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What Works Case Study

WHAT WORKS: HEALTHSTORE'S FRANCHISE APPROACH TO HEALTHCARE

Harnessing the profit motive to deliver public health in Kenya



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EXECUTIVE SUMMARY

According to the World Health Organization, malaria alone accounts for twenty percent of all childhood deaths in Africa.¹ Malaria, tuberculosis, pneumonia, and other treatable diseases are the cause of seventy to ninety percent of all childhood illnesses and deaths in the developing world.

In the African nation of Kenya, the under-five mortality rate stands at an astonishing 12.3 percent, yet there are only thirteen physicians per 100,000 people.² With such limited resources, successfully combating the growing epidemic of childhood illness and death in countries like Kenya requires innovative schemes to deliver basic healthcare services.

The non-profit HealthStore Foundation (HS) (formerly Sustainable Healthcare Enterprise Foundation) was founded in 1997 to “prevent needless death and illness by sustainably improving access to essential medicines.”³ HS’s sixty-four profitable HealthStore franchises serve roughly 400,000 patients per year; by 2008, it plans to expand its network to over 200 locations serving 1.5 million patients per year.

Each HealthStore franchise is owned and operated by a licensed nurse or by a community health worker with a nurse on staff, enabling outlets to offer a wide range of products and services. With locations in underserved villages and urban areas throughout Kenya, HealthStore clinics provide access to much-needed healthcare, while generating enough revenue to pay their nurse-owners and staff a comparative annual salary.

The HealthStore micro-franchise model gives local entrepreneurs the opportunity to own and operate sustainable, profitable businesses while simultaneously curtailing incentives for corruption, as franchisees risk losing their business if they fail to comply with franchise regulations. By aligning the incentives of customers, government regulators, and owner-operators, HealthStore’s franchise model is able to deliver a high quality of care to previously underserved Kenyans while realizing a healthy return on investment.

THE BUSINESS MODEL

HS operates as a typical franchisor, licensing franchises under the HealthStore brand name (formerly Child and Family Wellness Shops). The HealthStore model incorporates many key elements of successful franchising: uniform branding, systems, and training; careful selection of locations; and strict quality controls enforced through regular inspections. Clinics are located no more than an hour’s walk from the communities they serve, and offer between 150 and 250 government-approved, tested products in addition to diagnostic services provided by licensed nurses. Up front costs for each franchise unit are approximately US\$1,700; HS provides financing for up to 88 percent of the required start up capital, although many owners raise the equity through family and friends. The franchise fee is included in the price of drugs charged to the clinic owner rather than as a percentage of gross receipts, reducing the owners’ incentive to under-report sales or deviate from franchise-wide price schedules. HS’s ability to purchase high quality drugs wholesale and cheaply distribute inventory across outlets enables the shop owners to maintain competitive prices at approximately US \$0.50 per treatment while paying franchise fees and interest - and taking a profit.

The franchise’s competitive advantages include low-cost sourcing of high-quality drugs, central management of political and regulatory issues, and a critical mass of locations that can share best

¹ “Children and Malaria.” Roll Back Malaria Infosheet. World Health Organization. Available: http://www.rbm.who.int/cmc_upload/0/000/015/367/RBMInfosheet_6.htm. Accessed November 1, 2005.

² *World Development Indicators 2005*. Washington, DC: World Bank Group. Available <http://devdata.worldbank.org/dataonline/>. Accessed November 1, 2005.

³ HS acronym used for brevity within text.

practices and leverage scale. Apart from the benefits accrued through these competitive advantages, franchise owners also receive extensive training, marketing and promotions support, technical advice, and an established, trusted brand name.

DEVELOPMENT BENEFIT

HealthStore shops and clinics improve customer access to healthcare and health education, and generate a sustainable income for their owners - often filling a gap in the government-run healthcare delivery system. HealthStore locations alleviate significant barriers to access: distance, price, product quality, diagnostic quality, and consistency of supply. In addition to these direct benefits, the shops generate positive externalities on the healthcare market - by making it more competitive - and in the communities HealthStore shops serve. Often, when a HealthStore clinic is opened, drug prices converge and overall service quality improves in competitor shops. Also, HealthStore locations play an important role even when there are government dispensaries providing medication targeting the same illnesses for free, since these dispensaries are often out of stock or more than an hour's walk from underserved communities.

Owning a HealthStore clinic is an attractive career option for Kenya's educated nurses and health workers, counterbalancing the strong economic incentive for immigration to OECD⁴ countries, where salaries can reach fifty to sixty times those offered by Kenyan hospitals⁵ whose conditions can be worse than those in rural clinics. HealthStore clinics offer nurses the potential to earn a safe, comfortable salary while serving their communities, helping to reverse the trend of "brain drain" plaguing Africa.

KEY LESSONS

The HealthStore model demonstrates that primary healthcare delivery is not the sole domain of the public sector. Its hybrid public-private micro-franchise model holds great potential for scaling up both within Kenya and throughout the developing world. The case shows that delivery systems are often the limiting factor in low-income and rural communities, and that the market for private healthcare services is both lucrative and socially transformative. By creating good jobs for trained healthcare personnel, HealthStore is doing its part to reverse the troubling "brain drain" affecting much of Africa. Fundamentally, HealthStore clinics are positioned at the forefront of the fight against childhood disease and death. The fact that HS clinics incorporate an innovative, for-profit franchise model speaks to the model's potential to greatly reduce the number of children who die from preventable diseases each year.

⁴ Organization for Economic Co-operation and Development; a member organization comprising thirty of the more economically advanced countries in the world. More information available: <http://www.oecd.org>

⁵ The average salary for a trained Kenyan nurse is US \$754, according to data from SalaryExpert.com, a leading provider of online salary data. Available: <http://www.salaryexpert.com>. Accessed November 1, 2005.

WHAT WORKS: FRANCHISING HEALTHCARE FOR KENYA: THE HEALTHSTORE MODEL

SOCIAL FRANCHISING – AN INTRODUCTION

Franchises, by definition, create a symbiotic relationship between local entrepreneurs and a supportive central organization that provides entrepreneurs with a higher probability of business success than if they operated independently. Local entrepreneurs remain relatively autonomous and benefit from being affiliated with a larger enterprise that can provide institutional support.⁶ This support is critical, especially since local entrepreneurs in low-income communities carry significant risk and generally do not have access to such business knowledge, relationships, or ongoing support.

The franchise model is scalable, self-sustaining and replicable. In fact, only minimal start-up capital would be required to establish it in other countries.

In the developing world, the micro-franchise model is gaining interest because it gives local entrepreneurs the opportunity to own and operate sustainable, profitable businesses. The incentive for corruption is also diminished since franchisees can lose their business for noncompliance with the franchisor.⁷ The risk of losing their investment and business is far greater than any short term gain from cheating the system.

By using both carrots and sticks to instill discipline in a franchise network, once-difficult and unprofitable businesses - like distribution of medicine and disease prevention - in developing countries can be handled through an efficient business framework. Effective distribution of essential medicine is complex problem, especially given the prevalence of corruption throughout health care delivery systems in developing countries. Despite the efforts of several organizations⁸, it is still very difficult to efficiently reach those who are most in need. Franchised clinics like HealthStores (formerly Child and Family Wellness Shops) in Kenya have greater access to the communities that need these drugs since they are owned and operated by local entrepreneurs. Also, since the franchisees have to be transparent or risk losing their business, the penalty for corruption or price-gouging is significant enough to prevent these common problems.

COMPANY PROFILE

The non-profit HealthStore Foundation (HS) (formerly Sustainable Healthcare Enterprise Foundation) is the franchisor of for-profit HealthStore micro drug shops and clinics in three main regions of Kenya – Embu, Nairobi and Western Kenya.⁹ HS is incorporated in both the United States and Kenya (as HealthStore Kenya) and provides financial, marketing, procurement, and other support services to its franchise locations.

⁶ Examples of support for HealthStore franchises include business and government relationships; profitable infrastructure - including start-up loan programs; established, unique branding; tested and proven marketing campaigns and promotions; convenient and/or inexpensive inventory supplier and distribution systems; performance benchmarking and collective best practices; and the required training and ongoing support needed to operate a successful business.

⁷ For more information on micro-franchise models, see Magelby, Kirk. “Micro Franchises as a Solution to Global Poverty.” Available: <http://www.omidyar.net/group/poverty/file/7.35.11055472357/>.

⁸ The Gates Foundation (gatesfoundation.org), the Clinton Foundation (clintonpresidentialcenter.org), President Bush’s PEPFAR fund (usaid.gov/our_work/gobal_health) all aim to distribute essential drugs in developing nations.

⁹ HS acronym used for brevity within text.

HS's overall mission is "to prevent needless death and illness in the developing world by sustainably improving access to essential drugs and basic health services." To this end, the first HealthStore shops were established in Kenya, in 2000, to provide affordable medical care for easily treatable conditions such as malaria and diarrhea. While there are many providers of such medication, including hospitals and pharmacies in the higher density areas, millions of Kenyans live hours away from the nearest reliable supply of quality medicine. Where outlets do exist, pharmaceuticals are frequently overpriced, suffer from quality/tampering issues, are out of stock, or are inaccessible to the local population.

HS's franchise model attempts to address these issues head-on by offering standard prices, compelling owners to purchase quality pharmaceuticals and by building a trusted brand, recognizable to consumers. HS ensures compliance with its standards through regular monitoring of individual locations and a threat of closure significant enough to minimize franchisees' incentives to cheat.

As of 2005, the HealthStore network includes 42 shops (owned by community health workers) and 22 clinics (owned by nurses) that serve roughly 400,000 patients per year on a run-rate basis. On average, individual franchises have reached a point of self-sustainability and the net donor funding required for HS's central operations is less than US \$1 million annually. The three year goal is to expand from 64 locations serving 400,000 patients per year to over 200 locations serving over 1.5 million patients per year.

**"It's much harder to build a business model around diseases other than easily treatable infectious diseases – AIDS, for example. Free doesn't work; expensive doesn't work."
–HS Director, Wayne Farmer**

Apart from the obvious impact of providing affordable, accessible and high-quality pharmaceuticals and preventative products to the population of Kenya, HealthStore locations create two important secondary benefits. When HealthStore enters a market, competitors are forced to improve prices, availability, and quality to compete. At the same time health workers and nurses are provided with a living income. Community Health Workers earn an average annual income of US \$600 to \$800; nurses earn an average salary of US \$1000 to \$1400, with variance based on individual franchise sales.¹⁰

The principal benefit of the franchise model is that it provides effective incentives for outlet owners and thereby delivers a higher quality of care and social return on investment than is typically realized in other rural healthcare models. The franchise model is scalable, self-sustaining at the outlet level, and with reliable start-up capital, replicable in other countries.

HS continues to improve its operational strategy and the performance of the individual franchises. Charles Slaughter, acting president, has been instrumental in implementing the appropriate business practices to improve individual shop performance before opening additional outlets. Slaughter's guidance and the HealthStore central team's efforts have paid off: as a result of a series of highly successful promotional campaigns, outlets reported serving 344,505 patients through September 2005, more than three times the number served in the same period of 2004. Patient visits per outlet increased 162 percent over the same period. The increase in patient visits drives better financial results: sales per outlet more than doubled year to date over 2004, as of September 2005, and seasonally adjusted sales per outlet hit all-time highs in five consecutive months starting May 2005.

¹⁰ Payroll calculated as average from HealthStore Consolidated Income Statements, January through September 2005 and interviews with franchise owners and HS management. By comparison, the average salary for a trained Kenyan nurse is US \$754, according to data from SalaryExpert.com, a leading provider of online salary data. Available: <http://www.salaryexpert.com>. Accessed November 1, 2005.

Despite the typical operational challenges that many small and growing companies have to address, the dominant impression of HealthStore is one of solid progress. Shop-level compliance is dramatically improved and marketing efforts are clearly paying dividends.

In 2004-2005, HS received grants, donations, and pledges surpassing two million dollars, a major financial commitment to the HealthStore Foundation.¹¹ HealthStore uses donor money to expand its in-service franchisee training, and to support network services such as compliance, delivery, evaluation and promotion.

[HealthStore] provides access to high quality essential medicines that are effective against 60 percent of preventable death diseases - for less than \$1 US a year.

One of the key pillars of HealthStore's vision is to promote and support the replication of its franchising model, which organizations across Africa, India,

and South America have expressed interest in adapting. To this end, HealthStore representatives have presented at numerous conferences, including the Bill and Melinda Gates Foundation-funded SEAM Conference in Ghana (Strategies for Enhancing Access to Essential Medicines).¹² HealthStore also plans to create a separate advisory division, HealthStore Development Services, which will support social entrepreneurs interested in adapting the health franchising model in other countries.

COMPANY ORIGINS

In a well-publicized story, Scott Hillstrom, then managing partner of a US-based commercial law firm, founded the Sustainable Healthcare Enterprise Foundation (SHEF, now HealthStore Foundation) in 1997 after being involved in a serious car crash in New Zealand. While lying on the side of the road waiting for help, Hillstrom made a commitment to dedicate his life to helping others. Immediately prior to the crash, Hillstrom read about the number of preventable child deaths in Africa caused by poor drug distribution; to fulfill his personal commitment, he dedicated himself to helping reverse this trend. After meeting with Eva Ombaka, a pharmaceutical advisor to the World Council of Churches in Kenya, Hillstrom and Ombaka formed SHEF, modeled on the principles of a franchise system. SHEF was founded as a non-profit organization, while the individual franchise locations operated (and still do) as for-profit enterprises. The foundation formally changed its name from Sustainable Healthcare Enterprise Foundation to the HealthStore Foundation in 2005 as part of an effort to simplify and consolidate its brand.¹³

The original HealthStore franchises were known as Child and Family Wellness Shops (CFW) and were owned by community health workers (CHWs). Originally, CHWs were trained by the Ministry of Health or non-governmental organizations and deployed as volunteers to provide essential medicine at cost to their communities. The local churches would provide a small cache of medicine to the CHWs, who would then serve the community by selling medicine to those in need, with a small mark-up going to the church. The hard work involved and the token amount made by CHWs made the prospect of owning a for-profit franchise location an attractive one. Over time, however, HealthStore hired nurses through whom they could offer a much broader product and services line. Appendix A outlines the evolution of ownership structure, along with other elements of the business model.

¹¹ HealthStore recently received a \$20,000 grant from the Donner Foundation, \$50,000 from the Mulago Foundation, and the first \$350,000 of a three-year, \$1 million commitment from the Oswald family. In the last two months, eight people have committed \$4,700 each to sponsor HealthStores. Additional key supporters include the Rockefeller Foundation, Bill and Melinda Gates Foundation, and forthcoming support from USAID.

¹² Details, including full conference proceedings, are available: <http://www.msh.org/seam/conference2005/>

¹³ HealthStore Foundation, for instance, translates well into Kiswahili (Swahili) while Sustainable Healthcare Enterprise Foundation does not.

HealthStore is currently re-branding all remaining CFW shops to be called HealthStores as part of its brand consolidation efforts. The re-branding process also includes distributing new signage, enforcing uniform store layout, and more consistent displays of franchise price schedules.

OVERALL ORGANIZATIONAL STRUCTURE AND BUSINESS MODEL

At the highest level, HealthStore is currently organized into two non-profit entities, one operating in the United States (HealthStore Foundation) and the other in Kenya (HealthStore Kenya). Both entities are necessary since the bulk of the fundraising and strategy work occurs in the U.S. while the day-to-day management of operations occurs in Kenya. See Appendix B for a detailed organizational chart.

Business Model – Overview

HS loans new franchisees up to 88 percent of the start up capital (approximately US \$1700) required for inventory purchases to open a new store. Franchisees make a cash investment of \$200, and are given 3-5 years at below market interest rates to repay a US \$500 working capital loan. Another US \$1000 no-interest fixed capital loan is provided for store fixtures, signage, and tenant improvements to franchisees in good standing.

HealthStore owners receive an established brand and strong central support, making them better prepared to turn around and re-pay the franchisor. Franchisees agree to maintain company standards regarding inventory availability, procurement, signage, and customer service.

HealthStore is deeply engaged in franchisees' operations, monitoring each for policy compliance and providing ongoing support, which includes training, streamlined procurement, product logistics, product formularies, and financing and marketing. HealthStore outlets that do not comply with standards have their franchise licenses revoked and the store is either closed down or placed under new management.

HS's long-term goal is to achieve a self-sustaining model where at least 70 percent of shops are profitable to the point of providing the owner with 'a reasonable living income.'

Business Model – Revenue Model

When the HealthStore shops first opened, HS collected its franchise fee as a percentage of total sales. They soon discovered widespread underreporting among franchisees, whose incentive to underreport sales trumped the risk of getting caught. As a result, HS now builds its franchise fee into the wholesale price of drugs provided to each shop. Shop owners are obligated to purchase drugs from HealthStore (who in turn purchase from MEDS¹⁴) with 5 percent of added margin built into the price to cover franchise costs. HS then ensures compliance with the procurement policy through site visits (both announced and unannounced).

Financing franchisees' start up costs is not merely intended as a revenue-generator for HealthStore; without this assistance, many franchisees would be without recourse. It took HS some time however, to find the right balance between financial support and overburdening franchisees with interest payments. In

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¹⁴ Mission for Essential Drugs & Supplies (MEDS) is an ecumenical organization headquartered in Kenya to support church health facilities and other nonprofit health care providers. MEDS provides approved, tested, high-quality generic drugs and medical supplies at affordable prices through non-profit re-sale.

the late 1990s, shop owners could borrow up to 80 percent of the required capital from then-SHEF (to cover inventory, fixed assets, initial salary costs). That loan was repaid at a rate of 18 percent. However, interest payments often consumed all of the shop's profits, leading to operational distress among the owners, and, in turn, delinquent accounts. As part of an overall plan to improve store performance, SHEF restructured many loans, in some cases writing off as much as \$600 per shop. Now, HS provides a loan of up to \$500 for working capital while requiring owners to put up a \$100 to \$200 investment. HealthStore also owns the fixed assets of new locations through a no-interest US \$1000 loan, simplifying transfers of ownership that result from non-compliance or poor performance.

While individual HealthStore shops are sustainable, profitable businesses, core support from the non-profit HealthStore Foundation will cost about \$1 million annually to manage a full deployment of approximately 200 outlets. Estimated income from financing and franchise fees will only account for US \$150,000 per year in the long-term. Despite this shortfall, HealthStore is capable of raising necessary capital through grants and private donations – as a NGO, it is uniquely positioned to raise development funds in order to support a network of for-profit enterprises. At a net cost of less than US \$1 per patient served, this represents a cost-effective model for providing life-saving treatment – and one that provides a living income for franchisees.¹⁵

Business Model – HealthStore Outlet Level Models

At its inception, HS managed two broad classes of outlet-level business models: a nurse-operated clinic and a community health worker-operated shop. There are key distinctions between the models:

1. **Product Formulary** – Nurse-operated clinics are able (by law) to offer a wider variety of products. A typical CHW-operated shop is confined primarily to malaria, diarrhea, and amoebiasis (stomach worms) drugs in addition to related health products such as mosquito nets and water treatment products. Nurse-operated clinics, however, can expand upon these offerings to include a range of antibiotics.
2. **Services Provided** – Nurses are able to provide more services to their clientele. Legally, they are able to consult on a broader range of health issues, which enable nurses to make more diagnoses and charge for these consultations.
3. **Level of 'Living Income'** – Nurses typically have higher opportunity costs than their community health worker counterparts. Nurses are educated and certified to work in any health-related field, and are therefore more employable. As such, nurses require a more profitable store to provide a comparable salary to what they would receive elsewhere.

As a result of these distinctions, nurse-operated clinics generally serve fifty to eighty percent more patients than health worker-operated shops. The subsequent difference in financial performance is significant, with nurse-operated clinics generating an estimated annual net profit of \$1,000-\$1,400 compared with only \$600-\$800 for a CHW operated shop.

As a result of the financial performance and greater impact on public health offered by nurse-operated clinics, HS is focusing primarily on these clinics as it moves forward. From a financial and performance perspective, such a decision makes sense, but is subject to the greater challenge of recruiting nurses who are capable of owning and operating a shop. Refer to Appendix C, which profiles four different franchises, including CHW-owned and nurse-owned outlets.

¹⁵ Net cost per patient is the quoted average patient transaction cost per the HealthStore Shops Consolidated Income Statements, January through September 2005.

HS's franchise model and operating strategy yield a series of key competitive advantages. In contrast to their competition, HealthStores offer lower cost medicines, dedicated management support, and international fundraising efforts to support the franchisor, which helps franchisees turn a profit. Refer to Appendix D for a comprehensive list of HS's competitive advantages.

Franchisees' Advantage

The HealthStore franchise is attractive to practicing community health workers, nurses, and pharmacists for a variety of reasons:

- **Standardization** – Every HealthStore franchise has a consistent aesthetic, which projects professionalism and builds brand trust. HS paints the walls white, and gives the doors and windows a green trim. Since HS owns the franchise assets, all furniture is of the same quality. Marketing materials are also consistent across the franchises, so the same promotion advertisements and educational posters can be found decorating the walls of each outlet.

In addition to a consistent look and feel, all business operations are standardized by franchise regulations. All franchise owners must comply with operating procedures that regulate everything from reporting to inventory management. These ready-made guidelines enable owners to forego a traditional entrepreneurial learning curve and to operate their businesses from the beginning based on proven management techniques and in accordance with basic profit and loss principles. Franchise owners also benefit from the reporting standards, which make sales analyses and benchmarking across franchises possible.

As a result of marketing campaigns and effective community outreach, HealthStore franchise owners are regarded by their communities not as simple shop clerks, but as health experts.

- **Business and Clinical Training** – Most community health workers and nurses do not have business backgrounds. The four-week HS franchise training helps franchisees to develop critical business skills, and franchisees forgo their salary to participate. The training method combines lectures by the HS Training Team and interactions with experienced outlet owners. Business training provides outlet owners the necessary tools and skills to properly diagnose and treat diseases while operating their business profitably.
- **Reports and Analyses** – HealthStore shops and clinics receive cumulative quarterly reports with data aggregated from across the franchise network, along with interpretation and support from the field officers. From these reports, owners are able to benchmark themselves against other locations and also measure the impact of any recent marketing and promotion campaigns.
- **Strategic Outlook and Direction** – HS has a dedicated central management team and an international Board of Directors that brings significant strategic capabilities to guide HS's overall direction, growth and performance strategy.
- **Ready-Made, Proven Promotions** – HS pre-tests promotions using a sample of its shops and clinics before rolling out to the broader network. The test environment ensures that unsuccessful promotion campaigns are weeded out prior to implementation, strengthening HS and HealthStore Shops brand.
- **Consistent, Regional Support** – Field officers visit shops and clinics periodically to help owners and employees comply with HS standards and interpret management reports from the home office. The officers also conduct ongoing training. Annual meetings of shop and clinic owners highlight best practices and reward franchise-level successes.

- Community Trust – HS and HealthStore Shops have built brand name recognition within the communities they serve. While national and international brand recognition will take time to develop, franchise owners find that respect and trust in their shops develop best when promotions highlight their membership in a larger organization.
- Logistical Assurance – Owners are guaranteed monthly visits from the distribution center to restock their inventory. In cases where stock shortages occur frequently, (particularly with critical medications), restocking schedules are adjusted accordingly. With some outlets, particularly those on frequently used restocking routes, outlet owners can call their regional support office and request a next-day delivery.
- Lower Cost Structure – In addition to discounted medication provided by HS's relationship with MEDS, there are other cost advantages that HealthStore shops and clinics enjoy. Since the central franchisor performs most marketing, training, and operational functions, HealthStore shops and clinics can concentrate on improving their customer service and sales volume. Dealing with regulators can also be a time consuming and costly process for other pharmacies (particularly if bribes are involved). However, franchise owners are able to avoid this issue entirely by referring government officials directly to HS.

SOCIAL IMPACT

Sixty-four HealthStore locations have served a combined total of over 750,000 patients since inception and, on a combined run rate basis, serve approximately 400,000 patients per year. A network of 200+ locations, to be built by 2008, will serve between 1.5 and 2 million patients per year.¹⁶

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While the number of patients served provides an objective measure of societal impact, it is not necessarily the metric to which HS assigns the most weight. As their stated mission is to improve access to quality healthcare, HS favors locations where access to healthcare was previously limited or non-existent however; these areas have lower anticipated patient volumes than areas of higher population where competition, and therefore access to healthcare, already exists.

HS is currently planning a controlled, academically rigorous study to examine the impact of HealthStores on public health outcomes over time.

Access

First and foremost, HealthStore shops and clinics provide access to quality healthcare for the communities in which they operate. Simply put, they provide affordable, effective, in-stock medicines, and pride themselves on quality service and accurate diagnoses and prescriptions.

To ensure quality of service and transparency throughout the network, HS regularly monitors its locations for compliance with the franchise agreement. Drug prices are fixed and must be visibly displayed and essential medicines must always be in stock. Medicines must also be purchased through the HealthStore supplier, thereby guaranteeing wholesale-priced drugs that are approved, effective, tested, and not

¹⁶ The most common diseases treated by HealthStores are respiratory infections (30%), malaria (23%), worms (11%) and pain/inflammation (10%). Franchises also sell a variety of preventative products such as mosquito nets, condoms and soap.

expired. Regular monitoring ensures uniform quality throughout the HealthStore brand, which is critical for a franchise operation with a nationwide marketing strategy.

HealthStore shops and clinics operate in urban, peri-rural and rural areas (with populations of at least 5,000) where there are few or no *quality* pharmacies and clinics available. For HS, increasing “access” to healthcare means treating patients that might otherwise have gone without treatment. As such, clinics are no more than an hour’s walk away for the population they are intended to serve, thereby lowering transportation costs that might otherwise be a disincentive for patients seeking treatment.

“During one visit to a Maasai village near Isinya, where there are currently no HealthStore Shops, one villager remarked, ‘we mix herbs (for our treatment) and then leave it up to God.’”
- Michelle Fertig and Herc Tzaras

Customers that frequent HealthStore shops and clinics are attracted not only by proximity, affordable prices and product variety, but also by high-quality customer service. Even if there are comparable pharmacies in the community, customers return to HealthStore shops and clinics because of owners’ relationships with their community. Customers trust HealthStore owners and know that they will receive attention, unlike other pharmacies or clinics that either want to push sales or are overcrowded. HealthStore shop and clinic owners are specially trained in customer service and taught to develop long-term relationships and encourage repeat visits. Customers who have access to this exceptional service often return for all their medical needs, knowing that the treatment will be effective, even if a certain drug can be found for less at a competitor’s shop.

Health Education

Communities benefit from the shops’ outreach efforts. During school screening promotions, for example, children and parents are educated in basic healthcare, including topics that extend beyond the scope of the HealthStore product line. In addition to school screenings, HS also organizes “awareness days” to mobilize community health efforts and educate parents about common diseases.¹⁷

Such investigations provide more comprehensive assessments of children’s health, and franchise owners are trained to help families with basic health and hygiene.¹⁸ As a result of community outreach, franchise owners are regarded as health experts rather than simply medical shop clerks. Working alongside government and education officials further enhances the credibility and the perceived competence of the owners and HealthStore employees.

Community outreach campaigns are developed and tested by HS and executed by HealthStore franchisees. They go beyond simple product demonstrations by providing community support for disease prevention, identification, and treatment.

Charity Cases

Even though franchise products are purchased from a non-profit wholesaler and subsequently sold at affordable prices, there are cases in which patients cannot pay for essential medicines at the time of sale. Rather than refuse diagnosis or treatment to a patient with no alternatives, HS provides the franchises with the flexibility to treat these patients by extending credit.

¹⁷ Mbeere District Malaria Day, for instance, brought 2,000 people from the Mbeere District together to obtain information on the prevention and treatment for malaria. Franchise owners are also encouraged to make home visits in their community and screen the communities’ children.

¹⁸ Basic health assessments include weighing and measuring children, maintaining immunization records, and promoting the use of anti-mosquito bed nets.

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As franchise owners develop relationships with their customers, they often extend credit to those who cannot pay at the time of diagnosis. HS does not interfere with franchise owners' credit policies; the owner assumes all of the credit risk, but can continue to sell inventory at the designated mark-up and establish their own financial sustainability rather than submitting a charity refund and being reimbursed only for the cost of the drug, thus losing the mark-up. As such this policy functions as kind of informal health insurance program. For the future, HS is designing a formal micro-insurance health plan.

Price Convergence

The average price of anti-malarial medicine varies significantly, even within the same class of generic drug. For example, within the city of Kitengala, prices for treatment of malaria using generics range between 60 KSH to 100 KSH (US \$0.80 to US \$1.30). Non-HealthStore pharmacies rarely display prices, and competitors often charge different amounts to different people for the same medication. In more remote locations where there is only one provider, monopolistic practices exploit community members.

By offering high quality anti-malarial drugs at below-market prices, HealthStore shops create two price impacts. A first order effect is that consumers pay less by purchasing from HealthStore as opposed to purchasing from pharmacies, hospitals, and other competitors. Second, the introduction of HealthStore Shops often catalyzes competitors to reduce prices, also resulting in consumer savings - even though affected consumers may never visit a HealthStore Shop.

Availability

As a measure of compliance with the franchise agreement, HS regularly monitors HealthStore locations for inventory levels. One of HealthStore's primary missions is to have drugs available when needed. Similar to price and quality issues, availability in HealthStore stores may increase availability in competitor locations; however, the effect is almost impossible to quantify.

Franchise Owners' Income

Apart from the health benefits provided to society, there are also benefits in terms of providing income for nurses and community health workers. A nurse can expect to earn roughly US \$754 in a government hospital,¹⁹ but owning a HealthStore clinic brings in an average annual net cash salary of US \$600 - \$1,400.²⁰ Some nurses migrate to other countries in order to advance their careers in the form of higher salaries, lower occupational risk (e.g. lack of protective equipment afforded by Kenyan hospitals), more efficient health systems, and welfare and/or Social Security benefits. Many of these nurses would rather not leave their nursing careers in Kenya.²¹ The costs of emigration are too high for many qualified nurses to leave the country; many do not want to leave behind family and cultural roots for the promise of a strange life in a foreign country. HealthStore clinics are an alternative for nurses: owning a franchise provides career advancement, a sustainable income, fewer occupational risks (i.e. franchises stock essential medicines and preventative care products, and don't treat trauma patients), and fewer

¹⁹ The average salary for a trained Kenyan nurse is US \$754, according to data from SalaryExpert.com, a leading provider of online salary data. Available: <http://www.salaryexpert.com>.

²⁰ Net cash income for nurses per HealthStore Consolidated Income Statement January through September 2005, interviews with franchise owners and HS management.

²¹ www.academyhealth.org

bureaucratic headaches.²² Clinic owners not only treat patients and operate their own businesses, but also earn a sustainable income by serving their own communities.

HS's strategy for maximizing impact is to open new franchises only in areas with significant barriers preventing access to essential medicines. However, from the above analysis, it is likely that there is a positive impact on society regardless of the shops' location. Furthermore, urban HealthStore shops tend to have higher sales and profits than their rural counterparts and as such, are useful in terms of funding HealthStore's expansion into under-served rural regions.

By offering high quality anti-malarial drugs at below-market prices, HealthStores create two price impacts. A first order effect is that consumers pay less by purchasing from HealthStore as opposed to purchasing from pharmacies, hospitals, and other competitors. Second, the introduction of a HealthStore often catalyzes competitors to reduce prices, also resulting in consumer savings - even though affected consumers may never visit a HealthStore location.

SHOP LEVEL PERFORMANCE

Financial Performance Indicators

Historically, there have been two types of HealthStore outlets: clinics and shops. Compared to the shops, the nurse-owned clinics average 59 percent more gross drug sales and 56 percent greater profit (before loan payments to HS), despite the increased inventory costs and payroll expenses. Clinics have a higher bottom line because nurses are certified to sell additional drugs and are able to diagnose additional illnesses, earning them additional consultation fees.

In the past, HS has had difficulty regulating consultation fees charged by individual franchises, leaving it to the discretion of store owners. As part of the current re-branding from existing "CFW" and "SHEF" locations to the HealthStore name, HS will begin posting and tracking a fixed price list of consulting fees in its franchises.

In addition to increased sales, clinics perform better than the shops on other measures. Outlets are evaluated monthly on various performance metrics, such as general observations, drug management, patient care, financial management, and community awareness.

The performance levers that affect sales include the following:

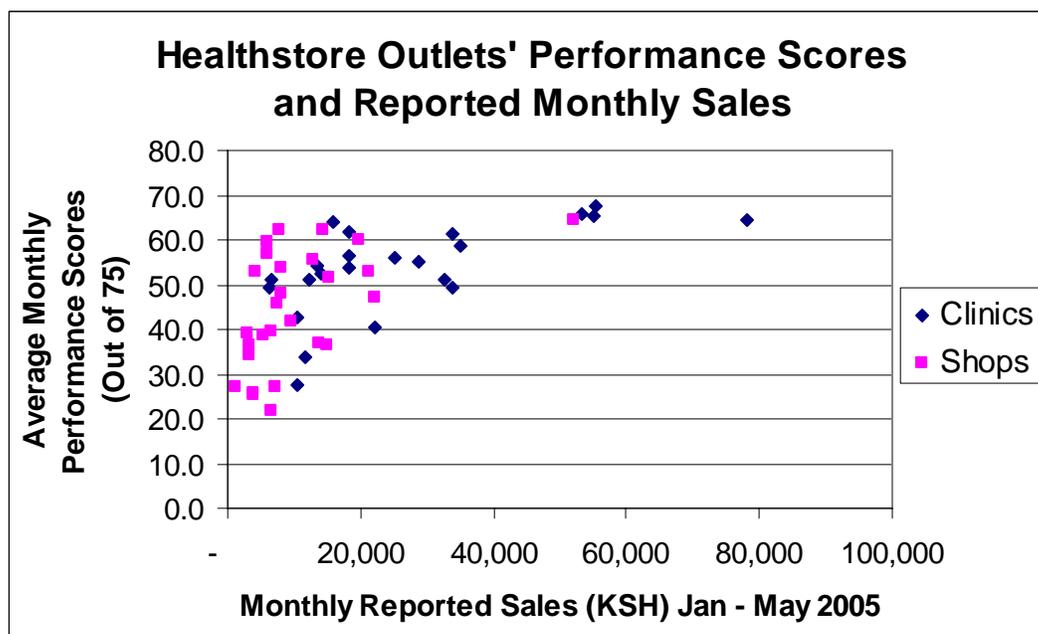
1. Franchisee entrepreneurship and initiative
2. Effective promotion and marketing (including community networking)
3. Being in stock on all essential items; having outlets that appear "full" of merchandise
4. Actual and perceived quality of service, care and diagnosis
5. High traffic location

Figure 1 depicts the positive, linear relationship between average monthly scores on these performance levers and average monthly sales. These data were collected for twenty-three clinics and twenty-seven shops in the Embu region during 2005. Figure 1 clearly shows that better scores on HS's evaluation rubric are correlated with profitability. Owners that take good care of their shops, inventory, customers, and community tend to sell more medicine and preventative products.²³

²² HS executive staff act as intermediaries between franchisees and government officials - thereby reducing nurses' exposure to tedious bureaucracy.

²³ Out of 75 possible performance points for these levers, the clinics' average performance score was 54 with a minimum score of 28; whereas, the shops' average performance was 45 with a minimum score of 22. The average

FIGURE 1: Relationship Between Performance Levels and Monthly Sales



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The outlets that performed the best in this sample had the following characteristics:

- Clean environments in and around the outlet,
- Available (in-stock) HS-approved drugs,
- Attractive arrangements of pre-packaged products,
- Excellent customer care, including providing appropriate counseling and diagnoses, and first-rate customer service, and
- Effective promotional and community outreach activities.

It is not surprising that the clinics scored better than shops on patient care: clinics averaged a 13 (out of 15) in the patient care performance lever; shops' average was 8. Field officers measure patient care based on customer service (e.g. appropriate prescription and counseling, medicines properly and hygienically handled, language used is understandable and clear to clients) and infection control standards. All outlet owners are given in-depth training in patient care, but registered nurses in clinic settings are setting the clear standard in this category.

One interesting discovery was that the HealthStore shops and clinics, on average, performed about the same in terms of the community awareness performance lever. The shops scored an average of 2.5 out of 5, and the clinics scored 2.4. While community awareness stands to be improved, shops and clinics continue to participate in organizational promotions. In addition to patient care, this community

reported monthly sales for clinics were 26,506 KES (\$345 US), and the average monthly reported sales for shops were 10,665 KSH (\$138 US).

²⁴ While these data appear to indicate that outlets with high performance scores will have higher sales compared to outlets with low performance scores, it is important to note that this data set is not comprehensive. Only one region's data were analyzed, and data were not available for every outlet every month. Also, the sales data collected were sales reported, which could have deviated from actual sales. Finally, biases may have influenced the outliers in both data sets of clinics and shops; outlet location, for example, is not evaluated yet could have an impact on monthly sales.

awareness is highly correlated to outlet sales and continues to develop and improve through ongoing promotions.

It is evident that HealthStore clinics perform better than shops both financially and operationally. HS has recognized this pattern and will focus primarily on clinics either owned by or employing a registered nurse as the network continues to expand.

MARKETING

Core marketing activities are largely handled by the HS central office, however individual locations have the opportunity to develop their own marketing plans in coordination with a local field officer, so long as they are complementary with brand-wide strategy.

Testing Marketing Campaigns

Marketing campaigns may involve price reductions, community outreach efforts, or new product introductions. In the past, money from the Acumen Fund²⁵ supported testing of marketing and promotional campaigns in a limited number of locations prior to franchise-wide implementation. While this partnership is not continuing into the future, HS plans to repeat the most successful of these tested promotions in 2006.

Product

The core product strategy is centrally controlled. HS has an agreement with MEDS (a non-profit wholesaler of generic pharmaceuticals) to provide the primary pharmaceutical line. Related products (e.g. mosquito nets) are also centrally purchased by HS and distributed to the individual locations.²⁶

In order to maintain product quality standards and allow HS to collect its franchise fee, individual shops and clinics must purchase products from HS. HealthStore also uses its sole-provider status to audit sales and profitability (through inventory reconciliation) throughout the franchise network.

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Product offerings differ between shops and clinics. Traditional shops (that did not employ a nurse) offered a narrower list of medications. Clinics offer the standard medications – approximately 150 products – as well as antibiotics and basic lab/diagnostic services. With HS moving most HealthStore franchises to a clinic model, the product offering throughout the system will be standardized.

Pricing

Pricing is also set centrally by HS. Signs are provided to each location that clearly state standard prices and franchise regulations mandate they be prominently displayed. Consistent pricing throughout the HealthStore network is critical to maintaining brand image and in achieving HealthStore's mission. Effective implementation of a standard pricing scheme has proven difficult.

²⁵ Acumen Fund is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty. <http://www.acumenfund.org/>

²⁶ The three basic product categories that HealthStores stock are: required medications (e.g. anti-malarials), non-required medications (e.g. antibiotics) and peripheral health products (e.g. toothpaste, condoms).

In visits to four HealthStore locations in mid-2005, none of the clinics displayed the standard price list. Even though the franchisees are consistently penalized in the Supervisory Checklist, they choose not to display the price list. The incentive for franchisees to inflate prices is strong. An owner's decision not to post the standard prices often stems from their desire to charge a rate that is more in line with what they feel the market will bear. Other times owners wish to retain flexibility in charging consultation fees, which they selectively bury in the price of their products. In dealing with the latter case, HS is standardizing consultation fees across the network. Nevertheless, the remaining uncertainty in actual prices being charged poses problems for HS in evaluating success in terms of revenue and profit.

Stemming franchisees' non-compliance in pricing practices requires continued (or increased) vigilance by the field officers and stricter penalties for non-compliance. Beyond the current practice of field officer price display checks, further approaches to ensure compliance include customer interviews and secret shoppers. HS plans to implement both approaches on a sample basis.

A key element of the HealthStore model is consistent pricing throughout the network, regardless of location. Other retailers often charge more for medication in remote areas and justify those higher prices on the basis of transportation costs. However, these rural areas typically have a lower per-capita income, exaggerating the gap between consumers' ability to pay and the retail price. HS is currently designing a formal micro-insurance health plan to aid in addressing this concern.

Promotion

HealthStore emphasizes promotional campaigns on a franchise-wide level and supports these promotions through an HS central staff team that works with individual franchisees on implementation. Campaigns are tested in a sample group of shops to ensure effectiveness before wider implementation.²⁷

“Promotions have been very successful. Simple concepts like ‘if you buy this much, you get a free bar of soap’ work very well”

– Julius Ombogo, HS Kenya
Deputy Director

Measuring the success of marketing campaigns is inherently difficult, given the challenge of identifying the portion of sales increase directly attributable to the campaign. However HS has noted that same-store sales typically plateau after 6-12 months, fluctuating within a narrow $\pm 20\%$ range, if no interventions are taken. A clear picture of this volatility aids HS in discerning the impact of campaigns on sales.

HealthStore's most successful marketing campaigns focus on community outreach. Price promotions on preventative products, like bed nets, have also been extremely successful, as customers regularly stock these products in their homes. Contrarily, price promotions on treatment products, such as Amodiaquine, a common anti-malaria medicine, have met with unexpectedly low success. Customers do not commonly stock such products in their homes, opting instead to seek them out when the need arises.

Local promotional activities include distributing promotional flyers at local markets or bus stops, providing free house calls, setting up tables after church services, and placing sandwich boards at busy locations. Appendix E provides detailed examples of promotional campaigns.

TRAINING

²⁷ For example, in January and February of 2005, HS offered the following promotions:

1. Anti-malaria campaign: a 50% discount on bed-nets and Amodiaquine
2. Water treatment campaign: Free treated water up to 5 liters per family per week at the HEALTHSTORE shop
3. Free consultation, de-worming, and growth check for children under the age of 5
4. School screening programs

The high success rate of franchise businesses stems from the use of a proven business model, in concert with the management and administrative systems provided by the franchisor.²⁸ HealthStore provides management and administrative support through upfront and ongoing business and clinical training. In fact, training is a part of compliance.

Before franchisees can open their outlets, they undergo four cumulative weeks of training. Training classes include between ten and twenty new franchisees and provide a full range of relevant training from business management to medical skills.

Training does not end after the first four weeks; HealthStore emphasizes ongoing franchisee support. After an outlet has been open for three months, franchisees receive one day of “continuing information” training from central staff. In addition, each month, field officers provide support days, during which they talk to each franchisee and provide necessary business or medical support (e.g. reviewing inventory management techniques). During the franchisees’ monthly evaluations, they are asked to request specific training needs; given sufficient demand, a trainer from HS headquarters will provide a training course at the closest regional field office.

One difficulty with the provision of ongoing training is that franchisees frequently request topic sessions that relate to drug usage and medical diagnostics, with the goal of increasing revenues from consultations. While a valuable skill, increased medical knowledge does not address the primary issue of increasing business acumen. Often, the skills that are most needed - inventory and cash flow management skills - are not as valuable from the franchisees’ point of view and therefore not requested.

Another issue with the ongoing training involves the HealthStore manual. All franchisees are given business and clinical reference manuals to answer questions that may arise after the initial training. Like most reference manuals in most organizations, these manuals are rarely read or referred to when a franchisee has a question. HealthStore considers this to be a moot point. After initial training, the most important training support is the monthly, one-on-one meetings between local field officers and franchise owners. Overall franchise success depends on the quality of the franchisees, so HS invests heavily in personal attention within its network.

HS distributes monthly newsletters, which highlight selected owners’ successes and provide refreshers on franchise policy or new reporting techniques. Annually, all franchisees reunite at HealthStore headquarters in Nairobi to discuss the past year’s financial results and social impact, and to share lessons learned and best practices.

REPORTING AND COMPLIANCE

A major benefit of being associated with the HealthStore franchise system is having access to a number of aggregated reports regarding patients, inventory and cash flow. Owners receive specific training on interpreting and using these reports. Regional field officers review these reports with the outlet owners to analyze their monthly and yearly performance (including the impact of their promotions); benchmark their performance across other outlets; forecast changes in demand; and plan and implement operational improvements. This high level of attention provides a significant advantage for franchisees over their competitors, who do little if any tracking, reporting or planning. The types of reports and forms used are captured in Appendix F.

Despite the obvious advantages of monthly sales and performance tracking charts, franchisees complain that the necessary reports are too difficult to complete. Community health workers are often less-

²⁸ According to the Small Business Administration, less than 5 % of all franchise units fail each year compared with 30 to 35 percent of small businesses which fail within the first year of operation. (www.franchise.com)

educated than their nurse counterparts, meaning that writing-intensive paperwork takes significant time and effort. Some wait until the data sheets are due before completing them, which often results in many errors, poor or incomplete documentation. Busier, more educated franchisees find the reports to be time-intensive. One shop owner remarked, “I don’t find reporting difficult, although I wish there was a faster way to complete it.”

However, the same owner as above also remarked about the benefits of record-keeping. All HealthStore outlets keep a detailed Patient Register: “Often times, a customer will come in with the same diagnosis that I treated them for a year ago. All I have to do is reference the Patient Register and prescribe the same medicine that worked last time.”

Reporting process improvements may include report consolidation and/or providing shop incentives for timely, accurate reporting.

PROCUREMENT

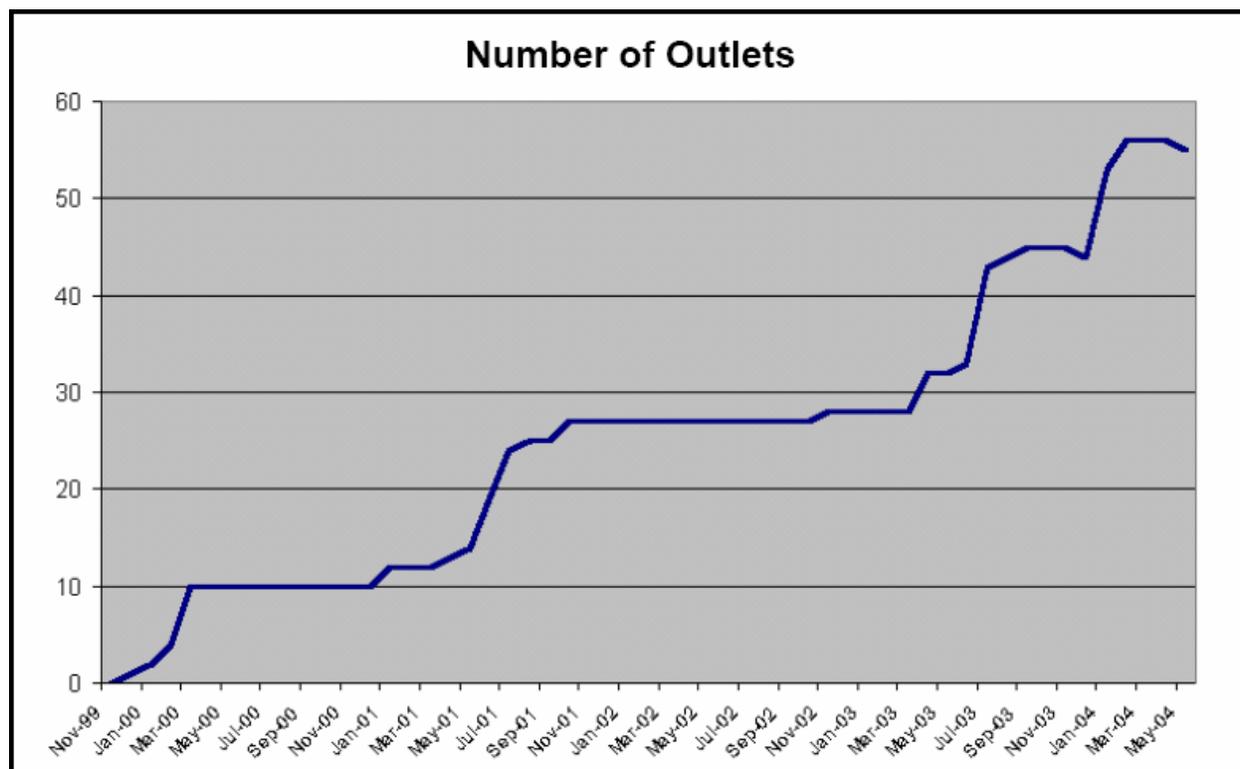
HS obtains all of its products from MEDS, a non-for-profit supplier of generic medications. As a non-profit, MEDS is able to provide medication at prices ten to fifteen percent lower than other wholesalers. However, to qualify, the purchasing entity must also have non-profit status. The non-profit status of HealthStore’s central operations enable it to pass on low prices to franchisees even after building a 5 percent franchise fee into the price.

At HS’s outset, MEDS provided more logistical support than it does today, delivering medication directly to the individual store owners, regardless of order size. Today, HS operates a distribution center and MEDS no longer performs this function.

GROWTH STRATEGY

The following chart illustrates the growth in the number of outlets since the first opening through May 2004. As of June 2005, the network stands at 64 outlets, and is in a ‘no-growth’ phase as HS focuses on improving shop-level economics and re-branding.

FIGURE 2: HealthStore Shops Growth Over Time



Franchise Location

Historically, franchisees selected their own location, subject to approval by HS. Location evaluation was often informal, and lacked clear evaluation criteria. HealthStore has taken steps to make this process more systematic in the future. Appendix G outlines the location selection criteria in addition to the franchise owner criteria.

While these criteria are used to evaluate individual proposals, HS must also select the regions in which it opens clinics, which is a more strategic decision. Overall, HealthStore wants to operate in increasingly remote regions while maintaining the attractiveness of clinic level economics – mainly, profitability. Finally, there are also political and regulatory considerations that play into the decision of where to open new stores as some regions and districts are more receptive to HS opening clinics than others.

“Our goal is to operate in increasingly remote areas. However, there will be places where the population density will never be great enough (for HS to operate).”

– HS President, Chuck Slaughter

Franchisee Recruitment

In the early stages of expansion, HS placed a premium on prospective owners who were well connected in the community. To find owners, HS started by “talk[ing] to church organizations, who would look around and make recommendations.”²⁹

²⁹ Conversation with Julius Ombogo, HS Kenya Deputy Director, March 2005.

As it scaled up, the HS broadened its search and selection criteria to find owners who are not only well connected with the community, but who have a strong business sense and personality, as outlined in Appendix G.

Constraints to Growth

HS's business model is such that very little capital is required to open and support a new franchise location. However, there are three interrelated constraints that limit the rate at which HS can open new outlets:

- Availability of nurses with business skills, experience, and commitment;
- Performance (economic or otherwise) of the franchise locations; and
- Organizational structure of the central office.

Within Kenya, there is a general shortage of experienced nurses but HS, to date, has not had significant problems attracting nurse-owners. The availability of qualified franchisees is a function of how well the outlets perform; as HS builds and maintains a track record of outlet owners making attractive incomes, it will be easier to recruit talented candidates. Still, scaling to 400 or 500 clinics may present challenges in terms of locating qualified nurses with sufficient experience, especially in the more remote regions.

Performance of the individual franchises has been the most significant (albeit, self-imposed) constraint to growth in outlets. In early 2005, senior management and the Board of Directors decided to shelve expansion plans, even though nurse-owners and locations had been identified and vetted. By postponing growth, HS has been able to focus on performance improvement in existing locations.

Organizational structure needs to be considered as HS builds out franchise locations; however, these issues are no different than those of a typical small-to-medium sized business in a growth phase. As HS grows, it needs to go through periodic restructuring of the head office to ensure that particular areas of the organization (e.g. marketing, distribution, training, field support) are not overburdened and that there is a clear delineation of responsibilities.

Growth Opportunities

The most direct way for HS to grow is by adding more locations. However, they are considering other potential avenues to growth including:

- Expanded product offering – Nurses have the requisite training to offer products that are outside HS's traditional target medications treating easily preventable deaths. HS has identified product expansion opportunities in over the counter hygiene items, nutritional supplements, and tuberculosis medicines.
- Expanded service offering – Additional service opportunities include lab testing for malaria, tuberculosis, AIDS, voluntary counseling and testing; maternal health services; and micro drug insurance.
- Consulting services – HS has successfully established a franchise network to provide pharmaceuticals. Their experience, lessons learned and best practices are potentially valuable to other charitable organizations, governments or even private interests interested in setting up a similar network.
- Integrate a formal credit system – HealthStore locations often allow customers to purchase drugs on credit; however, more can be done to facilitate and monitor these purchases. Initially, almost all HealthStore locations had charity cases, but franchisees have moved away from charity and issue credit instead. As a result, credit has become a major driver of sales. While not a formal

program, HS encourages owners to document how much credit they extend and subsequent repayment patterns.

PARTNERSHIP STRATEGY

HealthStore has three classes of partners:

1. **Government** – HS works with representatives from the Kenyan government. Apart from seeking approvals for new locations, HS partners with the government at all levels to shape policy in a way that is favorable to the delivery of healthcare in Kenya. HS also works with local governments to ensure the presence of HealthStore representatives at school screenings and other community outreach programs that lend credibility to the individual shop/clinic’s marketing and promotion efforts.
2. **Foreign Donors** – While opening and operating a clinic costs very little, it still requires some capital to leverage an equity investment by the owner. Approximately US \$1,000,000 is raised annually from the United States Agency for International Development, corporate donors, and private donors.
3. **Suppliers** – MEDS (Mission for Essential Drugs and Services) has been absolutely critical to HealthStore shops’ and clinics’ operation by providing low-cost medication. While HS was scaling its operation, MEDS shipped medication directly to the individual locations. As HS grew, direct delivery was no longer possible, but by then they had sufficient scale to support the franchise locations with an internal distribution and logistics network.

Within Kenya, there is a general shortage of experienced nurses but HS, to date, has not had significant problems attracting nurse-owners. The availability of qualified franchisees is a function of how well the outlets perform; as HS builds and maintains a track record of outlet owners making attractive incomes, it will be easier to recruit talented candidates.

POLITICAL AND REGULATORY ASSESSMENT

The political and regulatory environment in Kenya is a challenging one in which to operate, particularly in the health care industry. Requirements for the establishment of new pharmacies, shops or clinics are not clear, and the actual application of these regulations differs from region to region based on the whims of local health officials.³⁰ HS, however, is able to deal effectively with these complexities through strategic relationships, thus removing a major burden from the franchise owners and also influencing or forecasting future regulatory decisions.

“Private pharmacists have a much harder time operating on their own since the regulatory requirements are not obvious. HealthStore clinics have a big hassle removed because they don’t have to deal with paperwork [nor the MOH].”

– Julius Ombogo, HS Kenya
Denity Director

From a franchisee’s point of view, HS provides valuable support when dealing with the Ministry of Health (MOH) along two key dimensions. HS handles all regulatory work related to establishing a franchise and obtains approval to open a new clinic. Owners also refer MOH officials directly to HS whenever there is an issue with ongoing operations. While both of these services are invaluable to franchise owners, the former is of particular importance given the lack of a clear approval process for a new clinic.

³⁰ Details on Kenya’s regulatory environment and how it relates to starting and running a business can be found in the 2006 edition of “Doing Business,” published by the World Bank Group. Available: <http://www.doingbusiness.org/>

HealthStore Kenya’s Deputy Director, Julius Ombogo, provides key support with regards to the regulatory environment. As a member of the Pharmacy and Poisons Board (a regulatory agency for trade in pharmaceuticals) he is knowledgeable and experienced with government bureaucracy. Also, since Julius is involved with both HS and the regulatory agency, his contribution in shaping government policy facilitates the expansion of HS in Kenya. These connections have facilitated the establishment of HealthStore in Kenya since Julius joined the organization in 2004.

COMPETITION

There are two main categories of pharmacies that treat the same diseases as HealthStore Shops: private pharmacies or grocery stalls, and government dispensaries. Product range, price, availability and accessibility differ significantly among the three competitors. The table below summarizes the benefits provided by each type.

TABLE 1: Competition Matrix for Healthcare Provision

	Benefits to Customers				
	Affordable Drugs	Quality Drugs	Drugs Consistently in Stock	Knowledgeable Staff	Community Outreach; Health Education
HealthStore	✓	✓	✓	✓	✓
Private Pharmacies/ Grocery Stalls	✓	N/A Drug quality is often questionable, and products are often unlabeled.	N/A	N/A Private pharmacies/stores may not employ certified nurses, and can sell drugs to customers without a proper diagnosis.	N/A
Government Dispensaries	✓ Many drugs are distributed free of charge.	✓	N/A Government dispensaries are consistently out of stock.	✓	✓ Government now partners with HealthStore’s community outreach.

HealthStore outlets are the only type of location that consistently stocks affordable, quality drugs and that staffs trained health professionals. Another feature that is unique to HealthStore is community outreach. The HealthStore shops concentrate on community outreach campaigns, which educate communities about disease prevention and personal hygiene while naturally building demand for HealthStore products and services. Government dispensaries have recently partnered with local HealthStore clinics to run community outreach programs.

Unfortunately, an exhaustive competitive analysis is difficult since the level of competition differs significantly by region and population density. Therefore, a competitive analysis will look different in the urban regions than in the more rural regions of the country. While HS has opened a number of outlets in

areas of moderate population density, its goal is to open clinics in increasingly remote locations, with particular focus on areas with significant barriers to access quality, well stocked supplies of essential drugs. As such, the detailed competitive assessment from visits to two towns, Kitengela and Isinya, (population ~20,000 and ~10,000 respectively) found in Appendix H may not be applicable to future growth goals.

Competitive Analysis – Implications for HS and HealthStore Clinics

Overall, HealthStore outlets appear to be effective competitors in the larger towns and villages of Kenya. However, impact on competitors in terms of availability, price and quality in these larger centers appears to be negligible.

In the small towns and villages, where competition is limited, often to one or two locations that sell pharmaceuticals, the competitive landscape changes significantly: prices are set arbitrarily and prevent many from accessing treatment. As distance from urban areas increases, drug availability declines. At these locations, the HealthStore model achieves its greatest societal impact by leveraging the advantages of its franchise model, with standardized prices, product offerings, and efficient distribution across its network.

RISKS AND MITIGATION STRATEGIES

The following are key risks and mitigation strategies as identified during our visit. They are not meant to be comprehensive, but to highlight some of the key areas of concern.

- Access to healthcare versus financial sustainability – There is an inherent tension in deciding to open outlets in locations with a demonstrated medical need but that do not make sense financially.
- Risk of non-compliance – Due to demand for a variety of drugs, franchisees have incentives to carry drugs that are not HS-approved. Stocking non-HS drugs runs the risk of harming the HealthStore brand. It also threatens the trusted relationship between HS and its franchisees.
- Shortage of nurses – The global shortage of nurses may have an impact on the future availability and accessibility of HealthStore owners/staff.
- Limited HS capacity – Central staff has a limited capacity, which can prevent field officers from visiting every outlet for the specified compliance evaluations/support, especially those located far from the closest regional office. The furthest HealthStore outlet from the Embu field office is 1 ½ hours; since this office has only one vehicle, a field officer can spend up to three hours in transit in one day just to visit one outlet. Given that there are fifty outlets in the Embu region and each field office visit takes at least an hour, spending three hours on the road for one outlet illustrates the pressures placed on field officers.³¹

CONCLUSIONS

Ambitious mission statements are often written off by critics as overly optimistic. "Improving access to basic health services and essential drugs for children and their families in the developing world" - HealthStore's mission statement - might be so criticized. Yet by supporting their ambition with a creative business model, anchored by proven principles like brand trust, franchisee buy-in, ongoing training, and community outreach, HealthStore has given critics something to be optimistic about.

³¹ To address this issue HealthStore has targeted a ratio of 40 outlets per field officer and is currently establishing a second field office in Embu.

It is possible to treat malaria, diarrhea, tuberculosis, and hundreds of other diseases that kill millions each year in developing countries. The medications exist. And by adding value to healthcare service delivery, HealthStore demonstrates that it is possible to provide these medications cheaply and effectively. Delivery systems are often a roadblock to access, but HealthStore has leveraged local talent to provide treatment where it is most needed, while supporting a local business ecosystem by keeping profits in franchisees' hands. In 2005 alone, HealthStore will treat over 400,000 patients for an average cost of less than US \$1 per treatment.

“In the future, HealthStore Foundation will be one overall franchise organization that accommodates several (health care service) models. We will be mobile distributors of preventive care products, micro drug shops, and nurse-owned clinics with lab-testing facilities offering a wider range of products and services e.g. HIV/AIDS or TB.”

– Liza Kimbo, Executive Director

What remains to be seen is whether HealthStore can replicate its success to scale in Kenya and throughout low-income countries around the world. But it is apparent that such ambitious social missions, frequently considered optimistic, can at once be realistic, when tempered by the business discipline of the private sector.

APPENDIX A – Evolution of Certain Key Policies within HS

Evolution of Ownership Criteria

When HealthStore Shops were new, many customers wanted to have prescriptions filled (or request medication without a prescription) for critical illnesses that Community Health Workers were not qualified to provide. Nurses, however, are able to provide medication from a formulary of over 100 drugs, including antibiotics. A couple of the original owners recognized this fact and made the bold move of requesting that HS allow them to hire nurses to meet a clear demand for a broader range of medications.

Apart from the potential to offer a broader product range, there are three other compelling reasons why nurses were made the ownership candidate of choice by HS. First, they are typically more educated than CHWs and as such, are more likely to have the basic skills required to operate a shop. Also, with their educational background, nurses are more easily trained in business, clinical and drug management skills.

The second compelling reason for having nurses as owners is that the Ministry of Health (MoH) is placing pressure on HS to use them as franchise owners. The MoH has seen the clear benefit offered to the community by having nurse-owned clinics and has threatened to allow only this ownership structure in the future. Acceding to this request generates goodwill that is useful once the shop is open, since many of the community outreach programs that the HealthStore shops undertake involves government officials.

The third reason for preferring nurses over CHWs as owners is that the CHWs come with certain “bad habits” that make it more difficult for HS to manage the franchise network. Historically, CHWs had an incentive to hide income from the churches since the church would take a portion of the revenues from their drug sales. This behavior continued when CHWs bought HealthStore franchises, making it very difficult for HS to obtain an accurate picture of the financial health of the franchisees. The fact that HS originally charged a franchise fee based on sales did not help to change this behavior as it provided a clear incentive for franchisees to hide income.

Evolution of Franchise Fee

The franchise fee was originally charged as 5% of sales. However, this created an incentive for franchisees to hide income. Coupled with poor record keeping and the difficulty in auditing the sales of each location, this resulted in a significant (although unquantified) underreporting of sales. HS made the decision to incorporate the franchise fee in the markup that they charged the franchisees for medicines and related health products. Since the franchisees are required to buy products exclusively from HS, this has proven to be a relatively hazard-free method in terms of charging the franchise fee. An added benefit is that the incentive to underreport sales has been removed, making sales figures more accurate, thus allowing HS to obtain a clearer picture of shop-level performance.

Evolution of Equity Requirements

HS originally allowed groups (partnerships) of up to nine CHWs to purchase a franchise with 20% (US \$350) cash investment, with HealthStore providing the remainder in the form of a loan. However, the large debt levels led to interest payments that were overly burdensome on the franchisees and many of the existing loans had to be restructured. HS now provides an inventory loan up to US \$500, while also requiring the owner to invest US \$100-200 for inventory. HS also purchases and retains title to the furniture and other fixed assets, essentially giving franchisees a no-interest fixed capital loan of US \$1000.

Partnerships proved highly unsuccessful. Group ownership intended to make raising the required capital easier for the franchisees and also to distribute the risks of ownership. However, most of the partnerships that were formed were ones in which the members had never before worked with each other and infighting often resulted. Accountability was also an issue with partnerships, as was the increased burden

on central staff (training, field officer support.) HS now requires that there be only one owner, although many owners raise the required equity through family and friends.

Evolution of Logistics

HS has always obtained products for its HealthStore shops from a single source known as MEDS. Originally, MEDS delivered orders directly to the HealthStore shop locations on a monthly basis, regardless of order size. However, as the HealthStore network grew beyond thirteen locations, the logistical burden on MEDS grew too large, and HS developed its own warehousing and distribution system.

Evolution of Training

HS trained owners with a five day course in franchising and business skills before allowing them to open a shop. Within the first three months, however, it became apparent that the business skills training was insufficient. For example, CHWs had no discipline regarding record keeping, making it very difficult for HS to monitor performance and manage the network. While operating as volunteer workers for the church, CHWs had very poor record keeping practices and that did not change once they were part of the HealthStore network. The training program was therefore expanded to include:

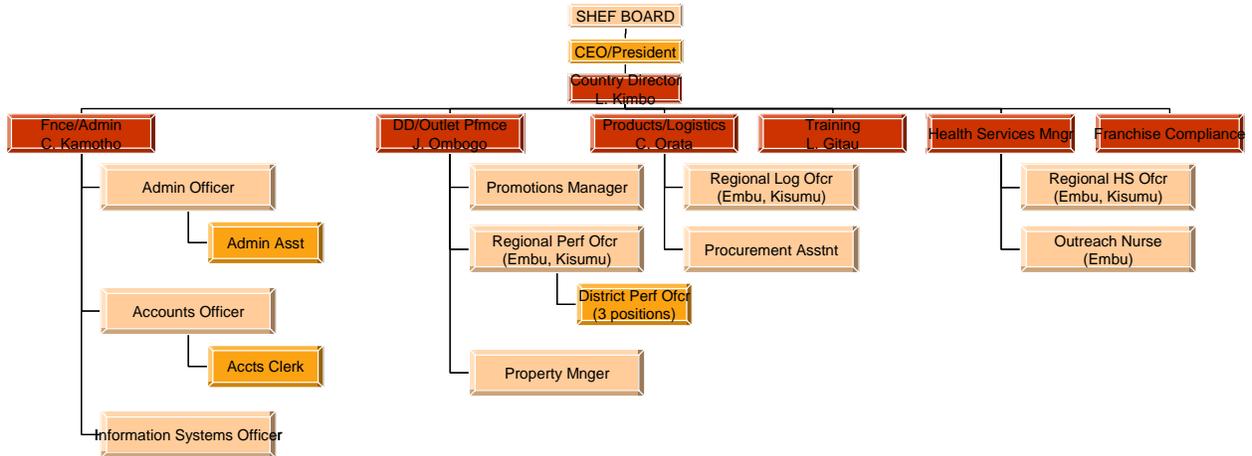
1. One week of franchise and business management training
2. One week of clinical and drug management training
3. A one-week 'internship' where the owner would work with an existing franchisee
4. Additional post-internship training on franchise records, community outreach, and business success
5. Follow-up training on an as-needed basis conducted by the training manager

Business skills training is a critical part of the success of the franchisees, especially since most of the owners have no concept of inventory management, cash-flow management, profit and loss or other aspects of running a small business. Going forward, the training program will be further modified to reflect ownership by nurses, since they come in with a different set of skills and capabilities.

Evolution of Location Criteria

HS located its first franchisees in market centres principally selected by new franchisees. However, as the efficiency/economics of the model have improved over time, HS has identified certain characteristics of the more profitable outlets and is using these as guidelines for approval of new locations. Consistent with HS's overall mission, these locations will be geared to underserved populations in more remote rural areas.

APPENDIX B – Detailed HealthStore Organizational Chart



APPENDIX C – Shop and Clinic Profiles

Huruma Clinic Profile

Huruma was opened in February 2004 by a nurse who, prior to joining the HealthStore network, worked in private clinics and hospitals. Rosemary, the owner of Huruma, is a great example of how successful community outreach can help build a successful franchise. Apart from the centrally planned marketing initiatives (such as school screenings, malaria promotions, etc.), Rosemary spends time on her way to work and on her way home conducting home visits and talks about her plans to hire a Community Health Worker so she can do more community outreach. She also talks about how she would like to offer more laboratory services, day care and a place to give an IV drip as well.

Rosemary also talks about the benefits of working under the HealthStore umbrella, including:

1. Teamwork and support from field officers
2. Brand (customers have confidence that they won't be cheated)
3. Training (initial and ongoing)
4. Simplified working relationship with government officials
5. Job and financial security

Illustrations 5, 6 and 7 show Rosemary in the Huruma clinic, her displayed medication and the Huruma storefront.

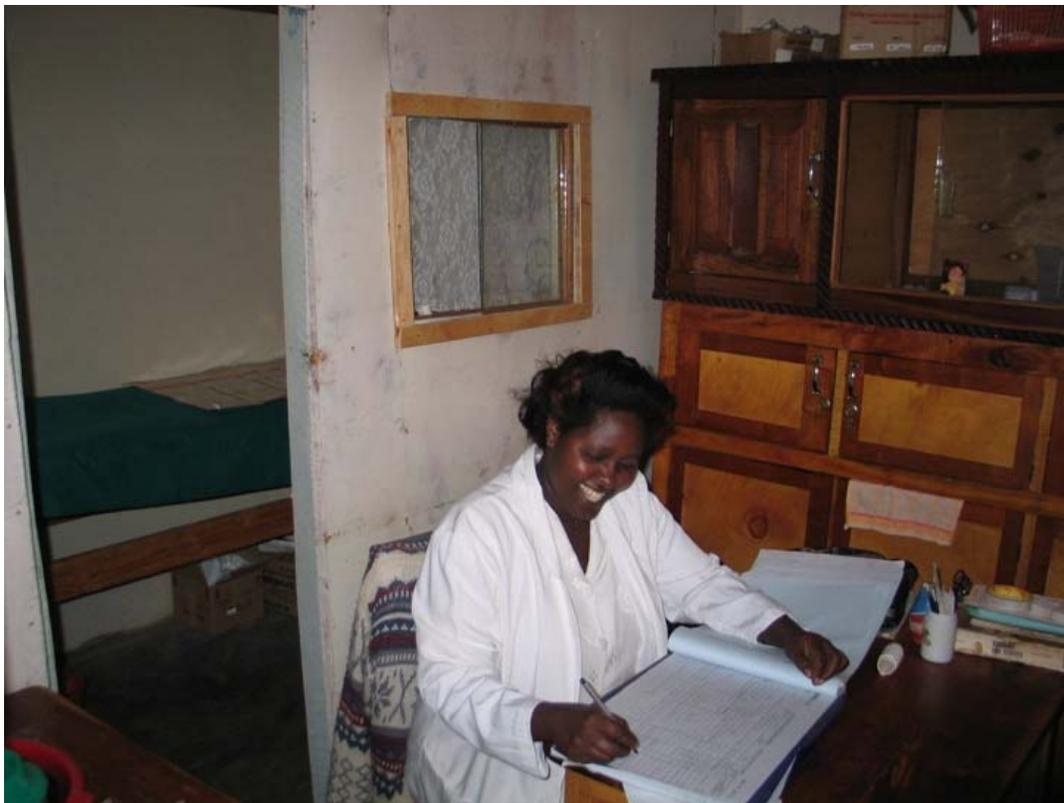


Illustration 5. Rosemary working at the Huruma clinic.



Illustration 6. The Huruma clinic product display.



Illustration 7. The Huruma clinic storefront.

Ena Clinic Profile

The Ena clinic is an example of a shop owner, John Muruthi, who saw the benefit of providing medication and services that only a nurse could offer and converted his store into a clinic. John was trained by the church in 1998 as a CHW and worked as a mobile provider of medication, selling drugs house-to-house addressing common ailments prior to opening a shop in 2001.

When John opened his shop, he was able to sell only a very limited set of drugs beyond anti-malarial medication and, in particular, he was not able to offer antibiotics, which limited sales. However, he was able to convert his shop into a clinic in 2003 by hiring a nurse, which increased his store traffic from 30 customers per day to 45-50 customers per day almost immediately. In addition to increased store traffic, revenues per customer increased fourfold due to the larger range of products offered.³² The Ena clinic also offers consultations for free as a way to attract customers. On average, clinics earn \$4,338 per year, compared with \$1,765 for shops, which provides a significant incentive for current shop owners to convert their locations.

The Ena clinic operates in an area with significant competition, with five competitors in the nearby area; however, John feels that he is able to offer drugs that are more reliable and cheaper than competitors'. His lower priced drugs come from what he perceives to be the main benefit of being part of the HealthStore network, which is drug procurement. Illustration 8 is a picture of John and his nurse in the Ena clinic.



Illustration 8. John (Clinic owner) and his nurse at the Ena clinic.

³² Expected salary for nurses working in clinics such as Ena clinic is about US \$1000 per year. Assuming a 5-day workweek over 50 weeks, that works out to a daily wage of US \$4 per day for the nurse. With an additional 15 to 20 customers per day, the cost of hiring a nurse is far outweighed by the profits generated by nurse-only service provision.

Kitune Shop Profile

The Kitune Shop was opened in August, 2004 by Savalia Mueni in Kambiti. Prior to opening her shop, she sold rice and would also do home visits in her role as a Community Health Worker with World Vision. World Vision has a subsidiary that does microfinance called KADET and through this microfinance organization, Savalia was able to obtain funding to start a HealthStore franchise. KADET financed the fixed assets and Savalia put up the rest of the capital that was required for inventory. It is important to note that KADET and World Vision do not have a formal relationship with HS, even though some clinics have been funded through KADET.

Savalia was able to quickly build her customer base by holding a free medical camp that built awareness in the community about her store. Building a quick customer base is especially important given that there are three competitors in the area, including one government installation.

While there is significant competition in the area, Savalia feels that she holds some significant advantages such as the fact that her private competitors bury a consultation fee in the cost of their medicine. For example, anti-malaria medication sold at one of her competitors costs roughly 150 KSH, whereas the cost of the same medication is roughly 30 KSH at her Kitune shop. In addition to the price differences, Savaila believes that “competitor shops are dirty and don’t inspire confidence,” an assertion that certainly feels credible when passing by competitor locations. Illustration 9 shows one of the two competitor shops in the area, while Illustration 10 shows the HealthStore shop in Kitune.



Illustration 9. Competitor shop in Kitune.



Illustration 10. Kitune HealthStore shop.

The Kitune shop also provides some anecdotal evidence of the positive impact that the opening of a HealthStore shop/clinic can have on the market. When Savalia opened her shop, the competitors increased their product range to include the products that she was offering. Savalia plans to increase competition even further by converting her shop into a clinic by year end.

Finally, Kitune illustrates some of the dangers inherent in operating close to a government facility since the government facility provides many of the same medications free of charge. When the government facility is out of stock, Kitune experiences a large increase in demand that depletes Savalia's stock within

3-4 days. These demand shocks are difficult to predict (although with better coordination with government workers, not impossible) and often result in Savaila being unable to provide necessary medication to her customers. While this does help Savaila's profits, having customers walk out the door without medication does go against HS's desire to provide necessary medication to those in need.

Kibera Clinic Profile

The Kibera clinic is an interesting case study for two reasons. First, it operates within the largest slum in Africa (part of Nairobi) and second, it is an example of a nurse with an existing clinic choosing to convert it into a HealthStore branded clinic to be part of the HealthStore organization.

The main reason given for the conversion was the lower prices that HS charges for its drugs relative to the clinic owner's current supplier. Also, the owner perceives training, promotion support and smoother government relations to be other key benefits that the HS organization offers. Illustration 11 provides an illustration of the Kibera Clinic.



Illustration 11. The Kibera Clinic.

APPENDIX D – Summary of Competitive Advantages Enjoyed by HS

Competitive Advantage	Description
Inventory management and procurement	HS's inventory is supplied from one central non-profit medical supply organization, which sells quality essential drugs and medical supplies at wholesale prices.
Regulatory management	HS's management have developed relationships with the Ministry of Health and other district officials, providing support during community outreach activities and enabling franchisees to cut through red tape.
Centralized, dedicated management support	HS's staff is proficient in providing effective franchisee support, from training to promotions to reporting and performance analysis.
Financial support from international aid agencies	HS, as a non-profit organization, is able to raise money internationally to support distribution costs, inventory management costs, and other central support functions such as training and marketing.
International management support	HS's board consists of a series of successful North American business people, lawyers, etc. who provide significant experience, expertise and support.
Critical mass of shop/clinic locations	HS is able to test marketing campaigns, identify top performing stores, etc. and roll out best practices across the organization for the benefit of all stores.

APPENDIX E – Promotional Campaigns

School Screenings

School screenings have been one of the most effective marketing campaigns that HealthStore conducts. Primary schools are the main target of the campaign, since almost every family is represented in the school. Follow-up meetings between the clinic owner and parents to discuss the results from the screening result in a sharp increase in awareness of the HealthStore location.

Many parties need to come together to offer a successful and effective school screening including the outlet owner, a HealthStore representative, a Ministry of Health representative and the school headmaster. The outlet manager is responsible for identifying the school, talking to the headmaster and setting up required meetings. HS is responsible for providing planning and logistical support, in addition to identifying marketing partners. An example of a marketing partner would be Aquafresh, which provided free toothbrushes and toothpaste for one of the school screenings.

During the school screening, the outlet owner, working alongside the Ministry of Health and HealthStore representatives, conducts basic health assessments - including children's weight, asking questions about nutrition and checking for visible signs of illness/malnutrition and/or dental problems. A follow-up meeting is then conducted by the outlet manager and the parents where, in addition to discussing the child's health, the manager talks about HealthStore, the medicines offered by the HealthStore clinic, any current promotions and conducts product demonstrations (e.g. water treatments).

“When you go to a primary school, almost every family is represented in the school and when you do follow-up, you meet everyone.”

– Marketing Director,
Daisy Waimiri

As an example of the success of the school screenings, in the Ena-Neema clinic, the total number of patients increased from an average of 725 per month prior to the screening to 1,065 per month after the screening. Similarly, in the Huruma clinic, the number of patients increased from 234 per month to 1,311 per month following the school screening.

Community Outreach

Apart from organizing highly structured school screenings, some HealthStore shops also conduct community outreach campaigns with a wider target audience. An example of a successful community outreach program would be the ‘Malaria Day’ that was organized by all the outlets in the Mbeere region. During Malaria Day, outlet managers demonstrated how to re-treat mosquito nets to the community and gave out free re-treatment kits and pamphlets.

However, community outreach programs can be risky as well, particularly when it comes to managing the community's expectations around what services will be provided. For example, in two locations, a HealthStore clinic conducted an outreach program targeting dental health in which the nurse hoped to screen patients and identify dental problems. However, those in attendance expected that the clinic would go further and perform tooth extractions as well. Since the expectations of the community were not met, HS sought assistance from the Dental College in Nairobi, who provided lecturers and dental students at a later date to perform the extractions and to rebuild trust with the community. While it is unclear exactly why those in attendance thought that extractions would be provided for free, this incident does highlight the need to have a very clear marketing and communications plan.

Malaria Campaign

In addition to community outreach programs that target malaria, HS offers product promotions which have, in the past, included a 50 percent discount on bed nets and a 50 percent discount on Amodiaquine, a popular anti-malarial medication.

The main goal of campaigns like this one is to increase awareness of HealthStore clinics and to increase traffic in the stores. In this case, posters were hung in well-traveled public places, advertising the promotion and informing potential consumers about the basic services offered by HealthStore clinics. The posters advertised a price promotion available in all HealthStore locations, informing potential customers that the local clinic is part of a larger organization – one that can be trusted. Originally, the promotion was supposed to run for two months, but was so successful that the stock of bed nets was depleted within a week. Even after the price was restored, the second order of bed nets placed by HS sold out very quickly and demand remains higher than the pre-promotion level.

While bed net sales skyrocketed, demand for Amodiaquine was flat. HS came to realize that price promotions on treatment products, like Amodiaquine, do not increase sales because customers do not commonly stock such products in their homes, opting instead to seek them out when the need arises.

While price promotions on treatment drugs seem less effective, there are some specific regions where discounts may be an effective promotional tool, particularly the lower-income regions. For example, in the relatively poor region of Western Kenya, where malaria is prevalent and many cannot afford medication, a price reduction on Amodiaquine was successful in boosting sales and store traffic.

“The attitude of the franchisees changed after the initial promotions and consequential results. They started to see themselves as serious businessmen and women rather than as community service workers.” – Marketing Director, Daisy Waimiri

APPENDIX F – Description of Reports Used Within HS

Data collected and self-reported by the franchise owner/operator:

Report	Description
Field Cash Report	Tracks payments for the start-up loan, franchise fee, and inventory/supplies.
Outlet P&L	Tracks outlets' monthly sales and expenses. These data are collected from a catalog of daily receipts that the owners record for each purchase.
Stock Taking Report	Tracks current inventory levels.
Daily Patient Register	Catalogs patient data, including demographics, symptoms, diagnosis and prescriptions for every visit.

Data collected by the field officer or in the regional center:

Report	Description
Supervisory Checklist Form	Rates franchisee performance on several performance levers, such as outlet upkeep, customer service, inventory and cash management.
Delivery Checklist Form	Rates franchisee inventory management, based on storage and stock control.
HealthStore Field Report	Documents field officer visits, including the time of visit and any remarks or comments.

APPENDIX G – Franchise Location and Owner Selection Criteria

Franchise location selection criteria:

High-Level Criteria	Description
1. Well populated within 3 to 4 km radius and/or regular traffic flow	<ul style="list-style-type: none"> • Easily accessible • In a busy market centre or busy road intersection
2. Vibrant commercial activities	<ul style="list-style-type: none"> • Other commercial enterprises • Presence of various income-generating activities
3. Reliable sources of income for the surrounding community	<ul style="list-style-type: none"> • Favorable and reliable household income
4. Limited direct competition	<ul style="list-style-type: none"> • Demonstrated gap in community health services

Franchise owner criteria:

High-Level Criteria	Description
1. Qualified health provider	<ul style="list-style-type: none"> • Good understanding of community health needs • Good health communicator • Inspires confidence
2. Demonstrated sense of personal integrity	<ul style="list-style-type: none"> • Trustworthy • Transparent and honest • Clean past
3. Reliable Financial Standing	<ul style="list-style-type: none"> • Ability to raise down payment within 2 months • Free of debt • Evidence of regular savings • Past success with debt service
4. Self-confident, ambitious and outgoing personality	<ul style="list-style-type: none"> • Pleasant, friendly personality • Good with people • Fighting spirit (never giving up easily)
5. Demonstrated Business Orientation	<ul style="list-style-type: none"> • Evidence of past successful business experience • Demonstrated enthusiasm and entrepreneurship
6. Respected and well connected in the target community	<ul style="list-style-type: none"> • Evidence of good social standing in the community

APPENDIX H – Competitive Assessment

Kitengela

During our visit to Kitengela (one hour drive from Nairobi) we visited all three types of competitors. The first location was a pharmacy (called Sialice Kitengela) where we conducted a mystery shop where we came in with a set of ‘symptoms’ looking to buy medication.

The owner of the store asked questions about our symptoms, and when asked about the difference between malaria and typhoid, was knowledgeable of the differences. When pressed for more detailed information, she called for a pharmacist who was working in the back for assistance. Apart from both the owner and pharmacist being knowledgeable, the store appeared clean and well-stocked. In addition to pharmaceuticals, the pharmacy sold other health products such as baby powder, toothpaste, condoms and other hygiene products.

The Sialice pharmacy obtains its medications from two separate wholesalers in Nairobi and typically charges their customers 20KSH more per dose than prices on comparable products in Nairobi to cover transportation costs.



Illustration 12. Sialice Kitengela Pharmacy – A pharmacy with a dedicated, trained pharmacist.

The second location we visited was called Bridge Line Stores, which is a general store within walking distance of the Sialice pharmacy. A different set of customers come here to treat diseases like malaria. Typically, these customers are relatively poor and cannot afford the actual malaria medication and instead, rely on pain-killers to treat the symptoms.



Illustration 13. Bridgeline Stores – A general store that sells a limited amount of pharmaceuticals.

The third location we visited was called Jamee Pharmacy, which was owned and operated by a pharmacist, Joh Kaym, who has also practiced clinical medicine as a doctor. This location was, by far, the most impressive competitor site that we visited, with a wide variety of drugs (including multiple drugs to treat malaria). Prices at Joh’s pharmacy range from 60 KSH (for generics) to 1,000 KSH (for branded drugs) for a treatment regimen for malaria.

Joh seems to have a good sense of how to run a small-business, including marketing campaigns. For example, he offers free ear piercing, and places educational posters on his walls, including posters regarding community eye care clinics and educational posters on heart attacks. Also, Joh makes sales on credit to trusted customers or customers with severe cases stating: “I try to give good service” and “offer a range of options for malaria based on who can pay.”



Figure 14. Jamee Pharmacy. A pharmacy with a trained doctor as the owner.

The fourth and final location we visited was a government dispensary near Kitengela, in a town called Athi River. During our visit, there were literally dozens of people waiting in line and many health workers noting patient information. The popularity of this government dispensary is in contrast to the private locations we visited previously, where customers appeared quite scarce. While we were unable to interview any of the health workers or nurses in the dispensary (due to the large number of patients) we were able to interview some of the people who had just received services at the dispensary.

The overall comment was that “services are (generally) good” and that they often have the drugs they need. However, there are many occasions where the patient will need to go to a pharmacy and pay to have the prescription filled. This applies to all classes of drugs, including those normally distributed by the dispensary for free. Registration is required for every visit, and costs 20 KSH.

“Most people who buy here have gone to the hospital first and couldn’t get medication, so they come here.”

– Savalia Mueni, Kitune HealthStore Shop owner



Illustration 15. Government dispensary in Athi River.