (All India Institute of Medical Sciences) Hospital and Safdarjung Hospital. Both the stores operate from very small premises (barely 150 sq.ft. each) and occupy a part of subway width to conduct business. The daily combined sale of both the stores is estimated to be Rs. 0.4-0.45 million.

Medicine Shoppe

'Medicine Shoppe' is a franchisee-based retail drug store chain promoted by Cardinal Healthcare Inc., USA. It operates 1,400 stores in ten countries (USA, Canada, Mexico, Taiwan, Philippines, Indonesia, Thailand, Malaysia, and Australia). In India, it operates through a franchisee, Melrose Trading Company Ltd., Mumbai, a company promoted by Dolphin Laboratories and CI Gandhi family of Calcutta. It started its operations in 1998. The company has set up 11 'Medicine Shoppe' drug stores. It has planned to set up 65 franchisee outlets in Western India during the year 2001-2002. The company has an ambitious plan to set up a chain of 500 'Medicine Shoppe' stores by 2005. It lays great emphasis on the opening day sale of its new outlets. Melrose set up the first 'Medicine Shoppe' drug store at Lokhandwala complex, Andheri, Mumbai in February 1999. Initially, the company operated this store for nine months to gain retailing experience and develop franchising plans for the Indian market. The average opening day sale is reported to be Rs. 16,000. Its marketing efforts are focused towards increasing retail outlet memberships. Generally, a membership of 500 is achieved on or before the opening day. The merchandising department negotiates special discounts with non-pharma suppliers for supply of such goods to franchisee outlets. These discounts are then passed on to the outlet members. Generally, 4/5 products are offered under special discount schemes every month. 'Medicine Shoppe' outlets offer a set of marketing programmes such as:

- loyal customer programme (5% discount to members whose purchases exceed Rs. 600 within a period of two consecutive months).
- referral programme (Rs. 10/ Rs. 20 discount offered to members for referring a new member)
- display shelves hire scheme
- promotion schemes.
- free checkup/screening on specified dates at the outlet
- free counselling sessions on specified dates at the outlet.

The franchisee outlets obtain their prescription drug supplied directly from the approved local distributors. Melrose assists in negotiating the terms of supply with these distributors. It permits the franchisee outlets to sell drugs (26 categories), customer products (13 categories) and surgical products (not specified). It proposes to

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undertake centralized purchase of the prescription drugs in the long run.

During the initial period, the franchisee is advised to maintain the stocks/inventory equivalent to two months' sales. It is required to target reduction in stocks/inventory to one month's sales level after a period of one year. Melrose provides a 'start-up list' and initial order quantities of medicines to 'Medicine Shoppe.' The 'Medicine Shoppe' outlet at Calcutta has entered into a corporate tie-up with ITC to supply medicines at a special rate to its employees at a nearby Calcutta office. Melrose provides five days' training to the owner and pharmacist of the 'Medicine Shoppe' franchisee outlet prior to opening of the outlet. The outlet employs two pharmacists, two assistants, and one helper supervised by an outlet manager who is also responsible for accounts and inventory management. The stores are run for 14 hours from 8 am to 10 pm and employees work in two shifts.

Exhibit 5: Guidelines for Developing the Business Concept

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 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 6: Categories Planned

First Level Categories	Second Level Categories	Third Level Categories
Healthcare products	Pain relief	11
	Cough and cold	8
	Stomach remedies	10
	Diabetes management	8
	First-aid	17
	Anti-allergens and sinks	4
	Anti-smoking	2
	Bandages and supports	6
Vitamins and nutritional care products	Diet and nutrition	10
	Vitamins	12
	Minerals and nutrients	9
	Other supplements	12
Baby care products	Accessories	6
	Diapers and bath needs	5
	Food and formula	2
	Health remedies	8
Personal care products	Deodorants and anti-perspirants	6
	Eye and eye care	10
	Family planning and contraceptives	6
	Feminine care	8
	Foot care	10
	Hair and scalp care	7
	Health appliances	11
	Incontinence	6
	Mouth care	12
	Shaving needs	6
Beauty care products	Bath and spa	8
	Cosmetics	16
	Fragrance	3
	Skincare	14
	Manicure/Pedicure	8
	Hairstyling and colours	9
Foods and snacks products	Candy and gum	4
	General grocery	8
Alternative medicines and other products	Nutritional products	2
	Hosiery	8
	Personal gymnasium equipment	3
	Ayurvedic preparations	na
	Homeopathic preparations	
	Herbal products	2

Exhibit 7: 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.	1,000 sq.ft.	2,000+ 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 and surgical products	Infusions and surgical products	Infusions and surgical products	Infusions and surgical products
Healthcare products	Healthcare products	Healthcare products	Healthcare products
Vitamins and nutritional products	Vitamins and nutritional products	Vitamins and nutritional products	Vitamins and 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 and snacks
		Ayurvedic preparations	Pets products
		Homeopathic preparations	Herbal preparations
			Ayurvedic preparations
			Homeopathic preparations

Exhibit 8: Organization Chart

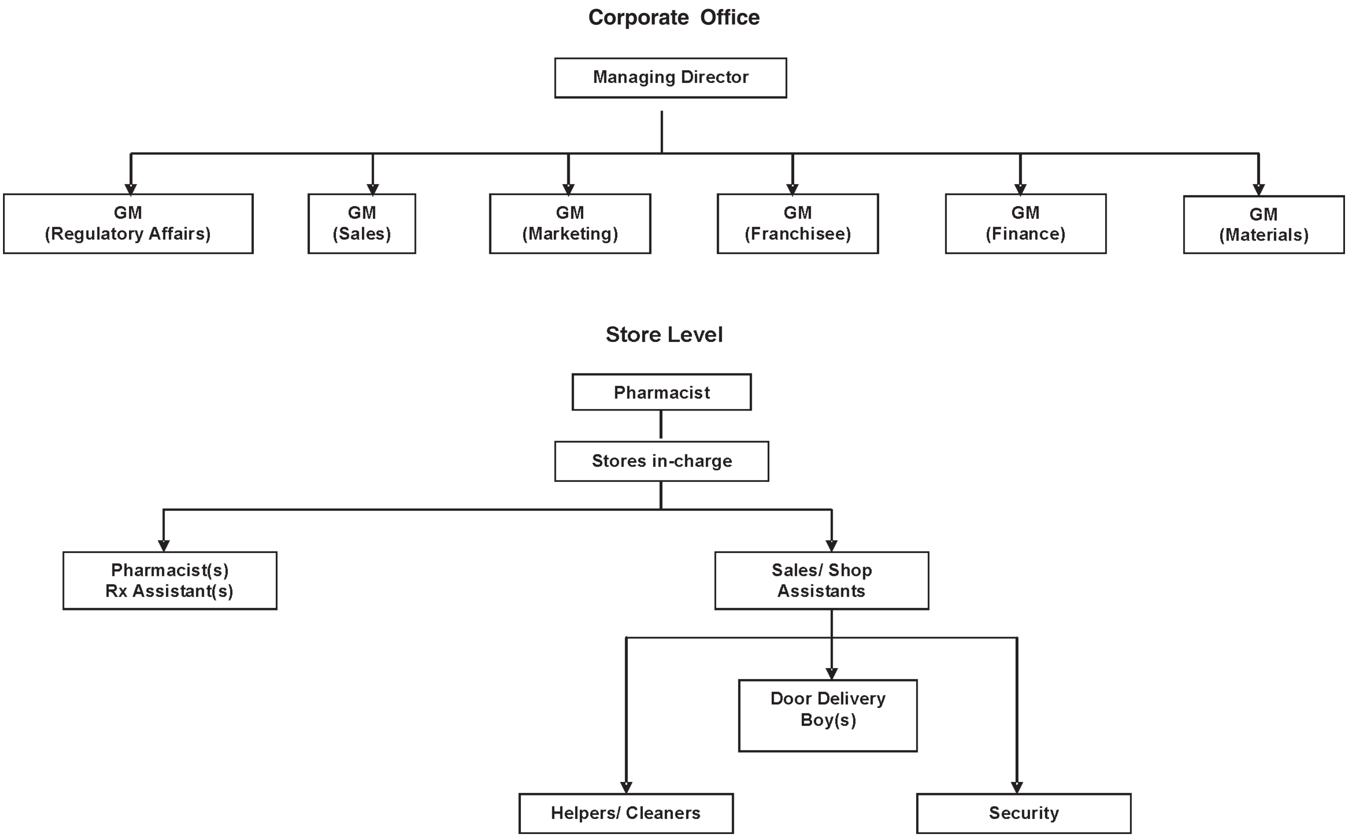

Exhibit 9a: Profitability Analysis

Summary Profit and Loss Estimates (in Rs. '000)

Particulars	250 Sq. ft. Store					500 Sq. ft. Store				
Year	**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	6,205	8,067	10,486	13,108	16,385	8,760	11,388	14,804	18,506	23,132
Percentage of 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 per annum	1,142	1,528	2,014	2,553	3,236	1,590	2,128	2,847	3,659	4,573
Gross income	1,212	1,638	2,168	2,756	3,498	1,703	2,310	3,097	3,986	4,992
Interest on fair value of premises per annum	112	112	112	112	112	224	224	224	224	224
Gross expenses per annum	1,259	1,499	1,835	2,255	2,642	1,882	2,215	2,684	3,271	3,808
Net profit per annum	-48	139	333	501	855	-179	95	413	715	1,184
Cash profit	250	426	612	781	1,140	314	575	883	1,187	1,661
Cumulative cash flow	250	676	1,288	2,070	3,210	314	888	1,771	2,958	4,619
Capex	**1121+215+745=2081(250 Sq.ft)**					**2243+354+1088=3684(500 Sq.ft)**				

Particulars	1,000 Sq. ft. Store					2,000 Sq. ft. Store				
Year	**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	10,585	13,761	17,889	22,361	27,951	13,870	18,031	23,440	29,300	36,625
Percentage of 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 per annum	2,038	2,723	3,588	4,546	5,758	2,836	3,736	4,920	6,229	7,984
Gross income per annum	2,160	2,916	3,854	4,892	6,201	2,975	3,950	5,213	6,610	8,471
Interest on fair value of premises per annum	449	449	449	449	449	897	897	897	897	897
Gross expenses per annum	2,428	2,808	3,344	4,018	4,625	3,428	3,899	4,568	5,406	6,150
Net profit per annum	-268	108	509	875	1,576	-454	51	645	1,205	2,321
Cash profit per annum	608	970	1,361	18	2,437	1,064	1,551	2,135	2,694	3,820
Cumulative cash flow	608	1,578	2,939	4,667	7,103	1,064	2,615	4,750	7,444	11,264
Capex	**4485+494+1916=6897 (1,000 Sq.ft)**					**8970+642+2938=12550 (2,000 Sq.ft)**				

Exhibit 9b: Profitability Estimates (500 sq.ft)

	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**	**2128**	**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 and 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 and 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	224	224	224	224	224
Amortization	53	53	53	53	53
Depreciation	142	142	142	142	142
Deferred revenue expenditure	18	18	18	18	18
Int., Amortiz., Dep. and 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	1187	1,661
Cumulative cash flow	**314**	**888**	**1,771**	**2,958**	**4,619**

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Preshth Bhardwaj was a Trainee Academic Associate in the Marketing Area of the Indian Institute of Management, Ahmedabad at the time of writing this case.

The edges of things are always deceptive.
because we are taught to believe
in endings and beginnings.
but the truth is:
There Are No Borders.

— Pavithra Mehta