



## PHARMACEUTICALS EXPORT PROMOTION COUNCIL

(Set up by Ministry of Commerce, Govt. of India)

COPY

Date : 26-07-2010

News / Story reproduced with thanks:- **Financial Express**

### Private labels knock at chemist stores

**BV Mahalakshmi, Sudhir Chowdhary**

Posted: Monday, Jul 26, 2010 at 2026 hrs IST

Updated: Monday, Jul 26, 2010 at 2026 hrs IST

Direct link to the News/Story:-

<http://www.financialexpress.com/news/private-labels-knock-at-chemist-stores/651498/3>

Pharmaceutical retail space in the country is in the midst of a major upheaval. The recent move by All India Organisation of Chemists and Druggists (AIOCD), which claims to have over 6 lakh drug retailers and 60,000 distributors as its members, towards cohesive branding has pitted the retail chemists directly against pharmaceutical companies and large drug retail chains. The Rs 5,000-crore domestic market for common off-patent drugs—commonly called generic medicines—and over-the-counter (OTC) products which are targeted at a wide variety of common ailments and lifestyle disorders, is an obvious enticement for the warring parties.

While chemists feel that the move by their industry body will help them fetch better margins and market their products in an organised manner in the fragmented and highly competitive pharmaceutical retail space, pharmaceutical companies are quick to dismiss the move as still-born. GV Prasad, vice-chairman and CEO, Dr Reddy's Laboratories, says, "Private label unbranded generic products may not be a big business as there are no incentives for leading manufacturers in the country. Since there is not much of a difference in branded and commodity prices in the country, there is less of business interest as well."

A Sun Pharmaceutical official is even more cryptic in his criticism. "Unbranded generic medicines, also called generic-generic products, made by many recognised companies have been available for a long time and are sold by retailers. Hence, AIOCD would be one more player in this segment. We do not expect to see any major changes in the market place," he informs. A lingering fear, yet spoken in hushed whispers is this: Pharmaceutical companies fear private label drugs from chemist retailers may hamper sales of their branded generics as the latter can influence the consumer with cheaper options.

Pharmaceutical companies are also quick to point out to the lukewarm response accorded to the government's ambitious attempt to sell generic medicines at half the cost of branded ones through its Jan Aushadhi programme. It has been over one and a half years since the government-owned drug retail stores were set up in Punjab, Delhi, Rajasthan and Haryana. Barely 25-30 of such stores are functional at present. While private pharmaceutical companies have stayed away from supplying generic medicines at a very low cost to the Jan Aushadhi stores, the supply is managed by public sector drug companies with insignificant drug portfolios. In a nutshell, the drug shelves of these stores remain vacant and the programme seems to be dying a natural death, a healthcare analyst informs.

However, AIOCD chairman JS Shinde remains unfazed by the mounting criticism and is ready with his counter arguments. "Pharmaceutical retail sector in the country is largely unorganised. The margins are very less for chemist retailers, yet there is fierce competition. Private labels will not only bring steady

revenues to the retailers and distributors, these products will show a new direction to the domestic pharmaceuticals sector by transforming the unorganised pharma retail into an organised market. Through private-label sales, the retailer can avoid middlemen in the supply chain.”

Interestingly, as of today, only 20% of the chemist’s revenue comes from OTC drugs, still they are quite supportive of the idea of more OTC drugs being introduced. In fact, drug retailers see themselves as active torch-bearers of the OTC movement and therefore, are gung ho on launching more OTC drugs. After all, it gives them more flexibility to drive the sales of the brand which they wish to push.

The recent upheaval traces its genesis to the move undertaken by AIOCD, which has embarked on an ambitious foray to introduce 100 private label unbranded generic medicines such as analgesics, cold and cough syrups, dietary supplements, among others. A company has been set up for the purpose. The move will automatically transform drug retailers into producers and marketers.

In the first takeoff stage with Ernst & Young as consultants, AIOCD is expanding its distribution across 15 states with 100 products. Shinde says, “In this conversion process, we will look out for space and provide training to the chemists who are dealing with the business of low-cost model. These drugs would be only the decontrolled products and not the prescription drugs. This business model is targeting the rural and below poverty line families, who have no access to medicines at all. Therefore, low-cost drugs especially for acute care, is the ultimate solution.”

AIOCD is hopeful of achieving a turnover of Rs100 crore in the next two years. The industry forum also intends to undertake rebranding of the chemists’ outlets under a common brand, new storage practices, cold chain management and uniform logistics.

“We are a corporate company for the traders. A separate platform has been created and these generic products of private label would be branded under the name ‘Java’. Good pricing and packaging is very essential to play in this game,” says Shinde. “In its next phase, AIOCD is planning to export Java products. We have enquiries from Australia , South Korea , London , Africa and Gulf countries and are in talks.”

A pertinent point to be noted here is that private label products are common in the West among drug retailer majors like CVC, Cardinal Health or Walmart. India ’s domestic pharmaceuticals retail market is estimated at around Rs 21,000 crore. There are around 7 lakh chemists and 60,000 wholesalers in the country.

Still, there are disparities in the manner chemist outlets are dispersed. For instance, the urban market in cities like Delhi , Chennai, Mumbai, Kolkata and Bangalore is over-served, while the smaller towns and rural markets are under-served. It is also pertinent to note that drug retail chains such as Apollo Pharmacy, Guardian Lifecare, Medplus, Religare Wellness and Trust Pharmacy are gearing up to introduce their private labels in a big way.

Healthcare analysts point out that the impact by the new category is too early to find out. Market development in India will depend, more than anything, on government moves to increase the population’s access to medicines, which is now extremely limited. As Muralidharan Nair, partner, life sciences, Ernst & Young explains: “Organised retail in the country is yet to catch up in the country. The breakeven point for the existing players is still far. With self-medication and awareness on diseases increasing, the chemist plays the role of a health advisor.”

Nevertheless, there has been, of late, lot of action happening in the pharmaceutical retail space. And the biggest concern for the chemists is how to sustain and grow the business in a highly competitive scenario. In this backdrop, whether the drug retailer has a head start in profiting from brand-building remains to be seen.