

Cvs marketing development flashcard



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Porter's Five Forces ForcesGradeNote Segment Rivalry Strong The current market is divided between a few powerful competitors that can relatively easily attract customers from one another as the switching costs are low and practical absence of product differentiation contributes to the easy loss of market share. Threat of MobilityWeakWhile the new entrants only need a relatively simple GUI and a supplier in order to enter the market, the federal and local regulations will require significant investments prior to any positive cash flow. Again, the differentiation is practically non-existent and the new entrants will have to compete with financially established enterprises capitalizing on competitive advantage. Supplier powerStrongIn order to sustain the market share in this highly competitive industry the pharmacies have to establish and maintain strong working relationships with PBMs that have power to divest particular clients from a pharmacy by denying reimbursement privileges to their customers.

Buyer PowerStrongIt is not hard to obtain the same drugs from different sources so the customer loyalty is virtually non-existent and the pharmacies have to try extremely hard to sustain their consumer base. Threats of substitutesWeakThere are very few alternatives to drugs. The alternatives are practically limited to traditional medicine. Therefore, the threat of substitute is weak. Conclusion: CVS is in a favorable position because it already controls the large share of the market and its brand name is known to the populace. Therefore, it is crucial for the company to protect its market share and pursue the aggressive expansion policy to secure even large customer base.

Financial Analysis CVS was able to secure such a large market share in part because of its strong financial base. Since the pharmaceutical industry is not strongly correlated with the market (average beta is 0.2) the slowing economy does not affect much CVS financial performance. The firm employs about 190,000 people and boasts the 20 million strong consumer base with projected growth 3.

million within the next three years. The firm's Price-to-Earnings Ratio (P/E) of about 21 is higher than P/Es of its primary competitors. Hence, CVS reported 21 bps increase and the total gain of \$68 million in the last year. At the same time, the forward earning on the CVS stock yielded over 9.3% allowing the firm easily meets its dividend obligations.

The EPS proves that the stock has been performing well at over 30%. The revenue has been growing at 15.7% per year during the last three years compare to 14. % revenue growth within the industry.

This stock's forward earnings yield of 7.41% is the annual return it would generate if its profits remained fixed and it paid out all of its earnings as dividends. This is normal compared with the earnings yields of other stocks in the industry, and is healthy in absolute terms. Finally, most companies in the industry have generated very low returns on assets over the past five years. CVS has posted results that are about average for the industry, though its ROA over the most recent 12 months was very high.

Porter's Generic Strategies Provided the CVS position in the market, it is clearly pursuing the low-cost leadership strategy. The company offers the same goods or, sometimes, a wider product assortment at the lower prices

than its competitors. The firm's prescription drugs' sales constituted 68% of total sales, 8% ahead of its major competition Walgreen. This number reflects a strong relationship with PBMs that are attracted by the company's lower prices than in the industry.

However, the element of differentiation is also present such as money back guarantee on beauty products, stores conveniently open 24-hours and exceptional customer service. The company capitalizes on its current broad customer base to provide those services and differentiate itself from a tight competition. Also, traditionally, CVS stores were more consumer oriented, e. g. while Walgreen stores had larger area the CVS stores' layouts were such that the aisles were wider and shelves lower making shopping more convenient. The same approach was taken by CVS to the on-line sales offering the consumers user friendly intuitive format and live customer support 24/7.

Market The market is highly regulated and is subject to established relationships between health care providers and PBMs. Currently the pharmaceutical retail market is divided mostly between large chain stores such as CVS, Walgreen, Rite Aid, etc. The market is rather saturated and the competition is strong on the part of the comparable size players as well as online retailers and supermarkets. The industry faces personnel shortages especially in qualified pharmacists and pharmacy technicians. In the past the industry was strictly regionally dominated with Walgreen dominating the West, Rite Aid was strong in the South and Southeast, and CVS spread throughout the Northeast.

However, the CVS broke the balance by advancing into the Rite Aid domain in 1997 creating the nation-wide competition between the companies. The ecommerce forced the major retailers to launch internet based services to compete with the new entrants such as WebMD. om and Drugstore. com. The price war in the cyber space resulted in lowering prices at the retail locations as well as shifted paradigm of in-store pharmacy assistance to the full-blown internet-based services.

New short-lived phenomena emerged in a form of acquisitions of PBMs by the drug manufacturers in order to manage drug approval process and gain influence in the prescription drugs sales. However, only one merger (Merck-Medco) survived the attempt. ProductCVS offers a combination of health care services such as pharmacy and medical equipment together with general merchandise ranging from beauty products to groceries via retail locations and on-line internet portal. The firms also provides consultative services such as medical plan designs, health management programs, and retail-based health clinics that are staffed primarily by nurse practitioners and physician's assistants treating limited number of common ailments and offering routine vaccinations.

Price The prices are lower than the major competitor such as Walgreen. The prescription prices are negotiated with PBMs and other insurance companies. The general merchandise is obtained at wholesale prices and the savings are passed onto the consumers aiding to sustain the cost-leadership strategy.

Channels of Distribution Online sales via cvs. com and over 4, 000 retail locations. The firm offers automatic refills to be mailed to the consumers.

The purchase and refills could be done via the telephone or on-line.

Promotion CVS was the first pharmacy retailer to offer both: online shopping and traditional store services. CVS maintains extensive database of customers' purchases from which it creates weekly individually tailored coupons for consumers. Also, CVS was the first retailer to offer money-back guarantees on beauty products Key Issues As the costs of healthcare increase proportionally to the aging population and slowing economy, the CVS' main issue is the retention and growth of its market share.

Historically, the CVS has been pursuing the Cost Leadership Strategy and only recently, facing the fierce competition from other players in the industry, CVS introduced the elements of differentiation such as MinuteClinic services, 24 hour locations, and 24/7 customer service. The mix of strategies might reduce the firm's liquidity and stagnate its further expansion necessary to secure its market share. Boston Consulting Group Growth Share Matrix Clearly, CVS belongs to the Cash Cow section of the BCG Matrix. The aging population and health care demands contribute to the industry stable growth in terms of both market and sales. By the 2010, total annual sales should surpass \$200 billion, with most of this growth claimed by chain pharmacies. In such a market the large players have slowly emerged and are in the position to protect their consumer base via mergers and acquisitions of the new and independent entrants.

Thus CVS' management team should concentrate on increasing market share and consider further expansion in both retail stores and in the on-line operations. Recommendations Securing market share and further expansion should be CVS first priority. Thus, in addition to maintaining the low cost

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advantage, the firm should invest into the ecommerce marketing to compete successfully with on-line retailers. These new services should be based on a rigorous research of consumer preferences, economic analysis, monitoring demographics as well as pay steadfast attention on competition that could use cost advantage strategy to attain the CVS market share through a system of discounts and special deals with PBRs. Thus, the firm's pricing policy should be flexible enough as not to discourage the price-sensitive consumers and yet allow the company to sustain ever increasing product and service development costs. Also, mergers and acquisitions could be used by the company to its advantage.

That would be following into footsteps of the CVS recent acquirement of Arbor Drug and Revco and comparable transactions performed by the CVS competitors such as Rite Aid acquiring Marco, Thrifty Payless, and K. The M practices make sense as they reduce competition, increase the customer base, and provide convenient locations for the existing customers. One of the main points in this respect is the necessity to create a unified customer database similar to the one operated by Walgreens that allow customers to access their prescriptions from any CVS store.