

At the mid-sized tipping point

An interview with Paul Naismith, Co-founder and CEO of Fred IT Group



In 1992, a pharmacist and a computer programmer came together to create NU Systems, which we today know as Fred IT Group, a provider of IT solutions for the pharmacy sector. Twenty-one years on, in 2013, Telstra invested approximately \$25 million for a 50 percent stake in the business.

Today, Fred has more than 200 employees and approximately 3,000 customers across Australia, ranging from small privately-owned pharmacies to major franchises such as Priceline and Terry White.

Fred's success has brought it to the tipping-point where mid-size becomes large – the target for many mature mid-size businesses. But as Paul Naismith, co-founder and CEO, explains, the positive forces driving Fred forward – especially investment from Telstra and the growth of its corporate client-base – come with a new set of challenges to overcome.

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Fred has grown strongly in recent years. What new challenges have emerged as your business has become more mature?

Being a comfortably-size business is one of the biggest challenges. When we were small, we were nimble. When you're large, you've got a lot of resources, but when you're in the middle, you have a bit of both. You have the expectations of a large company, but you don't have the resources, and you've lost a little of the nimbleness that got you to this point.

How has your customer base evolved as you have grown?

Our customers, for most of our history, have been small business people running independent pharmacies. As we have grown we have acquired many large corporate clients. So we have the challenge of acting like a small business to some customers, while acting like a large business for our corporate customers and shareholders.

We need to work hard to understand how we operate in this new space. We've got large business customers who want us to act like a large business. But at the same time, we don't want to disenfranchise the people that got us here: small business customers. Keeping them both happy is a key challenge.

You have to get bigger without showing the arrogance of many large businesses. Our small business customers do not like doing business with organisations that they no longer identify with.

How do you structure the business accordingly? Do you have two different parts of the business doing different things?

We have responded by setting up a structure that divides the market into customised teams for different customers: government enterprises, larger businesses and small independents. Differentiating helps us remain aligned with our traditional core business, while also optimising our business for new opportunities and aligning with our major shareholder, Telstra – naturally, they like to chase the larger businesses.

Does it have any impact on the skills and the talent that you need?

The skills impact is around the sales, engagement and business developments roles. Our traditional sales person bangs on doors, and visits people in their stores. It's a direct relationship sale that is usually quick, or transactional. Whereas, larger enterprise sales and government sales have a much longer lead time, longer processes, often with tenders and potentially niche approaches. That's a different skills set.

What impact is your evolving customer base having on your product strategy and development?

Our biggest costs are development costs. We have 50 people in the product development area and creating IT solutions takes a long time and it's highly risky. If they can't get the direction right, or deliver what you're aiming for, it can be very expensive for little outcome.

For example, it is a major challenge for us to decide which product features and functions will allow us to use a single product suite to fulfil the needs of two or three different markets. We can't segment our software as easily as our sales channels. We have debated this issue a lot in the business. At the moment, we've found a way to get everybody under one product suite and it is crucial we get this right.

What have been the major risks you have faced in recent years?

The biggest risk is not our competitors, but ourselves. It is a challenge to keep people engaged and motivated, particularly when they feel like we've been moving away from the things that made us successful.

We were always the innovator. We could always do things faster. Today, there's a lot of frustration – including my own – because we can't do the things we used to. There are too many people, too many steps, too many processes and procedures in place, too many people telling us what's going to happen 10 years down the track if we make this decision or that decision. Start-ups don't have that baggage. Failing to innovate is the biggest risk, or failing to innovate quickly enough.

So what we're trying to do is break teams up and keep them smaller, nimbler and innovative, at least when it comes to product development.

How has the investment from Telstra changed your perspective?

It has helped us focus our customer strategy. Telstra invested because we're a healthcare company and they want us to stay in pharmacy. Then, overall, the shareholding gives me a different lens. I started out as a pharmacist. I still own my own pharmacies, and my other shareholders are pharmacist organisations. So before, I could always be pretty sure what my key stakeholders were thinking, what they want to protect and how the politics works. I knew all of that. The thing about now, with Telstra by our side, there are new stakeholders to understand, potentially more complexity and a lot of adapting to do.

Why did you welcome investment from Telstra, rather than remain fully independent?

It's nice to take some money off the table, but that wasn't the primary motivator. Predominately, Telstra offered us the potential to grow. And, for me personally, the chance to work for a larger company. It offers me access to more capital, and the ability to do more. They're out there buying companies every day and making new opportunities. After 20 years, I was attracted to a new challenge; to see if we can get to the next level.

What has been your role in the growth and expansion of the business?

My focus has always been on what our customers need from technology and driving change, often before they know they need it. My role has naturally expanded with the growth of the company – I now have a greater emphasis on stakeholder management and driving value for our shareholders as well as our customers.

As a leader, and as the founder of the business, has it been difficult to adapt to a new structure?

It is always hard when you're the founder of business that grows, and takes on new shareholders. In some ways, I'm the challenge – just making sure that I continue to be motivated by the right things and don't get too caught up in the bureaucracy that inevitably comes with growth.

What is your vision for the future of Fred?

As the population ages and medication use continues to rise I see our role as driving technology and continually improving how medication is managed. Not just improving the efficiency of the supply of medicines via technology such as cloud computing, consumer apps or paperless prescriptions, but also using data intelligence to reduce medication risks and improve safety and outcomes for patients, providers and funders.

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Key Takeaways

- 1 One-size-fits-all rarely works at scale**
Products, services, sales, marketing and strategy all need to be customised to new markets. This requires investment, new skills, new ways of thinking and often a new structure. As Fred illustrates, no matter how hard you try to keep it simple, leaders need to fully accept an overall increase in business complexity.
- 2 Pumping one tyre, deflates another**
Expanding into new customer markets becomes a priority when approaching the growth limits of existing target markets. But in chasing new customers, businesses can often neglect or alienate the customers that keep the lights on. Fred has been very conscious of this risk. As a result, they have protected their independent customer base while building their corporate client list.
- 3 Same person, different hairstyle**
Scaling-up will always change your business culture but leaders have to actively shape the evolution. It is analogous to growing from teenager to young adult. Will you reinvent yourself as you mature? How much of your core identity will remain the same? It makes sense to think about the DNA of your business, about what really matters. For Fred, and many growing mid-size companies, agility, innovative thinking and entrepreneurial spirit are key things to preserve.

About Paul Naismith

Paul Naismith is the CEO of Fred IT Group as well as a practising pharmacist. He graduated from Monash University in 1988 and has over 25 years of experience in the pharmacy industry. He is a partner in two community pharmacies in Melbourne where he continues to practise regularly. In 1991 Paul collaboratively created the original Fred Dispense software with a vision to provide better patient outcomes through connected computer systems. In 2009 Paul launched eRx Script Exchange, the first Australia wide electronic prescription service linking doctors and pharmacies. Paul is Chairman of the Australian Pharmaceutical Publishing Company, a Director of the PDL board and a Fellow of the Australian College of Pharmacy Practice and Management.

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assist you with
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Aryk Bechler

Partner – Tax

Melbourne Industry Lead – Technology & Media

T +61 3 8320 2298

E aryk.bechler@au.gt.com



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