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## 'The customer is in slums'

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**M**EDICINE Shoppe was a frontrunner when the retail sector was liberalised in India. Its founder, Viraj Gandhi, was studying Economics at Babson College in the US when he heard of retail chains like Crossword and Shopper's Stop opening in India. His family promoted pharma companies like Dolphin Laboratories and Gujarat Lyka.

**Viraj Gandhi** worked on a project idea for a retail chain in the large but fragmented and inefficient pharmacy business. His company Melrose Trading is a master franchisee for Medicine Shoppe US, and is also a venture funded by APIDC's Biotech Fund and Actis. The first shop came up in 1999, and now the chain has 135 stores in Maharashtra, Goa and Gujarat.

In 2006, Viraj Gandhi got funding from the Acumen Fund to start a pharmacy chain called 'Sehat' for low-income groups. This is a unique model where each store has a trained MBBS doctor and consultation is free. The store which largely sells high-quality generics makes money on prescription sales and sale of glasses in the vision centre. Gandhi claims that medicines from his shop are 30 to 40 per cent cheaper and the customers get to consult a doctor at locations where mostly quacks operate. Sehat, which now has eight outlets in Mumbai, has trained local people to man the shops. *Civil Society* spoke to Viraj Gandhi about his business model.

**In 1999 when you started you quoted very aggressive numbers for your stores.**

We have had to learn a lot in how to choose franchisees. We needed people with a desire to learn, people who believed in customer service. The existing pharmacies were very sceptical when we told them to charge only MRP and make up with volumes. Current pharmacies were not in a mood to change. So we had to appoint greenfield entrepreneurs. We were also clear that our shops had to be located where the community lives.

When we opened up our first shop in Lokhandwala, a residential area, and conducted health camps, provided health cards and loyalty programmes, people thought we were overcharging to offer these services. But this is a highly inefficient business where pharma companies internally have huge margins and they sell aggressively to physicians.

We are Mumbai's largest non-institutional buyer. We have our own warehouse and buy directly from the manufacturer or from a large authorised wholesaler. We save a lot of money in purchase and sell medicines at MRP. We offer services in the money that we have saved; for example the purchase points could lead to a free accident insurance. Our shops are also located in residential localities as I am interested in the repeat purchaser with chronic diseases. If we don't have a medicine when a customer comes we offer him a 10 per cent inconvenience discount and do a free home delivery.

**You come from a business family. So why did you raise venture capital?**

My family put in Rs 3 crore and my father said that if the business model is robust anybody should be willing to invest. That is the barometer. My family is still the largest shareholder.

**How did you start Sehat?**

I met Jaqueline Novogratz and her team in 2005. They convinced me that selling medicines in upmarket Juhu did not make a difference. They were certain that there was a huge untapped market in selling to the 650 million low-income group Indians. Their analysts brainstormed with us for a week to work on the model.

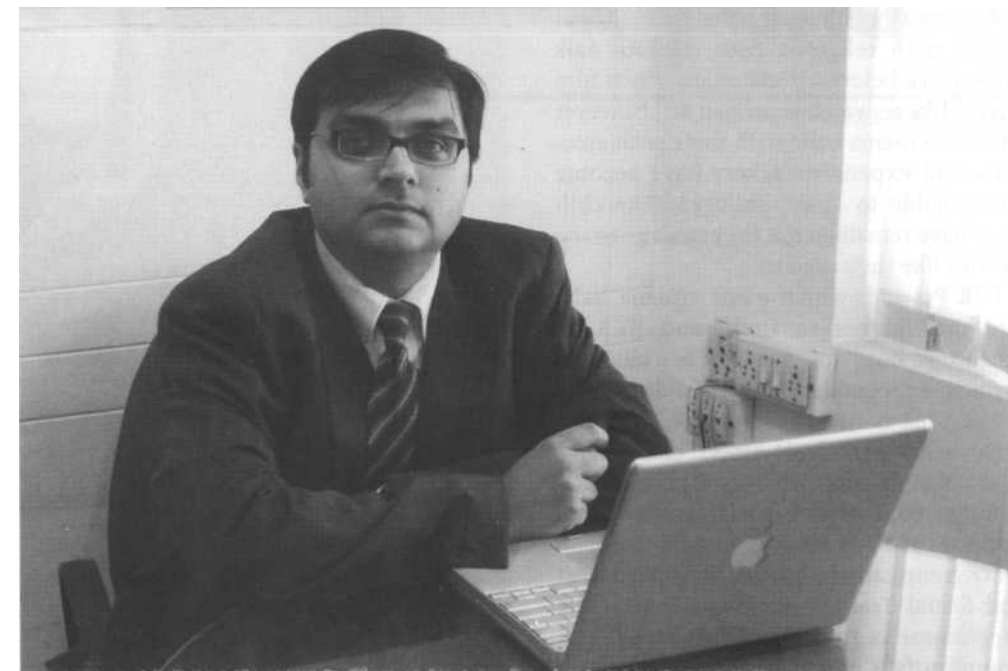
**Will the returns from this business be the same as in the main retail store?**

Yes. Probably, even better. The rents in Bandra or Juhu have now become lopsided - it costs Rs 400 a square feet. Nobody wants to open stalls in slums. But the customer is there and you have to go there. The competition is increasing at the top.

**You have doctors on your rolls. How do you get physicians you can afford?**

We have an attached clinic at all Sehat stores. We found doctors who have a passion to do something. You find them in hospitals in the district block headquarters and municipal headquarters. People are spending money and getting taken for a ride. Only two out of about 15 doctors are qualified MBBS doctors in these locations and spurious medicines are also sold. With us, if a patient does not buy medicine, he pays Rs 20 per visit and follow-up visits are free. This builds confidence in our model.

**'We buy high quality generics. They are 30 per cent cheaper than the brands. The benefits are passed to the consumer.'**



Viraj Gandhi

**Where do you buy generics? Do you go to low-cost producers like Locost?**

We buy high quality generics. They are 30 per cent cheaper than the brands. We buy generics directly from the company and pass on the benefits to the consumer. We are making money and the consumer pays 30 to 40 per cent less. We cannot make money at the prices Locost sells to non-profits. We are a business and have to make money to expand.

**Is the process different in this business?**

The process is different. It is a different marketing model. The community outreach model is different. People here cannot read and can only listen. But radio advertising is prohibitively expensive. So we have a community of health workers. During the monsoon we talk to the community about clean water, hygiene and malaria in camps. Gradually they start asking on their own.

**How do you deal with medicines where generics are not available?**

It is available in a majority of cases. If there is a stomach ache for example, we would refer the customer to a gastro specialist. But we have preferred partners where we give a 20 per cent discount. We pass on the dealing that goes on between a doctor and a specialist to the consumer. In case of path labs too, we pass on the cut to the consumer.

**Where are your stores located? What did you learn from these?**

We have nine stores. We are analysing our customers. Three shops are in the slums, three are in the *chawls*, and three in middle-class locations; these are located in Kalyan, Mira Road, Kurla, Kankavali and Bhiwandi. Our target audience is anyone with a monthly income below Rs 8,000. We are running these stores because we want a larger say in them. The franchisee is an investor. I cannot share too many insights from the plots. That is giving information away to the competition.