

Interview: David Kneale – CEO, Clicks Group, South Africa



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CEO of the Clicks Group, David Kneale highlights the motivations behind groups involvement in the Public Health Enhancement Fund (PHEF), and also describe the key strategies that have allowed Clicks to dominate the South African retail space. He also elaborates on the importance of pharmacies to the company's long-term goals and evaluates the pros and cons of the current regulatory regime.

To begin, David, the currently underserved and overburdened public healthcare system has prompted the creation of the Public Health Enhancement Fund (PHEF) in 2012. To this end, can you please describe the initial aspirations behind Clicks' participation in this initiative and the type of impact you envision this fund having on the broader community?

At the time, we recognized that South Africa had two distinct healthcare systems: a private healthcare system that is truly world class and an overburdened public healthcare system that suffers from a lack of financial, physical, and human resources. We all share in the government's goal of making medicine more accessible and affordable for South Africans. Therefore, 23 private companies signed a social compact on November 8, 2012 and pledged a commitment for three years—effectively creating the PHEF. After establishing the common themes that we could all agree on, the funds were used to jumpstart three projects that focused on incubating more healthcare professionals, cultivating managerial and leadership excellence, especially in hospitals, and supporting post-graduate students to stimulate R&D and tackle the nation's growing burden of communicable and non-communicable diseases.

In most countries, there's an inherent distrust between the public and private sector. Ultimately, the PHEF aims to bridge these two sectors to achieve two objectives: tangibly improving outcomes for public healthcare and creating modes of dialogue with the minister and senior officials in the Department of Health.

How would you benchmark the success of this project so far?

In terms of tangible success, we've helped increase the number of healthcare professionals and researchers—funding 64 doctors and 55 post-graduate students. I personally attended the graduation of the first five students who received their PhDs, one of whom actually worked as a locum in a Clicks pharmacy. We probably have the most work to do in building the management capabilities of public healthcare executives—a program that aims to improve the efficiency of publicly run healthcare facilities. Though, the fact that that minister openly talks about the Public Health Enhancement Fund is already a testament to the second objective of this initiative—building better dialogue with the community.

How would you evaluate the PHEF as a reference model for other African countries facing similar issues?

South Africa is unique in many respects—facing the challenges of both developed and developing disease profiles. It's also got a vibrant private sector catering to a small minority, while 84 percent of the population is dependent on the public healthcare system. I'm not certain how many lessons there are for the rest of Africa because the rest of Africa perhaps needs to find a model that encourages private participation in healthcare. For South Africa, the conversation focuses more on enticing further private participation in the public sector.

What type of next steps must be taken in order to maintain this momentum?

The PHEF needs to stay focused on its three objectives: professionals, management, and researchers. In any country of the world, the cost of healthcare is a growing pressure as people live longer and more solutions to more diseases are found. Realistically, there won't ever be a time without a need for the Public Health Enhancement Fund—doing so would be saying that we don't need any more professionals, management, or researchers. Rather the lesson, for any country, is that neither the public nor the private sector uniquely has all the answers, and therefore collaboration is a better *modus operandi* than either party operating in a silo.

Under your leadership, David, the Clicks Group has experienced tremendous growth in the last decade—effectively establishing a strong foothold in the market. To what exactly do you owe this success?

Ultimately, most businesses are dependent on the quality of their people. Retail is absolutely no different—you're only as good as the last transaction made. Within pharmacy, Clicks has been able to find a consistent standard of customer care that has made healthcare more accessible, due to the convenience of our store network, and more affordable by our focus on switching patients to generics where available and our competitive prices. In a sense, we've seamlessly aligned ourselves with the government's broader objective of making healthcare more accessible and affordable.

As the CEO of a publicly traded entity, how do you go about enabling the group's long-term strategic capabilities, while mitigating short-sighted pressures from shareholders?

Most retailers succeed if they serve their customers. If you delight your customers and you've got motivated and competent people, then you also satisfy your shareholders. Especially in retail, it is crucial to approach our business in that sequence—pleasing customers and catering to their needs

first, then having the rest follow. Most retailers ultimately fail because their model has been overtaken, other people have been doing it better than they are, or they simply haven't kept themselves fresh and relevant.

In South Africa, we have around 500 stores, and within these stores, 360 pharmacies. Our goal is to reach 600 stores, all with pharmacies in them. So, we want to continue growing the network and finding ways we can partner with government as well. To give two examples, in the Western Cape we have 40 clinics within our pharmacies. We take provincial vaccination stock, and for a small service fee, we immunize babies. Rather than going to state clinics, patients can now conduct baby immunizations in Clicks clinics—effectively alleviating the pressure on state clinics. Speaking to the second example, in the NHI pilot districts, our stores act as a pick up point for chronic medication, as opposed to a state health facility.

So far, the feedback has been very good. The numbers are continuing to ramp up and the interesting point that makes it work from everybody's point of view is that many of those patients are choosing to buy products in the Clicks stores whilst picking up their medication or seeking immunizations. Our emphasis on convenience and customer satisfaction are at the forefront of our brand—even if it's just saving one additional taxi fare.

In addition to our participation in the Public Health Enhancement Fund, we're constantly looking for ways in which we can partner with the state and the public sector. Using our stores as pick up points and our clinics for additional services are two of the ways in which we can demonstrate that the private sector and the public sector can work together.

From a consumer marketing approach, what are the key considerations when driving and maintaining brand loyalty, a crucial component of the company's sales, in a market like South Africa?

There are five pillars to the Clicks brand. The first focuses on value and creating favorable price levels for our consumers—which in part have been driven by our “3 for the price of 2” promotions. The second involves our increasingly differentiated product range, especially now that one in four of our products are private labels. The third revolves around customer care and providing expert advice in our pharmacies and beauty departments. The fourth pillar is based on our rewards program. We currently have 5 million actively registered Clicks club card members, with 75 percent of sales actually coming from these members. The last pillar, which I've alluded to before, is convenience. The Clicks network now encompasses around 500 stores in South Africa.. With two primary questions always on our mind—how do we enhance the convenience of getting to our shops and how do we make the customer journey around our shops as convenient as possible—we've strived to establish a Clicks within 3 km of 80 percent of the population, which embodies our stated aim: “there's always a Clicks near you.”

Those are the five pillars of the brand, which we've been consistently driving over the past decade. Underlying these five pillars, our centralized pharmaceutical distribution center, UPD, supplies 95 percent of our products—effectively driving operational and supply chain efficiencies. We also heavily invested in comprehensive IT systems to further drive these efficiencies. Then underpinning all of these factors are the fundamental components of our continued success—our people.

Leveraging your previous experiences, how do the market dynamics in this country compare a more mature market like the UK?

South Africa is more akin to the North America in the strength of its private healthcare market and the prevalence of roughly 80 different private insurance companies, whereas 98 percent of the population in the UK is covered under the national health system. One difference lies in consumer behaviors. In South Africa, shopping is largely designated by centers or malls, which are anchored by a food retailer and a department store. In the US, standalone stores and decentralized shopping

are quite common. This further validates the price competitive and convenience-centric nature of our stores, as we're typically located next to these retailers offering similar products. But the drivers of what consumers need in health and beauty don't differ around the world—they're always looking for value, innovation, and advice. Health and beauty customers respond well to promotions, the latest product releases, and any guidance on improving the way they feel or look. The one relatively underdeveloped area of South African retail is e-commerce—currently only contributing around 1% of purchases in the country, compared to 15% in the UK.

Strategically speaking, how does the pharmacy business align with the group's long-term strategies?

Corporate pharmacy has only been permitted in this country since 2004. The intention of permitting corporate pharmacy to exist was improving the cost and access of healthcare services. At that stage, Clicks only had 300 stores—none of which had pharmacies. As pharmacy is central to our brand now, we have every intention on eventually establishing a pharmacy in every one of our stores. Though there are two major hurdles preventing steadfast implementation of this goal: shortage of pharmacists and regulations.

To address the former, we've put in place a bursary program to support the students studying across the country's eight pharmacy schools. We've also set up a healthcare academy to train pharmacist assistants, with 400 students currently enrolled. The second hurdle involves the, in my opinion, currently over regulated healthcare environment. Current legislation prohibits the placement of two pharmacies within 500 meters of each other, which poses challenges when obtaining licenses for stores that are near existing pharmacies. I argue that this rule is anti-competitive—limiting market pricing of pharmaceutical products in retail channels. I believe the nation can further its objectives with regards to widening access to healthcare if certain aspects of market regulations are liberalized such as pharmacy licensing and medicine scheduling. South Africa has rather stringent constraints when it comes to the designation of prescription versus OTC medicine—inhibiting access to self-medication, which is cheaper than seeing a doctor or visiting a clinic.

In addition we need to increase the speed with which new generic drugs are registered by the Medicine Control Council and brought to market. Although they have the best intentions in mind, the government can do a better job in creating more dialogue with the business community and understand that deregulation may actually benefit patient outcomes more in some instances, without compromising the highest standards in patient safety.

What are your personal leadership philosophies on chartering success for a group like Clicks, as opposed to some other organizations you've led in the past?

I've always stressed the importance of focus—clearly establishing my own goals in order for my staff members to be clear on what I want them to achieve. Secondly, I've always believed in keeping things simple to streamline directives and implementation. Thirdly, I am a big proponent of taking responsibility for your own actions—having my people exude a sense of ownership over their tasks and see them through from start to finish. Ultimately, focus, simplicity, and responsibility are themes that have been at the forefront of how I've run this business.

What are the primary objectives that you will focus on in the next three to five years?

Continue growing the footprint of the Clicks' brand and improving the quality of delivery in our stores—including every aspect of value, customer care, and convenience. Also, we want to help grow the South African economy from what we do at Clicks. Coming back to the collective efforts at the PHEF, we will do better if the country does better. If we want to truly ensure long-term success, we have to understand and participate in our social responsibility—especially as a South African company.

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