Scenario analysis of two companies

The CVS Pharmacy Store became one of the largest commercial pharmacy stores in the United States, after acquiring several smaller pharmacy entities in recent years (CVS, 2007). This year, the company acquired Caremark RX after much tough negotiations. For the past 5 years, the company was able to expand its geographical operations by buying at least 2000 drugstore locations. The total revenues generated of these sub-entities in 2006 were over 43. 8 billion dollars.

When the company acquired Walgreen Company, its annual revenues were at 50. 1 billion dollars (CVS, 2007). CVS was able to increase its market niche because of the following reasons: 1) the aging baby boomer population prefers generic drugs (which are definitely more profitable for drugstores), 2) current Medicare/Medicaid legislations were aimed to increase the supply of generic drugs in the US market, and 3) the company was able to partially diversify, selling different products in the US market from items such as cosmetics tofood.

This favorable marketenvironmentwas also complemented by the strong desire ofhealthclinics to purchase their materials from CVS outlets. There are though several issues facing the company. Here are some of the issues: 1) the company is currently facing major legal troubles, 2) prescription errors and substandard problems are also rampant, and 3) confidential information is accidentally exposed to non-company elements. The exposure of confidential information of some of the company’s known patients affected the image of the company, as some of their patients brought the issue to the courts.

Major legal troubles of the company, in general, affected the overall performance of the company'sleadership. This also reduced the overall effectiveness of the company in terms of providing quality products to the healthcare market. To maintain its foothold in the healthcare market, CVS implemented the following: 1) acquisition of known or key entities in the healthcare market, 2) establishment of the so-called " Minute Clinic", and 3) establishment of partnership deals with its closest competitor, Walgreen Company (which CVS eventually acquired) (CVS, 2007).

Acquiring other firms in the healthcare market would increase the annual revenues of the company, as more and more markets are penetrated (for instance, when CVS acquired Caremark RX, the latter was already created niche in the food industry). The establishment of " minute clinics" aims to improve the corporate image of the company. In addition, the " minute clinic" is less costly than the typicaldoctorvisit, making it attractive to new consumers. Minute clinics are also open to long-term insurance agreements; thus making the whole strategy flexible and accessible to the consuming public.

Here are the expectations of the company: 1) because of the aging baby boomers, prescription of generic drugs will increase in the next 10 years (increased annual revenues), 2) this instance is complemented by current legislations which aim to increase spending on health care, and 3) by acquiring several entities in the healthcare market, the company will be able to resolve its legal disputes (as in the case of Caremark). Scenario 2: Staples Office Supply Store Staples began operating in May 1986 in the office supplies superstore industry. Its first base was in Brighton, Massachusetts (Staples, 2004).

Its aim was to provide low price items to small and medium business owners (short-term). In just ten years, the annual revenues of staples were almost 4 billion dollars. The company serves at least 100 major corporations, covering less than 50% of its annual sales. Because of its extensive market base, the company was able to expand in other countries like Canada, Germany, and the United Kingdom. The general goal was to facilitate greater market cohesiveness among these three countries in the office supplies superstore industry (with Staples as the leading supply store).

There are several issues facing the company. Recently, Staples Inc. and Office Depot Inc. planned to merge (as the management of the two companies saw fit). The planned merger though failed after a federal judge ordered the dissolution of the plan (Broder, 1997b). The judge argued that the merger would reduce competition in the office supplies industry. If competition was reduced in the said industry, the merger would be able to raise the prices of office supplies without consideration to the stable prices of raw materials of office supplies (Broder, 1997a).

The decision of the federal judge also prompted government officials to investigate possible antitrust activities of the two companies. The US Senate opened its preliminary session by summoning the two companies in the antitrust committee. The committee ordered the procurement of essential documents from the two companies (with the consent of the two companies). Arguments would be heard both from the US government and the representatives of the two companies. Because of the failed merger, the management of Staples created three strategies.

Here are as follows: 1) establishment of partnership deals with Office Depot Inc. , 2) increasing its number of employees, and 3) penetrating new markets in other countries. Establishing partnership deals with Office Depot Inc. would put increase the annual revenues of the two companies (because of increased flexibility in price-fixing); although this might be legally disputed. In recent years, the company was facing labor shortages in some of its sub-units. Thus, the company was forced to increase the basic salary of its employees in order to attract new laborers.

Establishing new markets in other countries could be costly to the company. The returns however of a successful venture would double the annual revenues of the company.

References

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