



FACULTY OF MANAGEMENT
FINAL ASSESSMENT (EXAMINATION)
DEPARTMENT OF BUSINESS MANAGEMENT

MODULE	:	CONTEMPORARY STRATEGIC ASPECTS
CODE	:	STM8X01 & STB06X7
DATE	:	20 NOVEMBER 2014
DURATION	:	180 MINUTES plus 15 minutes reading time
TOTAL MARKS	:	300

EXAMINER	:	TFJ Oosthuizen
<u>MODERATOR</u>	:	Dr. H Jacobs
<u>NUMBER OF PAGES</u>	:	24 Pages

INSTRUCTIONS:

ANSWER ANY 3 (THREE) OF THE POSSIBLE FIVE QUESTIONS.

- This is an open book assessment.
- Read the questions carefully and answer only what is asked.
- Number your answers clearly.
- Submit your answer in a clearly structured (using headings, sub-headings, paragraphs, figures, tables and bullets for listing) and written format.
- Answer one question per answer book.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

Submit your question paper with your answer books.

Please read the following case study and then answer the questions

CASE STUDY: The Clicks Group

Clicks Group is a health and beauty focused retail and supply group which has been listed on the JSE Limited since 1996. Through market-leading retail brands Clicks, Musica and The Body Shop, the group has over 600 stores across southern Africa. Clicks Group is a leader in the healthcare market where Clicks has the largest retail pharmacy chain with over 330 in-store dispensaries, including a direct-to-patient courier pharmacy service, while United Pharmaceutical Distributors (UPD) is South Africa's leading full-range national pharmaceutical wholesaler.

HISTORY – selected historical events

- 1968, August: First Clicks store opens in St Georges Street, Cape Town
- 1979, March: Clicks Stores Limited listed on the JSE with a market capitalisation of R10 million
- 1983, October: Clickdin Limited listed as a holding company on the JSE.
- 1984, March: Acquisition of Discom, comprising 11 stores
- 1992, April: Acquisition of Musica, the country's leading music retail brand, at a cost of R1.2 mil.
- 1992, July: Control of the group moves to The Premier Group Limited
- 1995, August: Clicks ClubCard loyalty programme launched.
- 1996, March: New Clicks Holdings listed on the JSE with a market capitalisation of R880 million
- 1997, April: Malbak unbundles through the distribution of its holdings to shareholders. The company has no controlling shareholder for the first time.
- 1997, Sept: Acquisition of Compact Disc Warehouse, a specialist music store
- 1998, July: New Clicks expands to Australia with the acquisition of the 70-store Priceline chain from Jack Goldin for R177 million.
- 2000, August: Group turnover R4.0 billion; 628 stores.
- 2000, Dec: Acquisition of House in Australia, a 66-store homeware franchise brand, for R168 mil
- 2001, March: Acquisition of Modisons, a discount retail chain in KwaZulu-Natal, for R20 million, which was then integrated into Discom
- 2001, Nov: The Body Shop opens its first store in Africa, at Sandton City in Johannesburg, through a franchise agreement with The Body Shop International
- 2002, July: Acquisition of Price Attack in Australia, a speciality haircare franchise brand comprising 94 stores, for R89 million
- 2002, Sept: Priceline Pharmacy launched in Australia
- 2003, Jan: Acquisition of wholesale distribution company, New United Pharmaceutical Distributors (UPD) for R281 million.
- 2003, April: Legislation passed enabling dispensaries to be introduced into Clicks stores
- 2003, August: Group turnover R7.4 billion; 729 stores + 191 franchise stores in Australia
- 2004, January: New Clicks Australia sold to a consortium of private equity investors for A\$107 mil.
- 2004, March: First Clicks pharmacy opens in Sea Point, Cape Town
- 2006, July: Clicks opens its 100th dispensary in Knysna
- 2006, Sept: Clicks introduces a branded credit card as an extension of its successful ClubCard loyalty programme
- 2007, Sept: Sale of Discom to Edcon for R216 million
- 2008, January: UPD acquires Kalahari Medical Distributors in Botswana.

- 2008, August: The purchase of a 60% stake in courier pharmacy, Direct Medicines, which is rebranded Clicks Direct Medicines.
- 2009, June: New Clicks Holdings changes its name to Clicks Group Limited.
JSE listing transferred to Food and Drug Retailers sector.
- 2009, August: 200th Clicks Pharmacy opens at Constantia Village Shopping Centre in Cape Town
- 2010, August: Clicks opens its 250th pharmacy in the Gardens Centre, Cape Town
- 2010, Sept: Clicks Grp qualifies for the JSE Socially Responsible Investment (SRI) Index - 1st time
- 2010, Oct: Broad-based equity ownership scheme launched for all Clicks Group employees
- 2011, Feb: Launch of Clicks Helping Hands Trust
- 2011, August: 400th Clicks store opens in Umhlali, KwaZulu-Natal.
- 2012, May: 300th pharmacy opens in Franschhoek.
- 2012, August: Group turnover R15.4 billion; operating profit exceeds R1 billion; 595 stores.
- 2013, August: Group turnover R17.5 billion; 607 stores.

CORPORATE OVERVIEW | CORPORATE PROFILE

Clicks Group is a healthcare retail and supply group which is listed in the Food and Drug Retailers sector on the JSE. Clicks was conceived as a drugstore in 1968 but legislation at the time prevented corporate ownership of pharmacies in South Africa. This meant that Clicks operated as a drugstore without drugs until legislation was changed in 2003 to allow corporate pharmacy ownership, and the first Clicks pharmacy opened in 2004. United Pharmaceutical Distributors (UPD) was acquired by the group in January 2003 to provide the distribution capability for the group's integrated healthcare strategy. Over the past decade the group has grown into a leader in the healthcare market where Clicks has a 17.6% share of the retail pharmacy market and UPD a 26.7% share of the private pharmaceutical market.

Our Values

- We are truly passionate about our customers
- We believe in integrity, honesty and openness
- We cultivate understanding through respect and dialogue
- We are disciplined in our approach
- We deliver on our goals

Group Brands

Clicks, Musica and The Body Shop are market-leading brands and have a combined footprint of 607 stores, including 24 in the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho.

- **Clicks** is South Africa's leading health and beauty retailer, offering value for money in convenient and appealing locations. Clicks has the largest retail pharmacy chain with 331 in-store dispensaries.
- **Musica** is the country's leading entertainment retail brand and was acquired in 1992.
- The **Body Shop** has been operated under a franchise agreement with The Body Shop International since 2001, and the contract extends until 2020.

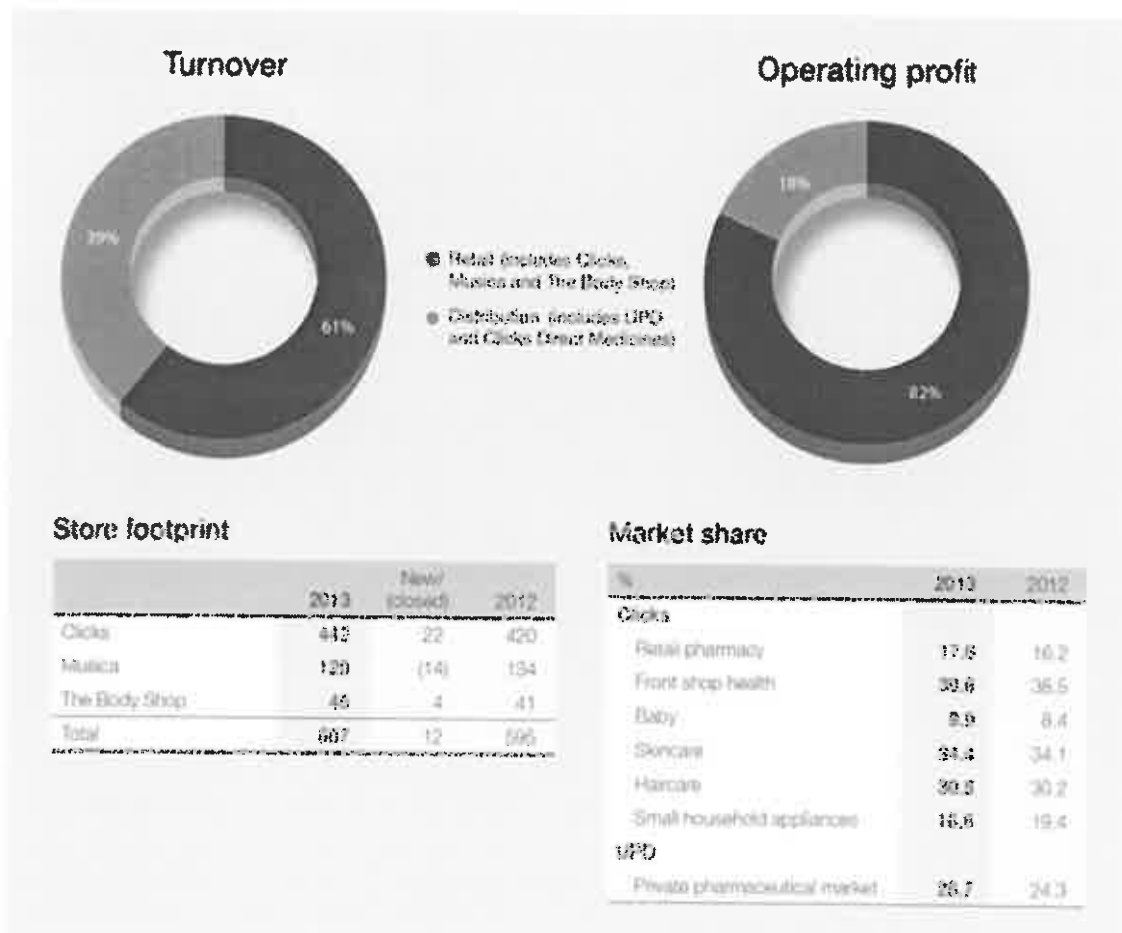
- **UPD** is South Africa's leading full-range pharmaceutical wholesaler and the only one with a national presence.
- **GNC** is the world's largest global specialty health and wellness retailer.

Customers

Clicks targets consumers in the growing middle to upper income markets (LSM 6 – 10). The Clicks ClubCard is one of the largest loyalty programmes in South Africa with 4.1 million active members. 78% of ClubCard customers are women and 61% are in the 25 to 49 age group.

UPD fulfils the pharmaceutical supply needs of Clicks, the major private hospital groups and over 1 400 independent pharmacies. Customers in the Southern African Development Community (SADC) region are serviced through an operation in Botswana. UPD also provides bulk distribution services to pharmaceutical manufacturers.

Business Contribution



CORPORATE OVERVIEW | STRATEGY

Clicks Group is uniquely positioned in the Southern African market as a health and beauty retail and healthcare supply specialist. Good growth prospects in its core health and beauty markets, together with the strength and scale of the group's brands, should ensure sustained wealth creation for shareholders in the short, medium and longer term. Organic growth is the group's preferred strategy to gain market share and ensure sustained competitive advantage. Growth in retail pharmacy has been accelerated by acquiring independent pharmacies to attract additional pharmacists into Clicks and, where appropriate, to acquire and convert their premises into Clicks stores.

The Body Shop's offering of naturally inspired beauty products is aligned with the group's health and beauty focus. The chain has 45 stores across the country as well as a presence in 63 Clicks stores to increase distribution and accessibility to The Body Shop brand. Musica, the music and entertainment chain, is not core to the group's strategy. The business, which was acquired by the group more than two decades ago, remains the market leading entertainment retailer in the country and is managed to maximise shareholder value.

Focus on South Africa

Owing to the extensive opportunities to expand the Clicks store base and pharmacy network, South Africa remains the group's main source of growth. While expansion into the rest of Africa is not a primary focus of management, there are currently 15 Clicks stores in the neighbouring countries of Namibia, Swaziland, Botswana and Lesotho. UPD, through its Botswana subsidiary, has the opportunity to grow its export business to other countries in the Southern African Development Community (SADC).

Positioning in growth markets

Both Clicks and UPD are well positioned to benefit from the growth in the country's health and beauty markets. The healthcare market is expected to show sustainable long-term real growth owing to the increasing proportion of the population entering the private healthcare market. Approximately 8.5 million South Africans are covered by medical aid and health insurance schemes, having grown by 1.4 million since 2006 (source: Council for Medical Schemes). The remaining 44.5 million people, over 80% of the population, are reliant on the state healthcare system or pay their own medical expenses. The government's proposed National Health Insurance scheme is aimed at extending health cover to the majority of the population.

Increasing life expectancy and improving living standards among South Africans is creating a growing market for the group's health and beauty products. The average life expectancy in the country has increased from 52.5 years in 2006 to 59.6 years in 2013 (source: Statistics South Africa) and this growing and ageing population will require healthcare services for longer.

Improving living standards has resulted in a steady growth in the middle class population and an expansion of the universe of formal retail shoppers. The increasing number of South Africans in the LSM 6 to 10 categories, the market served by Clicks, has grown from 47% in 2007 to 60% of the population in 2013 (source: AMPS). An analysis of the shifts in the LSM groups appears on page 55 of the Integrated Annual Report.

Growth in corporate pharmacy

Corporate pharmacy, which includes national chain and supermarket pharmacies, has only been operating in South Africa since 2004 and already accounts for 35.5% of the retail pharmacy market. Independent retail pharmacies comprise 52% and courier pharmacy the remaining 12.5% of the market (source: IMS). Clicks has the largest retail pharmacy network in the country with 331 dispensaries and a market share of 17.6%. The chain aims to achieve a 30% share of the retail pharmacy market over the longer term.

Group Strategy

Clicks Group's strategy is to create sustainable, long-term shareholder wealth by achieving pre-eminence in

- Health and beauty retailing through Clicks
- Healthcare supply management through UPD

Strategic objectives



Drive customer loyalty through ClubCard
Expand the brand's retail footprint
Improve the customer experience in pharmacies
Enhance the front shop product offer
Maintain a motivated and skilled workforce



Grow wholesale pharmaceutical market share to 30%
Grow pharmaceutical distribution market share to 30%
Drive operational excellence and cost reduction
Maintain a motivated and skilled workers

These strategic objectives are supported by efficient financial, operating and information technology systems to deliver sustained performance, and underpinned by sound governance and risk management processes.

CORPORATE SUSTAINABILITY

The Clicks Group incorporated sustainable business practices as operational business imperatives, and set sustainability targets to help ensure the long-term competitiveness of the Group's operations. Clicks is regarded as the leader in the South African health and beauty retail sector. Our expansive store footprint affords us the opportunity to further entrench the brand as the most trusted health and beauty brand with our customers. As customers become increasingly aware of the social obligations on the part of corporate South Africa, the Group has elevated sound social, environmental and governance practices across all levels of the organisation.

Due to this increased focus on sustainability, the Group was included in several studies done by independent companies. The company has achieved a better score in the Carbon Disclosure Project results, moving from 92 to 94, and was acknowledged as the leader in the Consumer Discretionary section.

The Group also made a decision to adopt the principles of the UN Global Compact and follows the guidelines of the International Labour Organisation and the Organisation for Economic Co-operation and Development (OECD). These organisations promote policies in support of the economic and social well-being of people around the world.

The Clicks Group is one of 73 organisations to be certified as a Best Employer in South Africa 2012/2013 by the CRF Institute. The assessment was based on the following criteria: Primary and Secondary Benefits, Working Conditions, Training and Development, Career Development and Culture Management.

The business faces two main challenges: the competitive health and beauty retail market, and the scarcity of qualified pharmacists in the country. The latter is the key driver behind the Group's annual healthcare conference which is aimed at motivating and supporting group pharmacists, as well as providing a platform for discussions on issues facing the South African healthcare industry. A pharmacy and merchandise academy was also introduced by the Group with the overall focus on retaining and developing skills within the business.

The integrated healthcare retail and supply model provides a unique competitive positioning for the Clicks Group in South Africa. The increase in group turnover of 13.6%, as well as the 9.1% increase in operating profit underscores the overall economic sustainability of the Group. The group operating margin was at 6.3% as a result of the faster growth rate in the lower margin UPD business.

Group Commitment to sustainability

Sustainability is an unequivocal part of our operations. As the global economy shifts to become more sustainable, we continue to seek measures that would ensure the long-term competitiveness of our business. Our sustainability strategy recognises that the group cannot achieve business success without caring for the social and environmental systems upon which our operations depend. We apply this philosophy throughout our value chain – from suppliers to customers, from products to processes and from our buildings to our brands.

The underlying principle of the Group's sustainability strategy is to generate long-term economic value by harnessing, efficiency, transformation, product-related opportunities and challenges, as well as supply chain initiatives as part of an integrated sustainability programme. This strategy is carried through in our approach to performance-based management, as well as in our communication with stakeholders.

The Click Group sustainability strategy is built on four distinct focus areas:

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- Building a trusted, accessible healthcare network
 - Empowering motivated, passionate people
 - Sourcing products that uphold the integrity of our brand, and
 - Lightening our footprint.
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The Clicks Group recognizes the significant impact of the individual and corporate on a sustainable social and economic environment. We agree that success cannot be achieved in the absence of care for the social and environmental systems upon which all our operations depend. Sustainable business practices within a culture of responsible environmental, social and governance stewardship consequently underscores the Group's commitment for future generations. We look forward to continue exploring this exciting journey along with our stakeholders.

STAKEHOLDER ENGAGEMENT

The Clicks Group follows a well endorsed stakeholder engagement programme across the business. Eight primary stakeholder groups have been identified that are most likely to influence the group's ability to create sustainable shareholder value. Management acknowledges the role and importance of other stakeholder groups, such as trade unions, industry organisations, statutory bodies, property landlords, financial institutions, service providers, media and the communities in which the group operates.

The group engages in open and transparent, mutually beneficial relationships. Qualitative and quantitative performance indicators have been developed for each primary stakeholder group to determine the outcome of the engagement, and these measures are refined on an on-going basis.

These metrics are used in the formal reporting process on stakeholder engagement at board meetings.

Stakeholder	Aim	Approach	Key Issues	Our Response
Customer	<ul style="list-style-type: none"> Achieve pre-eminence in health and beauty retailing, and in healthcare supply management Building a trusted, accessible healthcare network 	<ul style="list-style-type: none"> Cash-back statement mailings ClubCard Magazine ClubCard members newsletter Customer Service Centre Customer surveys In-store Radio Marketing/Advertising SMS and email communications Website and social media response 	<ul style="list-style-type: none"> Drive customer loyalty Expand the brand's retail footprint Improve customer experience in pharmacies Enhance front shop product offer Increasing competition in retail and corporate pharmacy sectors Loss of distribution clients in UPD 	<ul style="list-style-type: none"> Creating opportunities for engagement with our valued customers Ongoing improvement in pricing, product offer innovation and customer service
Employees	<ul style="list-style-type: none"> Empowering motivated, passionate people Focus on a clear vision and growth strategy, provides our people with unlimited 	<ul style="list-style-type: none"> Clique magazine Employee surveys In-store radio Internal email communication Internal website Learning and Development Pharmacy Conference Results announcement Roadshows 	<ul style="list-style-type: none"> Maintain a motivated and skilled workforce Attracting and retaining scarce and skilled talent Failure to achieve BBBEE targets 	<ul style="list-style-type: none"> Improving Work-Life Integration Performance and recognition Development & Career Opportunities Compensation Benefits Employee

	<ul style="list-style-type: none"> opportunities Attract and retain pharmacy professionals Invest in scarce and critical skills 	<ul style="list-style-type: none"> Store visits Transformation forum 		<p>Wellness Programme</p> <ul style="list-style-type: none"> Benchmarking salaries to retail industry Transformation plan to align BBBEE codes of good practice with implementation
Suppliers and Service Providers	<ul style="list-style-type: none"> Sourcing products that uphold the integrity of our brand Lightening our footprint Drive operational excellence and cost reduction 	<ul style="list-style-type: none"> Contractual agreements Electronic communication Enterprise Development Meetings Service Level Agreements Supplier conferences Technical support Written communications New store developments 	<ul style="list-style-type: none"> Environmentally responsible businesses Social, Ethics and transformation compliance New business opportunities Carbon Footprint reduction 	<ul style="list-style-type: none"> Supplier Audits Screenings Certifications Approval as preferred supplier Continuous improvement with distribution network optimisation Increase research and implementation of affordable water & energy efficiency initiatives Improve products used in store development
Shareholders and investment community	<ul style="list-style-type: none"> Passionate to lead innovation within the unique mix of 	<ul style="list-style-type: none"> Analyst presentations Annual General meeting Annual Integrated Report 	<ul style="list-style-type: none"> Return on investment and dividends Challenges of the economic 	<ul style="list-style-type: none"> Increasing the footprint of stores Extend presence of pharmacies in

	<ul style="list-style-type: none"> our Group • Grow pharmaceutical and distribution market share • Competitive returns for shareholders 	<ul style="list-style-type: none"> • CEO and CFO engagement with investors, analysts and fund managers • Company website • Investor road shows 	<ul style="list-style-type: none"> environment • Risks and Mitigations • Sustainable business 	<ul style="list-style-type: none"> stores • Grow private label product portfolio • Application of King III • Complying to Corporate Governance
Community	<ul style="list-style-type: none"> • Care about and contribute to the wellbeing of people, the environment and communities 	<ul style="list-style-type: none"> • Bursaries • Chapel Street Primary School • Donations through stores and the business • The Helping Hands Trust engagement 	<ul style="list-style-type: none"> • Active engagement • Skills shortages in the health industry • Access to affordable healthcare 	<ul style="list-style-type: none"> • Sustainable contribution to communities through product and finances • Development of the pharmacy & merchandise academy • Offer free clinic services to babies born in state hospitals • Assist the local school financially
Government and regulators	<ul style="list-style-type: none"> • Support government and industry policies • Regulatory compliance and implementation 	<ul style="list-style-type: none"> • Comment on the development of new regulations and legislation • Industry meetings in food, health and beauty sectors • Meetings and electronic communication • Public Health Enhancement Fund • SAPC, MCC and DoH 	<ul style="list-style-type: none"> • Regulatory changes to medicine pricing • Margin pressure from genericisation of medicines • Non-compliance with pharmacy and healthcare industry regulations • Non-compliance 	<ul style="list-style-type: none"> • Development of company policies and procedures • Corporate representative of the South African Pharmacy Council • Representatives on committees of new

			with current and emerging legislation	developments in the health, beauty and food sectors
Industry associations	<ul style="list-style-type: none"> Development of innovative business to sustain 	<ul style="list-style-type: none"> Industry communication session through companies like NBI (National Business Initiative) Retailers unite for employee wellness Sustainability forums 	<ul style="list-style-type: none"> Fast development of new industries and trends 	<ul style="list-style-type: none"> Adopted and monitor progress against the 10 principles set out in the UN Global Compact Development of new innovative products

RISKS AND MITIGATIONS

Risk	Implications	Mitigation
Impact of current trading environment	The current trading environment is characterised by constrained consumer spending, relatively low selling price inflation and continuing cost increases. Low inflation could negatively impact profitability as volume increases are required to maintain revenue growth. This also creates pressure to remain price competitive. Cost growth ahead of inflation could place pressure on maintaining margins.	<ul style="list-style-type: none"> Focus on growing sales volumes profitably Continued aggressive promotions strategy to entrench Clicks as a value retailer On-going review of expenses and cost structures across all businesses
Increasing competition in retail and corporate pharmacy sectors	Aggressive expansion by corporate pharmacy and retail chains, new entrants into the local retail sector and increasing price competitiveness of retailers could negatively affect sales, profitability and market share growth in Clicks.	<ul style="list-style-type: none"> Clicks has a store footprint of 442 and plans to grow to 500 stores by opening 20-30 stores each year Continued opening of pharmacies, with 20-25 planned for 2014 Long-term plan to open dispensaries in all Clicks stores (currently in 75% of stores)

		<ul style="list-style-type: none"> Continued growth in membership of the Clicks ClubCard loyalty programme On-going improvement in pricing, product offer and customer service
Increasing cost of attracting and retaining pharmacy professionals	<p>The group is the largest employer of pharmacists in the private sector. The shortage of healthcare professionals is an industry challenge, with South Africa having approximately half of the number of required pharmacists, based on World Health Organisation standards. The shortage of pharmacists could limit the growth of Clicks, increase costs and impact on margins.</p>	<ul style="list-style-type: none"> Pharmacy salaries externally benchmarked to ensure Clicks remains competitive in the employment market An employee share ownership scheme aims to attract & retain scarce skills, with a higher allocation of shares to pharmacists Specialist pharmacy recruitment team established Group collaborates with pharmacy schools at universities to increase capacity 397 learners trained through in-house Pharmacy Healthcare Academy 100 bursaries to be granted for trainee pharmacists for 2014 50 pharmacy interns to be employed in 2014
Regulatory changes to medicine pricing	<p>Legislative and regulatory change proposed by the Department of Health (DOH) could impact on medicine pricing. These changes include draft regulations to cap the maximum logistics fees that can be earned by pharmaceutical wholesalers and the introduction of international benchmark pricing. These changes could reduce turnover, margins and profitability in Clicks and UPD.</p>	<ul style="list-style-type: none"> Continued management engagement with the DoH on proposed changes Formal written and oral submissions to the DoH in response to draft legislation or regulations Ensure Clicks and UPD are operating efficiently to maintain margins and profitability, and to benefit from market consolidation should fee or turnover be negatively impacted by legislation
Margin pressure from	UPD faces margin pressure from the	<ul style="list-style-type: none"> The business has access to the Clicks

genericisation of medicines in UPD	increasing use of lower-priced generic medicines while costs are fixed, and manufacturers are under pressure to reduce supply chain costs.	<ul style="list-style-type: none"> and private hospital channels • Focus on driving volume and growing market share • Create operating efficiencies to reduce costs
Attracting and retaining scarce and skilled talent	An inability to attract and retain scarce talent in core areas of the business, particularly in general management, merchandise and planning, could ultimately compromise service delivery.	<ul style="list-style-type: none"> • Total rewards remuneration strategy across the group ensures market competitiveness in terms of cash and benefits • Employee share ownership scheme aimed at incentivising and retaining employees • Buyers and planners trained through Merchandise Academy • Leadership development programme initiated
Non-compliance with pharmacy and healthcare industry regulations	Sanction by the Pharmacy Council or Medicine Control Council for non-compliance could result in fines, penalties or restrictions being imposed on trading, as well as reputational damage.	<ul style="list-style-type: none"> • Pharmacy practice compliance reviews are conducted by professional services team in Clicks • Monitoring by group legal compliance officer • Insurance cover for professional risk of dispensing errors
Non-compliance with current and emerging legislation	Sanction for non-compliance could result in fines and penalties, criminal implications for directors, as well as reputational damage.	<ul style="list-style-type: none"> • Compliance officer monitors existing and proposed legislation, and identifies potential impacts on the business • Training and compliance programmes put in place for all relevant legislation
Failure to achieve BBBEE targets	The group is committed to sustainable transformation. Failure to make meaningful progress towards achieving BBBEE targets could impact on the group's reputation and also limit the ability to secure distribution contracts in UPD.	<ul style="list-style-type: none"> • A transformation plan, which is aligned to the BBBEE codes of good practice, guides the implementation of the transformation strategy • Board social and ethics committee reviews BBBEE scorecards • BBBEE principles are embedded within each business unit

<p>Loss of distribution clients in UPD</p>	<p>An inability to service UPD's current distribution clients according to defined standards and service level agreements (SLAs) could result in the contracts being terminated. This could result in a loss of revenue, financial penalties and reputational risk to the group.</p>	<ul style="list-style-type: none"> • Business unit transformation forums responsible for BBBEE implementation • Independent assessment of BBBEE undertaken annually • Achieved level 3 BBBEE compliance in 2013 • Targeting level 3 BBBEE compliance in 2014 • Measurable key performance indicators and SLAs in place for each contract to ensure service delivery • Service offering standardised to ensure robust and practical processes • Regular meetings are held with senior management at key clients to ensure any service-related issues are addressed
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CORPORATE GOVERNANCE

The Clicks Group strives to achieve the highest standards of corporate governance and adopts stringent legislative and regulatory compliance practices to ensure the sustainability of the business. The directors confirm that the group has in all material respects applied the recommendations of the King Code of Governance Principles 2009 (King III) to achieve the overarching corporate governance philosophies of fairness, accountability, independence, responsibility and transparency.

Governance enhancements

Governance processes are reviewed on an on-going basis to align with legislative and regulatory changes and to reflect best industry practice. During the financial year the governance framework was enhanced through the following:

- The independence of non-executive directors was again reviewed, and this practice will be undertaken annually.
- The terms of reference of the board committees and the board charter were reviewed and updated to comply with the requirements of King III and the Companies Act
- The group's processes have been aligned with the requirements of the Companies Act 2008. The memoranda of incorporation (MOI) for all the group's South African companies have been

approved by the JSE and the company's MOI was approved by shareholders at the 2013 annual general meeting AGM. MOIs for all South African subsidiary companies were adopted.

- A Competition Act compliance review was conducted and no material areas of non-compliance were identified. This review is undertaken annually.
- Ernst & Young Inc. were appointed as the group's external auditor at the 2013 AGM.
- A code of ethics for suppliers was formulated and communicated to suppliers.

RESULTS OF OBJECTIVES SET IN 2012

Building a trusted, accessible Healthcare network	Plans and targets for 2013	Achieved in 2013
	<ul style="list-style-type: none"> • Open 20 to 30 new Clicks stores 	<ul style="list-style-type: none"> • Net 22 stores opened (2012:20) • 18 stores expanded/refurbished • 442 stores at year-end (2012:420)
	<ul style="list-style-type: none"> • Open 30 to 40 new pharmacies 	<ul style="list-style-type: none"> • Net 25 pharmacies opened (2012:23) • 331 dispensaries at year-end (2012:306)
	<ul style="list-style-type: none"> • Increase ClubCard membership to 4.5 million 	<ul style="list-style-type: none"> • 4.1 million Club Card members (2012:3.94 million) • 225 000 Baby Club members • 216 000 Seniors Club members
	<ul style="list-style-type: none"> • Introduce new affinity partners 	<ul style="list-style-type: none"> • Nine affinity partners at year-end
	<ul style="list-style-type: none"> • Maintain pricing parity with food retailers 	<ul style="list-style-type: none"> • Achieved
	<ul style="list-style-type: none"> • Improve Clicks' buying levels from UPD to 97% 	<ul style="list-style-type: none"> • Clicks buying levels from UPD 96%
	<ul style="list-style-type: none"> • Grow volume of business with private hospital groups and independent pharmacies 	<ul style="list-style-type: none"> • Sales to hospital groups increased 14% and accounted for 26% • Sales to independent pharmacies decreased 5.6% and accounted for 18% of turnover
	<ul style="list-style-type: none"> • Secure additional distribution agency 	<ul style="list-style-type: none"> • 20 contracts managed in 2013

Empowering motivated, passionate people	contracts	
	<ul style="list-style-type: none"> • Embed repeat prescription service 	<ul style="list-style-type: none"> • 16% of repeatable scripts now on this service
	<ul style="list-style-type: none"> • Maintain employee turnover rate of 20% 	<ul style="list-style-type: none"> • Employee turnover rate of 21.5% (2012:21.7%)
	<ul style="list-style-type: none"> • Percentage of employees on learning and development programmes 	<ul style="list-style-type: none"> • 3735 of employees attended learning and development programmes • Invested R45 million in learning and development
	<ul style="list-style-type: none"> • Achieve level 3 BBBEE rating 	<ul style="list-style-type: none"> • BBBEE status stayed on level 3
	<ul style="list-style-type: none"> • Enterprise Development 	<ul style="list-style-type: none"> • R55.7 million spent in enterprise development initiatives
	<ul style="list-style-type: none"> • Development programme for managers of top stores 	<ul style="list-style-type: none"> • 60 managers completed store leadership development programme
	<ul style="list-style-type: none"> • Increase pipeline of pharmacy assistants 	<ul style="list-style-type: none"> • 397 trainees registered on learnership programmes
	<ul style="list-style-type: none"> • Merchant Academy to train new and existing buyers and planners 	<ul style="list-style-type: none"> • 20 buyers and planners registered on learnership and skills programmes

	<ul style="list-style-type: none"> Attract pharmacy students (target 80 bursaries and 60 internships) 	<ul style="list-style-type: none"> 108 pharmacy bursary students 43 internships
<p>Sourcing products that uphold the integrity of our brand</p>	<ul style="list-style-type: none"> Grow sales from private label and exclusive brands to 20% - 25% 	<ul style="list-style-type: none"> Private label 18.4% of total Clicks sales (2012: 18.4%) Front shop private label sales 24.1% (2012: 24.2%)
	<ul style="list-style-type: none"> Expand private label scheduled medicines range 	<ul style="list-style-type: none"> 54 private label medicines in 2013
	<ul style="list-style-type: none"> Grow beauty market shares through product innovation 	<ul style="list-style-type: none"> Skincare market share 34.4% (2012:34.1%) Haircare market share 30.5% (2012:30.2%)
<p>Our footprint</p>	<ul style="list-style-type: none"> Setting medium term environmental management targets Embedding environmental sustainability initiatives within 	<ul style="list-style-type: none"> Targets set in CDP and some achieved. Environmental sustainability initiatives embedded within each business unit

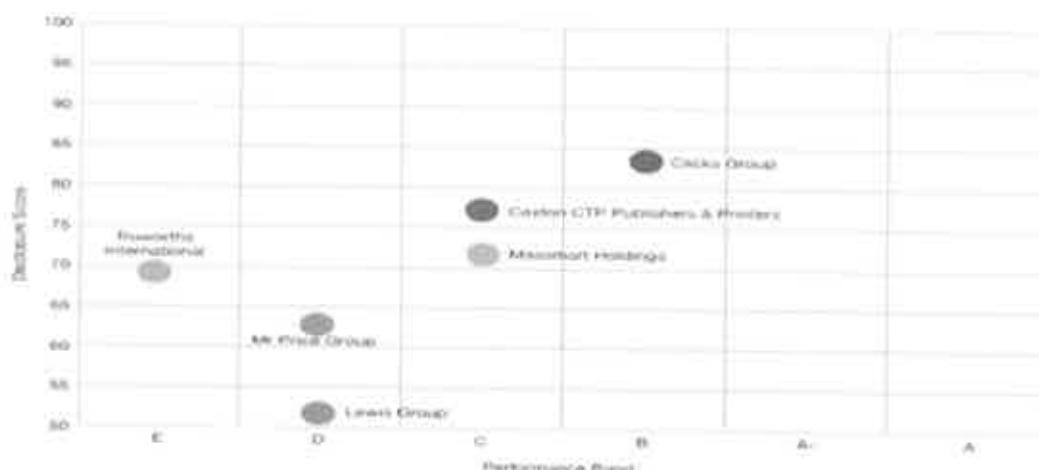
business unit operating plans	operating plan
<ul style="list-style-type: none"> Continue participation in the Carbon Disclosure Programme Evaluate participation in United Nations Global Compact 	<ul style="list-style-type: none"> Improved score from 92 to 94. The group apply the UN Global Compact principles



EXTERNAL RECOGNITION

- Top Employer
- Clicks Group has been certified as a South African Top Employer 2014.
- Clicks Group is included in the Business Times Top 100 companies for 2013.
- Top Empowered retail company during the 2012 Financial Mail/Empowerdex Survey
- The Clicks Group placed 17th in the Financial Mail Top Companies 2013 awards
- The Body Shop International won the 2013 Responsible Business Award in London.
- Clicks ClubCard recognised as one of South Africa's top ten iconic brands in the 2013/2014 Ask Africa's Target Group Index Icon Brand Awards.
- Clicks is recognised as South Africa's leading retailer in Health and Beauty for the fifth year running in the Times Sowetan Retail Awards. TGI
- Clicks 4-seed bar won a Fairlady consumer best buy in 2014
- Musica is recognised as South Africa's Best Entertainment store in the Times Sowetan Retail Awards.
- Musica Gateway store was voted the Best Music Store in KZN in the Daily News newspaper
- Musica has been voted the No. 1 CD shop in Pretoria.
- Musica was voted 1st in the Best Music Store (for CD's, DVD's etc.) category in the Daily News "Your Choice 2012" survey.
- Musica was the first to aggressively promote the Crosley turntables and secured a semi-exclusivity on the range by negotiating exclusion of all mass retailers.

The Clicks Group is reported on under the Consumer Discretionary category and is the top performer in this sector, with a score equivalent of the 2012-13.



Source:

1. Credit: 2013 South Africa 100 Climate Change Report 2013 (Carbon Disclosure Project)

SUSTAINABILITY INDICATORS

FACTORS		2013	2012	2011	2010	2009
Financial Highlights						
Turnover	R'm	17 543	15 437	14 136	13 277	12 175
Comparable stores' turnover growth	%	5.8	5.5	6.9	11.2	13.2
Gross profit margin	%	21.6	22.5	22.9	21.9	20.7
Operating margin	%	6.3	6.6	6.6	6.2	5.8
Headline earnings	R'm	756	692	655	576	478
Market share*						
• Clicks: retail pharmacy	%	17.6	16.2	15.4	13.1	11.1
• UPD: private pharmaceutical market	%	26.7	24.3	23.1	22.7	23.6
Building a trusted, accessible healthcare network						
Number of stores		607	595	590	561	540
Number of pharmacies		331	306	283	251	207
In-store clinics		122	116	104	93	105

Clicks ClubCard						
• Active members	m	4.1	3.9	3.4	3.1	2.7
• Contribution to sales	%	76.1	77.1	76.7	74.8	70.0
Empowering motivated, passionate people						
Permanent Employees		8 385	8 063	8 262	8 064	7 585
Employee turnover	%	21.5	21.7	19.4	19.8	26.1
Pharmacist turnover	%	28.0	37.0	23.0	34.0	53.0
Percentage employee participation in share ownership scheme	%	98.7	97.4	95.8	-	-
Employees covered by medical aid	%	19.0	18.0	16.7	18.2	22.3
Employees covered by retirement benefits		8 351	8 043	95.0	91.6	92.2
Employees covered by collective bargaining agreements	%	27		42	39	47
Employment equity*						
• Black employees % total employees	%	85.0	85.0	84.8	84.7	84.3
• Black senior and top management	%	35.0	20.0	20.4	17.8	11.5
• Black directors	%	44.0		40.0	40.0	33.0
• Woman as a % of total employees	%	63.0	63.0	63.0	62.7	62.0
• Woman senior and top managers	%	33.0	36.0	35.5	34.7	32.0
Skills Development*						
• Total expenditure	R'm	45.0	40.0	47.0	56.0	39.7
• Skills Development as a % of basic payroll	%	2.8	2.8	3.4	4.4	4.3
• Number of employees trained		3 735	4 687	4 356	4 527	4 523
Transformation rating*	Level	3	3	3	5	5
Preferential procurement*	%	58	48	75	54	48
Enterprise development spend*	R'm	55.7	90.0	33.7	28.6	8.6
Corporate social investment spend	R'm	13.8	7.0	9.0	9.8	14.4
Employee Wellness Program						
Employee Utilisation number		1653	1193	1682		

HIV/AIDS programme number		47	52	55		
Sourcing products that uphold the integrity of our brand						
Clicks private label and exclusive products						
• Percentage of total sales	%	18.4	18.4	18.2	17.8	17.6
• Percentage of front shop sales	%	24.1	24.2	24.2	23.0	22.4
Lightening our footprint						
Carbon emissions (CO2)	metric tons	123 025	119 480	121 258	121 685	134341
Water usage for Distribution Centres and Head office	Kilolitres	45 686	40 804	-	-	-
Electricity usage	Kilowatt Hours	91 645	92 370	92 480	88 445	94 467
Carbon Disclosure Project						
• Disclosure Score		94	92	84	83	-
• Performance Band		B	B	B	C	-
JSE SRI		Excluded	Included	Included	Included	

Reference:

Clicks Group. 2014. <http://www.clicksgroup.co.za/> [online] (Accessed 20 August 2014).

Clicks Group. 2014. <http://www.clicksgroup.co.za/corporate-overview/co-group-profile.html> [online] (Accessed 20 August 2014).

Clicks Group. 2014. <http://www.clicksgroup.co.za/corporate-sustainability/index.html> [online] (Accessed 20 August 2014).

End of case study

ANSWER ANY 3 (THREE) of the following questions:

QUESTION 1 (100)

Identify two (2) of the megatrends proposed by Clem Sunter (21st Century Megatrends) and two (2) trends proposed by Popcorn (Clicking). Explain each of these trends and debate the current relevance of these selected trends to the Clicks Group business scenario.

QUESTION 2 (100)

You are instructed by top management of the Clicks Group to compile a document considering the historical evolution and current development of the Clicks Group and its various group brands. The aim of this analysis is to establish to what extent 3rd wave characteristics and/or 4th wave characteristics can be identified and verified to exist within this group of organisations.

QUESTION 3 (100)

Identify and apply each of the steps of a comprehensive change management process which could have been considered by the strategic team of the Clicks Group with the launch of one of the following change interventions:

- Acquisition of Musica in 1992;
- Launch of clicks Clubcard in 1995;
- Launch of pharmacies in Clicks stores in 2003.

(You are allowed to make assumptions on factual matters not presented in the case in order to apply your chosen intervention.)

QUESTION 4 (100)

Prepare a proposal to the management team of the Clicks Group on:

- 4.1 The value of ethical leadership at all organisational levels within the Clicks Group, including head-office and group brand retail-outlets.

(50)

- 4.2 The value of implementing the five principles presented by Peter Senge for being a learning organisation at the Clicks Group.

(50)

QUESTION 5 (100)

Prepare a proposal to the management team of the Clicks group on:

- 5.1 Potential types of conflict and sources of conflict that could exist in the Clicks Group. Reason also how you would manage interpersonal conflict that might develop within the Clicks Group or its retail outlets.

(50)

- 5.2 How two contemporary issues, namely, collaboration and sustainability, play a critical role in the long-term success of the Clicks Group.

(50)

TOTAL [300]

End of paper