

Problem Definition

What we vision to solve

Who has a problem we are trying to solve?

A patient wants her healthcare costs to be affordable. Cost of medicines is one of the areas where a patient can reduce recurring cost if she chooses to, but is limited because:

- She does not know of the different brand options available for the same product & the pharmacist is of very little help in terms of cost versus quality
- She has to blindly follow the advice of her healthcare professional because she cannot estimate quality of the brand option available for the same product
- She does not have easy access to different brand options especially for
- She cannot find her medicines at Jan Aushadhi stores most of the times

How big is this problem?

The size of this problem can be estimated by:

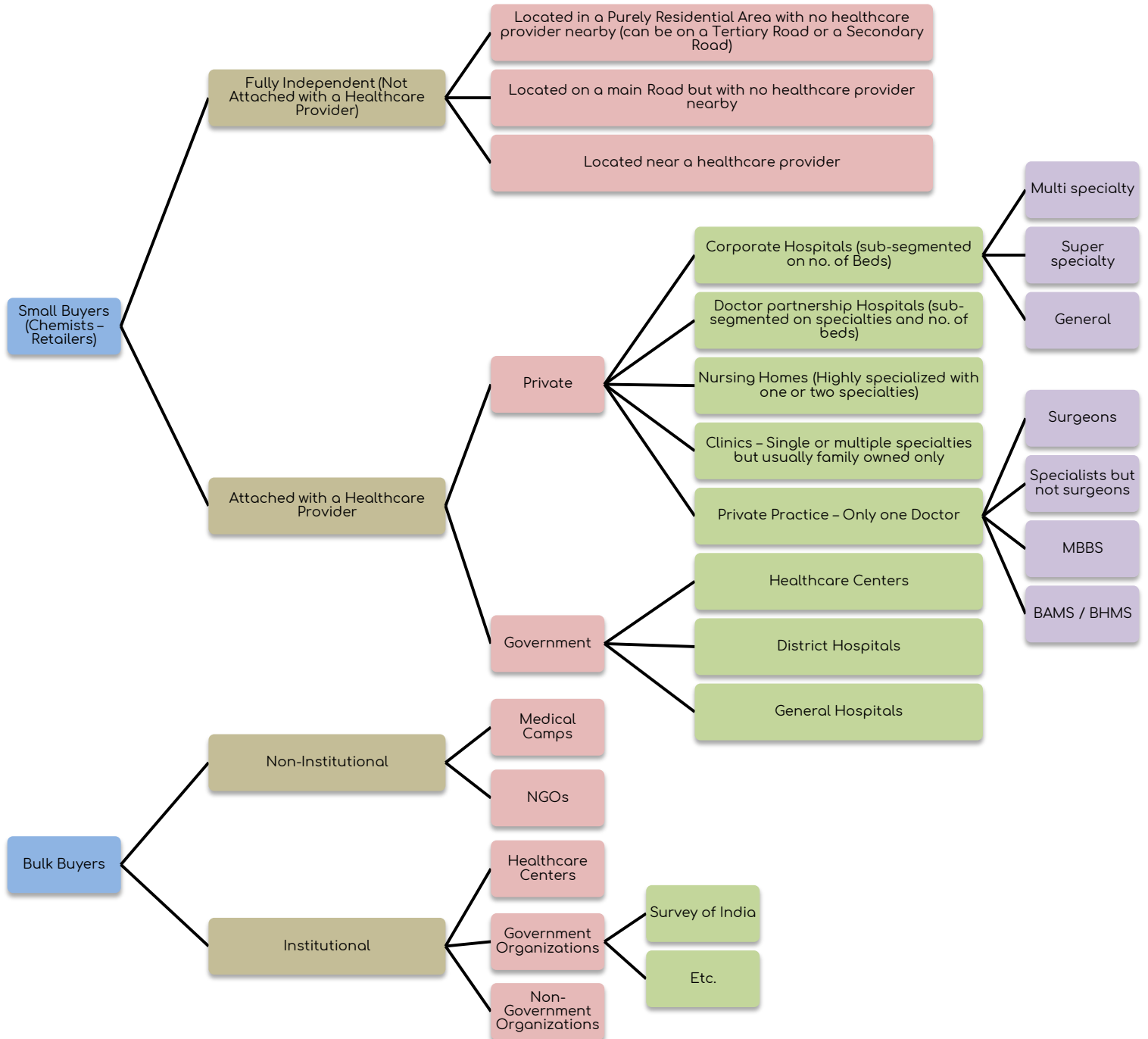
- Extreme competition makes it difficult for Pharmaceutical companies to adopt a low MRP strategy while reducing their marketing costs (both direct and indirect) while supporting their products from competition and maintain their market shares.
- Quality concerns make it difficult for medical practitioners to adopt / advise / change their drug preferences
- Earning pressures & quality concerns of pharmacists hinder them from recommending alternative brands to patients if there is less money to be made
- Government has taken some initiatives and may take few more as follows:
 - Jan Aushadhi scheme – it has problems similar to those encountered by rashan stores. It has a long way to go in-order to become a functional if not effective solution
 - Medical practitioner to prescribe product name instead of brand name
 - Printing of Ex-factory price on packaging along with MRP
 - Capping of wholesaler and retailer margins
 - Capping of stent and implant prices
 - Increase in number of OTC products
 - Increase in number of products under DPCO
 - Change in the method for calculating price of medicines

Main reasons this problem exists in the market

- Unawareness among patients
- No fully reliable means to judge the quality of medicines except for packaging (high quality packaging translates to high quality medicine) and price (low price translates to inferior quality medicine)
- Absence of an aggressive distributor specialized in sourcing low MRP products having enough working capital to make these appropriately stocked for the demand and able to convince medical practitioners to prescribe them while keeping both his margins low and operational efficiency high.....

Customer Segmentation

A sea of opportunities for a wholesaler



Market Size Estimate

For fast moving chronic disorder categories like cardiovascular and diabetes

| 1. | Analysis step | Point Estimate | Calculation | Source |
|----|--|------------------------|----------------|--|
| a) | Per Capita Spending on Healthcare across India | Rs. 5,500 /- per annum | | World Bank |
| b) | Out of Pocket Expenses on Healthcare | 90% of 1.a | = Rs. 5,000 /- | World Bank |
| c) | Out of Pocket Expenditure on Medicines | 80% of 1.b | = Rs. 4,000 /- | World Health Organization |
| d) | Population of Dehradun | 19,00,000 | | Based on Estimates, base data Government of India Census 2011 |
| e) | Pharmaceuticals retail market in Dehradun | c x d | = Rs. 750 Cr. | |
| f) | Approximate spend on Cardiovascular& Diabetes at retail outlets | 25% of 1.f | = Rs. 175 Cr. | (Excluding Insulin), percentage estimates by PwC (Conservative side) |
| g) | Retail of Fast moving products would account for approximately | 60% | = Rs. 100 Cr. | Primary research at retail outlets |
| h) | Wholesale market for fast moving cardiology & diabetic medicines | 70% of 1.g | = Rs. 70 Cr. | Based on Retail margins |
| i) | Possible conversion to affordable Low MRP brands | 1% of 1.h | = Rs. 70 Lakh | Our Target Market Capture |

| 2. | Analysis step | Point Estimate | Calculation | Source |
|----|--|------------------------|----------------|--|
| a) | Per Capita Spending on Healthcare across India | Rs. 5,500 /- per annum | | World Bank |
| b) | Out of Pocket Expenses on Healthcare | 90% of a | = Rs. 5,000 /- | World Bank |
| c) | Out of Pocket Expenditure on Medicines | 80% of b | = Rs. 4,000 /- | World Health Organization |
| d) | Population of Dehradun above 44 years | 1.d x 30% | = 5,70,000 | Percentage estimates based on Data from JNNURM study |
| e) | Population encountering Diabetes, Cardiovasculr disorders | 2.d x 50% | = 2,85,000 | Conservative estimates based on primary research |
| f) | Approximate spend on medicines by people of age-group above 44 years | 2 x 1.c | = Rs. 8,000 /- | Assumption |
| g) | Approximate spend on Diabetes & Cardiovascular medicines by people of age-group above 44 years | 75% of 2.f | = Rs. 6,000 /- | Primary research at retail outlets |
| h) | Approximate spend on Cardiovascular, Diabetes | g x e | = Rs. 171 Cr. | |
| i) | Fast moving products would account for approximately | 60% | = Rs. 100 Cr. | Primary research at retail outlets |
| h) | Wholesale market for fast moving cardiology & diabetic medicines | 70% of 1.g | = Rs. 70 Cr. | Based on Retail margins |
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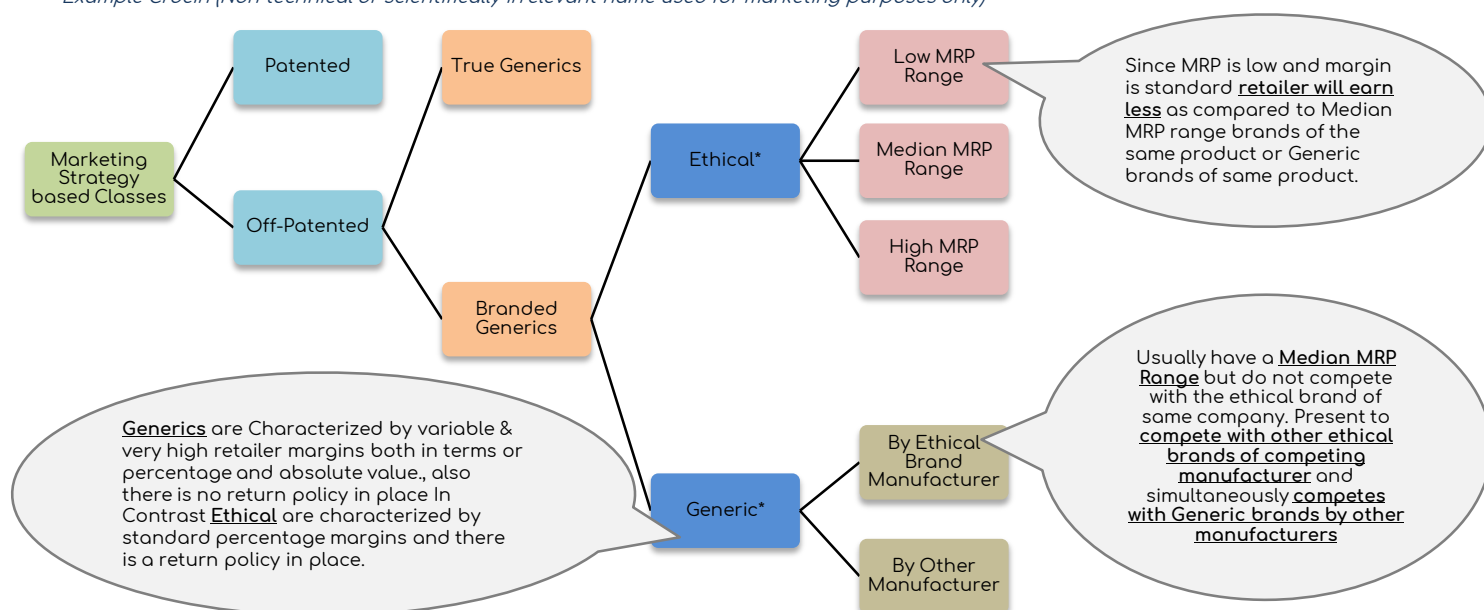
The above stated are first hand estimates limited in scope and accuracy

Product Classification based on marketing strategy

Low MRP Ethical brands can compete with True Generics, Generics and Median MRP Range Ethical Products giving a unique value proposition to various stakeholders in the Industry

What is a Product by our definition: The Salt (also known as Molecule or Active Pharmaceutical Ingredient) is considered to be the product.
Example Paracetamol (The technical or scientific name)

What is a Brand by our definition: The name given to the product so that it is easily identifiable by the patient or doctor or chemist. Among its many uses, A brand can also be used by its sellers to generate a sense of quality within its buyers' mind.
Example Crocin (Non technical or scientifically irrelevant name used for marketing purposes only)

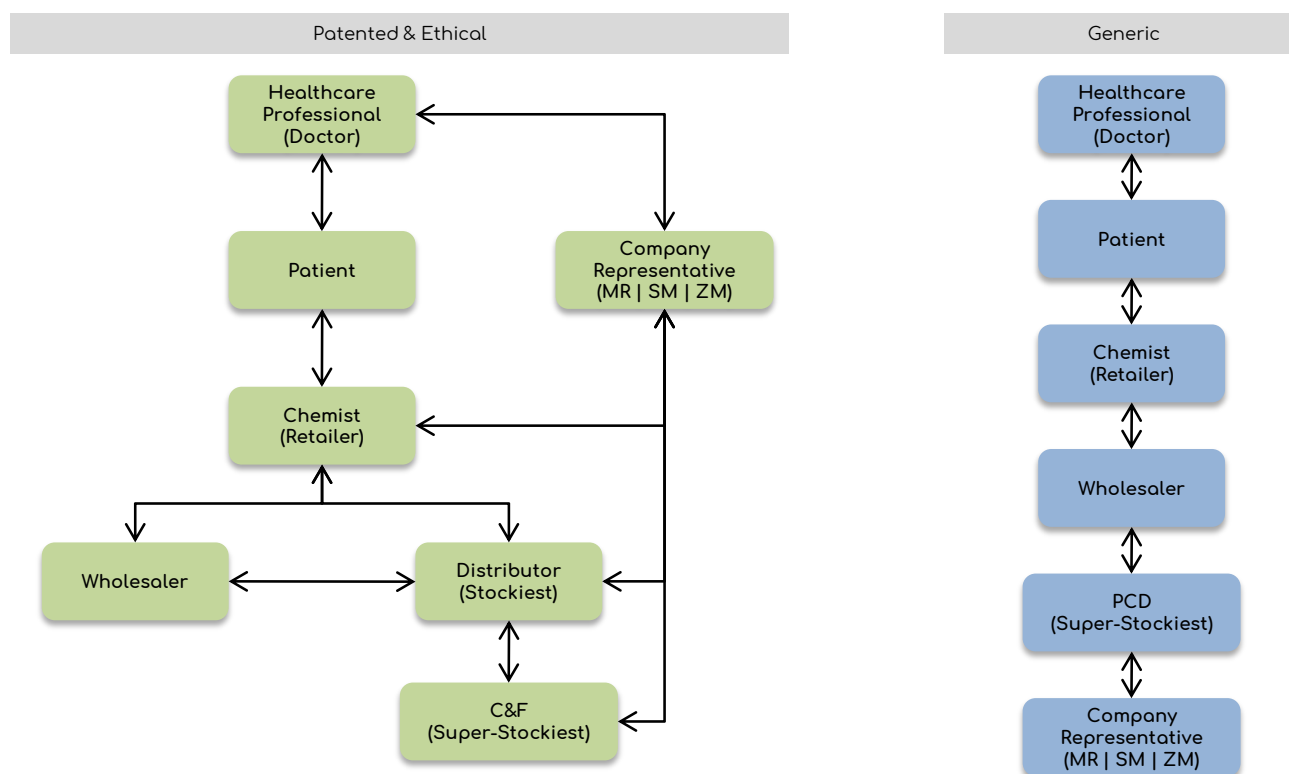


* The Terms Ethical & Generic as used in Indian Market is just another way a company can differentiate itself in the minds of various stakeholders like Chemists, doctors etc. thus creating a sense of quality and perceived value of its products or brands

- **Marketing Strategy:** The way a product or a brand is sold and the planning behind this way
- At the top level products can be divided into two broad categories
 - **Patented products** are one which have been discovered by scientists relatively recently and are manufactured only by one or two manufacturers.
Example: Ticagrelor brand name Brilinta manufactured by AstraZeneca. No other manufacturer can manufacture this product usually for 10 to 15 years.
 - **Off-Patented products** are one which can be manufactured by any manufacturer since their patents have expired and therefore there are many brands of the same product in the market.
Example: Paracetamol – many brands of paracetamol are available in the market.
- **Branding:** When a product is sold by its brand name rather than its product name. This phenomenon is called branding. Usually all patented products are branded.
- **Branded Generics:** Branding of Off-patented products. This is neither illegal nor immoral it's just a way for a company to protect its products from competition. A company has to spend a lot of money in branding its product.
Example: Crocin is a perfect example, it spends on TV advertising and also other ways to promote Crocin
- **True Generics** do not have brand names (some are available in Jan Aushadhi stores, those marketed by BPPI)
- Most prevalent category in India is: Median MRP range Ethical-Branded Generics, Off-Patented Products

Traditional supply chain / Value Chain / Contact & Promotional Contact Points

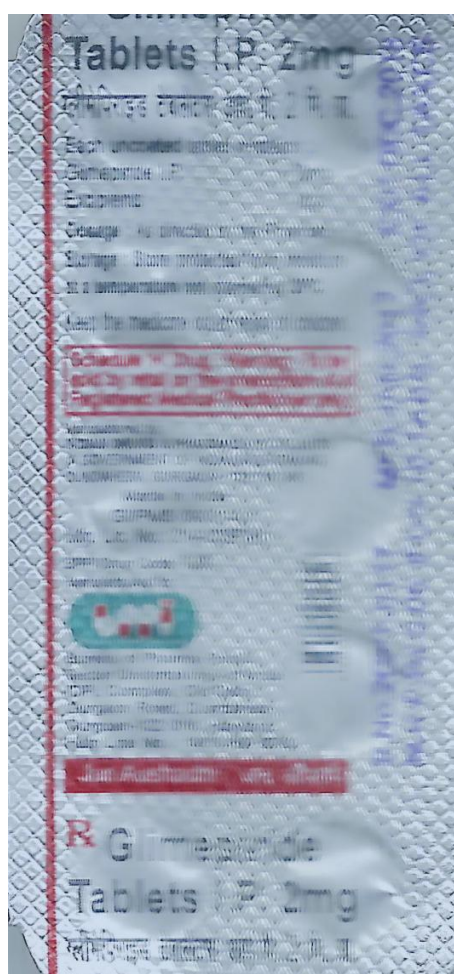
Common characteristics of market stakeholders



- While Ethical & Patented brands are primarily promoted through Doctors, Generic Brands are promoted primarily through Chemists
- Patented & Ethical Brands have a longer chain thus need higher MRPs, whereas generic brands have high MRPs since they are pushed through chemists
- Low MRP Ethical Brands thus have to be promoted through doctors and keep their chains shorter. Plus they have to be attractive for Chemists and businesses promoting these products have to be efficient so that they can sustain in the market and compete aggressively.
- Typical characteristics of key industry stakeholders:
 - Company Representatives: Target/ Quota Pressure, Increase in sales pressure, Promotion of brands, Reach of brands
 - Chemists: Absolute Margin, Availability of Trade financing & Credit, Effective Delivery & Ordering, Other perks
 - Healthcare Professional: Technically superior product, Education & Information, Other perks
 - C&Fs keep brands of 1 – 5 companies, their key value addition is storage space, tax savings and supply chain network, however due to GST the tax advantage is vanishing
 - Distributors keep products of 5-10 companies, their key value addition is distribution network, trade financing, inventory management
 - Wholesalers keep products of 5-15 companies based on local level demand, their key value addition is trade financing, inventory management, one stop shop for local chemists

True Generics

Extremely rare to find in the market; Low MRP Ethical Brands can be positioned as being better in value from True Generics



Only Product Name on packaging: Glimepiride Tablets I.P. 2 mg

Branding at Manufacturer, Marketer and retail level only

Characteristics:

1. Are not branded at product level
2. WHO-GMP Certified manufacturer
3. Extremely Low MRP as compared with prevalent products
4. Packaging & printing in many cases is extremely unattractive

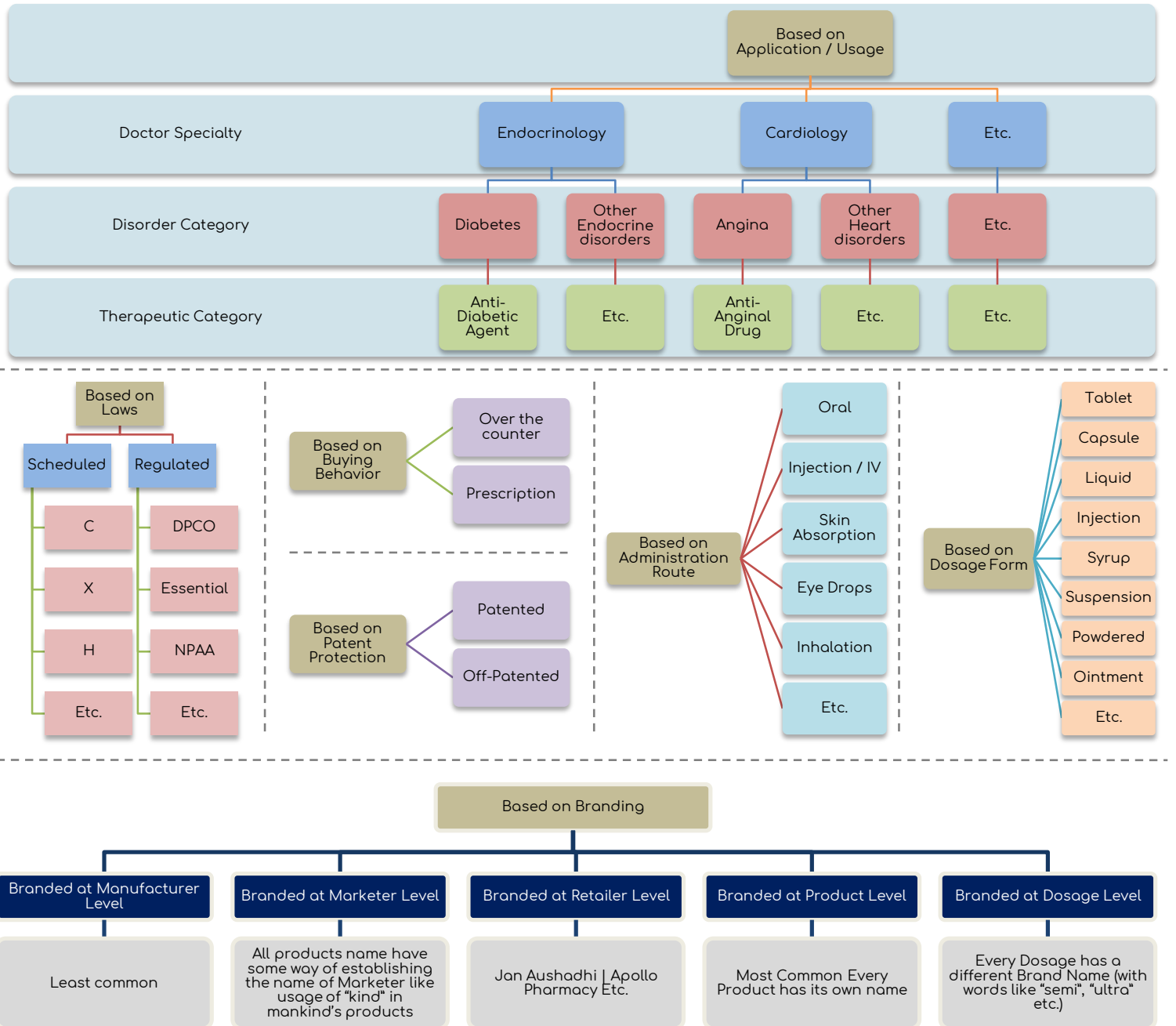


Only Product Name on packaging: Glimepiride 1 mg, Metformin 500 mg Tablets

Branding at Manufacturer, Marketer and retail level only

Product Classifications

Based on different methods used in the industry



Comparing MRP of select products

More than just quality

| Product | MRP Spectrum per tablet | Lowest MRP | Second Lowest MRP | Third Lowest MRP | Jan Aushadhi MRP | Jan Aushadhi Purchase Price | Jan Aushadhi Supplier |
|---|-------------------------|------------|-------------------|------------------|------------------|-----------------------------|-----------------------|
| Amlodipine Besilate IP 2.5 mg Uncoated Tab Cardiology Calcium Antagonist | 0.80 – 4.95 | Intas | Blue Cross | Systopic | 0.77 | 0.46 | Unison |
| Amlodipine Besilate IP 5 mg + Atenolol IP 50 mg Uncoated Tab Cardiology Anti-Anginal Beta-Blocker Calcium Antagonist | 1.70 – 7.00 | Mankind | Blue Cross | Gujarat Terce | 0.36 | 0.17 | Arion |
| Amlodipine Besilate IP 5 mg + Metoprolol Succinate USP 47.5 mg (Extended Release) Uncoated Bi-layered Tab Cardiology Beta-Blocker Antimigraine Preparation Anti-Anginal Drug | 3.80 – 11.10 | Blue Cross | Corona (Wellness) | Unichem | 1.40 | 0.66 | Mascot |
| Rosuvastatin Calcium IP 10 mg Film Coated Tab Cardiology Dyslipidaemic Agent | 5.50 – 21.00 | Blue Cross | Emcure | Ajanta | 1.65 | 0.78 | Sain |
| Atorvastatin Calcium IP 10 mg Film Coated Tab Cardiology Dyslipidaemic Agent | 1.20 – 11.85 | Hetero HC | Mankind | Blue Cross | 0.52 | 0.23 | Bharat |
| Telmisartan IP 40 mg + Amlodipine Besilate IP 5 mg Film Coated Tab Cardiology Angiotensin Antagonist Calcium Antagonist Anti-Anginal Drug | 4.00 – 16.50 | Blue Cross | FDC | Cipla | 1.18 | 0.52 | Synochem |
| Glimepiride IP 2 mg Uncoated Tab Endocrinology Antidiabetic Agent | 1.40 – 13.30 | Zinnia | Blue cross | Mankind | 0.51 | 0.15 | Wings |
| Metformin Hydrochloride IP 500 mg (prolonged release) Uncoated Tab Endocrinology Antidiabetic Agent | 0.70 – 11.70 | Intas | Mankind | Blue Cross | 0.89 | 0.46 | PIL |

Why is there so much variation in MRP of products?

- Quality of the product in the brand
- Lifecycle of the product: Is the product competing with another product
- Lifecycle of the brand: is there another brand of the same product in the market which wants to compete on prices
- Lifecycle of the marketer: is the brand by a marketer who wants to compete on price
- Lifecycle of the manufacturer: is the manufacturer willing to compete on prices