

Walgreens: Differentiating to Lead

“We have a tremendous opportunity to differentiate ourselves and step out of the traditional drugstore format and create something completely new and unique. In the past we were a pharmacy with a front end that was convenience goods. We don’t want to lose that. We’re on the best corners of America for that reason. But we can move from just convenience to more health, daily living, and beauty.”¹

– Gregory D. Wasson, President and CEO, Walgreens, 2013

As of July 2013, Walgreen Company (Walgreens), the US’ largest retail pharmacy chain² was redesigning its stores and adding primary-care facilities, selling groceries, serving to more economically strapped customers and taking up many more initiatives in its stores to differentiate itself. This move by the company came in the wake of the digital revolution that changed the face of retailing and the approval of the Patient Protection and Affordable Care Act (PPACA) that promised healthcare for all US citizens and transform the healthcare industry in the US.

On March 23rd 2010, the US President Barack Obama signed a Federal Statute known as the PPACA into law. This Act along with the Health Care and Education Reconciliation Act³ was about to bring in a significant change in the US healthcare system. The PPACA commonly known as the Affordable Care Act (ACA) or ‘ObamaCare’ came into effect from January 1st 2014.

The ACA, which was aimed to expand public and private health insurance, introduced mechanisms to increase the quality and affordability of healthcare in the country. While, the hospitals, insurance companies and other healthcare providers would be affected by the ACA in their own way, the Act would also have its impact on the pharmacies and pharmacists. Because of the cheaper healthcare insurance costs and its availability to more people, the pharmacies would be catering to more patients/customers than ever before. As they were on the front-end of the healthcare system they were also expected to take the responsibility of promoting the ACA and educating consumers about their options under the law. Walgreens was getting ready for these changes in the system and the expected increase in competition in the industry, by offering more convenience services and differentiating itself from its competitors in the US healthcare industry.

¹ Geoff Colvin, “Walgreen Gets a Modern Makeover”, <http://money.cnn.com/2013/07/25/leadership/walgreen-greg-wasson.pr.fortune>, July 31st 2013

² Ibid.

³ The Health Care and Education Reconciliation Act of 2010 is a law that was enacted by the 111th United States Congress, by means of the reconciliation process, in order to amend the Patient Protection and Affordable Care Act. It was signed into law by President Barack Obama on March 30th 2010.

This Case Study was written by Syed Abdul Samad and Dr. Nagendra V. Chowdary, ET CASES. It is intended to be used as the basis for classroom discussion rather than to illustrate either effective or ineffective handling of a management situation. The case study was compiled from published sources.

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The US Healthcare Industry

Healthcare in the US was provided largely through healthcare facilities owned and operated by the private sector. While 62% were non-profit and 18% were for-profit hospitals, the government owned only 20% of the healthcare facilities in the country.⁴ However, 60%–65%⁵ of the hospital spends were aided by healthcare programs like Medicare⁶, Medicaid⁷, TRICARE⁸, the Children’s Health Insurance Program⁹ and the Veterans Health Administration¹⁰ (Exhibit I). In addition, the public sector employees in the US were insured by the government, while many others were insured by a family member’s employer, few purchased health insurance on their own and the rest remained uninsured.

Exhibit I: US Healthcare Industry Statistics	
Healthcare Industry Annual Revenue Total	\$1.668 trillion (100%)
Patient Care	\$1.068 trillion (64%)
Inpatient skilled nursing services and rehabilitation	\$74.8 billion (4.49%)
Dental non-surgical intervention services	\$49.6 billion (2.98%)
Contributions, gifts, & grants by the government	\$44.9 billion (2.69%)
Appropriations from general government	\$40.2 billion (2.42%)
Other	\$389 billion (23.36%)
Number of healthcare companies in the US	784,626
Number of healthcare company employees in the US	16,792,074
Average healthcare company employee salary	\$39,400
States With the Most Healthcare Companies in US	Number
California	97,288
Texas	54,991
New York	53,948
Florida	51,679
Pennsylvania	35,156
Illinois	31,062
Ohio	27,965
New Jersey	25,777
Source: “Health Care Industry Statistics - US Census Bureau”, http://www.statisticbrain.com/health-care-industry-statistics/ , July 28 th 2013	

⁴ “The Status of the Healthcare System”, <http://www.acidrefluxtruth.org/homepage/>

⁵ Ibid.

⁶ Medicare is a US federal government social insurance program that guarantees access to health insurance for Americans and legal residents aged 65 and older, and younger people with disabilities, people with end stage renal disease and persons with Amyotrophic lateral sclerosis.

⁷ The Health Insurance Association of America describes Medicaid as a government insurance program for persons of all ages whose income and resources are insufficient to pay for healthcare.

⁸ TRICARE was formerly known as CHAMPUS (the Civilian Health and Medical Program of the Uniformed Services). It is a healthcare program providing civilian health benefits for military personnel, military retirees and their dependents. It is managed by Tricare Management Activity (TMA) under the authority of the Assistant Secretary of Defense (Health Affairs).

⁹ Signed into law in 1997, the Children’s Health Insurance Program (CHIP) provides health coverage to children in families with incomes too high to qualify for Medicaid, but can’t afford private coverage.

¹⁰ The Veterans Health Administration (VHA) is US’ largest integrated healthcare system with over 1,700 sites of care, serving 8.76 million Veterans each year. VHA is the component of the US Department of Veterans Affairs (VA) that implements the medical assistance program of the VA through the administration and operation of numerous VA medical centers (VAMC), Outpatient Clinics (OPC), Community-Based Outpatient Clinics (CBOC), and VA Community Living Centers (VA Nursing Home) Programs.

The healthcare system in the US was a costly affair. US spent more than 17% of its GDP on healthcare while other OECD¹¹ countries spend no more than 12%¹² (Exhibit II). Despite the huge percentage of spend on healthcare, 16.3% (49.9 million)¹³ of the US population were uninsured during 2010, according to a report submitted by the US Census Bureau. A report from the Institute of Medicine (IOM) stated that, “The United States is among the few industrialized nations in the world that does not guarantee access to health care for its population.”¹⁴ When compared with other OECD countries, the usage of healthcare services in US was below the median of the OECD countries. In 2004, an OECD report said, “With the exception of Mexico, Turkey, and the United States, all OECD countries had achieved universal or near-universal (at least 98.4% insured) coverage of their populations by 1990.”¹⁵

Exhibit II: Healthcare Expenditure of Few OECD Countries (as % of GDP)											
Country/Year	US	Canada	UK	Japan	Australia	Belgium	Denmark	Germany	Mexico	France	Spain
1995	13.6	9.0	6.8	6.8	7.3	7.6	8.1	10.1	5.1	10.4	7.4
1996	13.6	8.8	6.8	7.0	7.4	7.9	8.2	10.4	4.7	10.4	7.5
1997	13.4	8.8	6.6	6.9	7.5	7.8	8.2	10.3	4.8	10.3	7.3
1998	13.4	9.0	6.7	7.2	7.6	7.9	8.2	10.3	4.9	10.1	7.3
1999	13.4	8.9	6.9	7.4	7.8	8.1	9.0	10.4	5.1	10.2	7.3
2000	13.4	8.8	7.0	7.6	8.1	8.1	8.7	10.4	5.1	10.1	7.2
2001	14.1	9.3	7.3	7.8	8.2	8.3	9.1	10.5	5.4	10.2	7.2
2002	14.8	9.6	7.6	7.9	8.4	8.5	9.3	10.7	5.6	10.6	7.3
2003	15.7	9.8	7.8	8.0	8.3	10.0	9.5	10.9	5.8	10.9	8.2
2004	15.8	9.8	8.0	8.0	8.6	10.1	9.7	10.7	6.0	11.0	8.2
2005	15.8	9.8	8.2	8.2	8.5	10.1	9.8	10.8	5.9	11.2	8.3
2006	15.9	10.0	8.4	8.2	8.5	9.6	9.9	10.6	5.7	11.1	8.4
2007	16.2	10.0	8.4	8.2	8.5	9.6	10.0	10.5	5.8	11.1	8.5
2008	16.6	10.3	8.7	8.6	8.8	10.0	10.2	10.7	5.8	11.0	8.9
2009	17.7	11.4	9.7	9.5	9.0	10.7	11.5	11.7	6.4	11.7	9.6
2010	17.6	11.4	9.6	9.2	9.0	10.5	11.1	11.5	6.3	11.7	9.6
2011	17.9	11.2	9.3	9.3	9.0	10.6	11.2	11.1	6.2	11.6	9.4

Source: “Health Expenditure, Total (% of GDP)”, <http://data.worldbank.org/indicator/SH.XPD.TOTL.ZS?page=1>

The insured individuals were more inclined towards consuming healthcare services, while the uninsured were less likely to have regular health check-up and preventive measures. The delayed care later resulted in a medical crisis and thereby an increased cost in treatment for the uninsured as their cases ended up being more critical. Further, the uninsured were less likely to receive medical care or follow up care after an accidental injury or chronic conditions.

¹¹ The Organization for Economic Co-operation and Development (OECD) is an international economic organization of 34 countries founded in 1961 to stimulate economic progress and world trade. It is a forum of countries committed to democracy and the market economy, providing a platform to compare policy experiences, seek answers to common problems, identify good practices and coordinate domestic and international policies of its members.

¹² Shirley S.Wang, “U.S. Health Spending: One of These Things Not Like Others”, <http://blogs.wsj.com/economics/2013/07/23/u-s-health-spending-one-of-these-things-not-like-others/>, July 23rd 2013

¹³ “Obamacare Facts: Facts on the Affordable Care Act”, <http://obamacarefacts.com/obamacare-facts.php>

¹⁴ “US Healthcare System Wastes \$750Bn a Year”, <http://www.presstv.com/usdetail/260308.html>, September 7, 2012

¹⁵ Amy Baldwin, “Investments in Domestic Healthcare Reform and Emerging Markets: ONCS, MDT, BSX, JNJ”, <http://marketplayground.com/2012/10/04/investments-in-domestic-healthcare-reform-and-emerging-markets-oncs-mdt-bsx-jnj/>, October 4th 2012

In addition, the US healthcare system was fragmented. Typically a primary care doctor or general physician was the entry point for any patient. If the problem persists the patient is then directed to a referral doctor and then to an imaging facility and then to a hospital where the final treatment is done. All these fragments were not interlinked and one would not have the knowledge of the treatment that the patient was undergoing at the other end. This *à la carte* system of healthcare posed a major problem for the patients. However, by the end of 2013, few innovative hospitals were coming up with bundled approach offering a *prix fixe* menu, where they involved doctors, employers and insurers to improve outcomes, reduce fragmentation, streamline care, and reduce costs, while making the entire experience more patient-friendly. However, these ideas have remained limited to a handful of branded hospitals in the country.

The Patient Protection and Affordable Care Act (PPACA)

Commonly known as the Affordable Care Act (ACA) or Obama Care, the PPACA was a healthcare reform bill in US that was signed into its law on March 23rd 2013. This was the major overhaul of the country's healthcare system since the Medicare and Medicaid legislations came in 1965 as the Social Security Amendments¹⁶. It included many healthcare provisions like expansion of Medicaid eligibility, subsidizing insurance premiums, incentives to businesses that provide healthcare benefits to its employees, establishing affordable health insurance exchanges, prohibiting denial of coverage, claims and annual spending caps by insurance companies. These initiatives were planned to take effect in the next 4 years. The ACA included numerous other provisions that would take effect between 2010 and 2020, most of which take effect by January 1st 2014 (Annexure I). The marketplaces to buy subsidized private insurance opened on October 1st 2013, and enrolments in a marketplace plan were to be done till March 31st 2014, which later was extended till mid-April 2014.

The PPACA was aimed at reducing costs and to improve quality of healthcare in the country. It provided mechanisms like mandates, subsidies and insurance exchanges and tried to lower the number of uninsured by expanding public and private insurance coverage, and reduce the costs of healthcare for the individuals and the government. It also required insurance companies to cover all applicants under the new minimum standards and offer the same rates regardless of pre-existing health conditions. It also prohibited them from denying health insurance based on pre-existing health condition or put a cap on the annual spend of the insured.

However, these provisions were offset through a variety of taxes, fees and cost-saving measures. The state planned to impose new Medicare taxes for the high-income group, taxes on indoor tanning, fees on medical devices and pharmaceutical companies and tax penalty for citizens and companies (for its employees) who do not obtain health insurance.

Of the 40 million immigrants (13% of US population)¹⁷ around 21 million¹⁸ were non-US citizens (permitted to stay but do not have citizenship or are illegal immigrants). Of then only 52% had private

¹⁶ The Social Security Amendments of 1965, enacted July 30th 1965, was legislation in the US whose most important provisions resulted in creation of two programs: Medicare and Medicaid. The legislation initially provided federal health insurance for the elderly (over 65) and for poor families.

¹⁷ Jeanne Batalova and Alicia Lee, "US in Focus", <http://www.migrationinformation.org/usfocus/display.cfm?ID=886>, March 2012

¹⁸ Julie Appleby, "FAQ: Obamacare And Coverage For Immigrants", <http://www.kaiserhealthnews.org/stories/2012/october/11/health-care-immigrants.aspx>, September 19, 2013

health insurance, 15% had public health insurance and the remaining 33%¹⁹ did not have health insurance and do not qualify for various health benefits. Whereas, of the native born Americans (American citizens), only 12.5%²⁰ do not have health insurance.

With the ACA coming into effect, the legal immigrants would qualify for affordable health insurance. Before the formation of the Act, visitors to US could not purchase health insurance. But with the changes in the system, foreigners visiting US for short term could also benefit by purchasing a visitors health insurance protection plan that covered emergency expenses such as medical evacuation and treatment for sickness or injuries while in the US. However, illegal immigrants (11.5 million²¹ in 2011) would be ineligible for Medicaid and subsidies and were barred from using their own money to purchase insurance coverage through the state exchanges. These individuals would be exempt from health insurance mandate but remain eligible for emergency services. In addition, US-citizens who live in the states that opt out of Medicaid expansion and those not enrolled in Medicaid despite being eligible would remain uninsured. The expansion of Medicaid was expected to add 16 million²² more individuals into the program. People who already had health insurance need not change their healthcare plans because of the PPACA but would be eligible for the new benefits.

Impact on The US Healthcare System

Almost 50 million²³ aged and disabled people in US depend on Medicare each year. The new law makes Medicare stronger with new benefits and improved care, and reduce fraudulent practices in the US healthcare system with tougher screening procedures, stronger penalties and new technology. It would also save on an average of \$4,200²⁴ per every enrolled person over the next 10 years (by 2024). Earlier, one in four of elder citizens could not afford the high prescription drug costs. The law was a relief for people who hit this donut hole (prescription drugs costing above the Medicare provisions).

Prior to the implementation of PPACA, insurance companies could take advantage of their clients' situation – they could deny insurance based on a pre-existing condition of the person, put a lifetime cap on the amount they would cover or cancel a payment because of an accidental mistake in the patient's paperwork. With PPACA coming into effect, the consumers' rights would be protected against such abuses. Insurance companies would not be able to deny coverage to any US citizen because of a pre-existing health conditions (asthma, diabetes or heart defect) or impose annual spending limits or deny coverage due to a mistake in paperwork.

More than 17.6 million children with pre-existing health conditions and 105 million²⁵ Americans were expected to be benefited with such a provision in the law. Young adults not insured through their jobs would be covered through their parents' insurance plans till the age of 26. This facility provided additional coverage to more than 3.1 million²⁶ people. In addition, the Act would open a new health insurance market place

¹⁹ Arturo Vargas Bustamante, "Integrating Immigrants into the U.S. Health System", <http://virtualmentor.ama-assn.org/2012/04/stas1-1204.html>, April 2012

²⁰ Ibid.

²¹ Julia Preston, "Illegal Immigrants Number 11.5. Million", http://www.nytimes.com/2012/03/24/us/illegal-immigrants-number-11-5-million.html?_r=0, March 24th 2012

²² "Obamacare Facts: Facts on the Affordable Care Act", op.cit.

²³ "Health Care That Works for Americans", <http://www.whitehouse.gov/healthreform/healthcare-overview>

²⁴ Ibid.

²⁵ Ibid.

(exchanges) that would allow millions of people to compare and shop for affordable and quality healthcare plans for themselves. These exchanges offered the same kind of insurance choices to consumers as the members of Congress would have. The US government granted \$670 million²⁷ for the establishment of the exchanges and 33 states and the District of Columbia are on their way to build the insurance exchanges. With the subsidies offered under the ACA, more people will pay less insurance premiums than they did prior to the reforms.

Insurers now had to compete in the market place for business. The insurance company would need to justify publicly, if it increase its rates by 10%²⁸ or more. It also would be held accountable for the dollars spent and it has to assure that 80%²⁹ of the premium collected is spent on medical care rather than on advertising or bonuses for executives.

Impact on Pharmaceutical Industry and Pharmacies

“Health care in America presents a fundamental paradox. The past 50 years have seen an explosion in biomedical knowledge, dramatic innovation in therapies and surgical procedures, and management of conditions that previously were fatal. Yet, American health care is falling short on basic dimensions of quality, outcomes, costs and equity,”³⁰ stated a report from an 18-member panel of medical experts of the Institute of Medicine³¹. The report also highlighted that the US healthcare system wastes more than \$750 billion³² annually (Exhibit III).

Exhibit III: Major Areas of Wastage in US Healthcare System	
Area	Waste Annually
Unnecessary services	\$210 billion
Inefficient delivery of care	\$130 billion
Excess administrative costs	\$190 billion
Inflated prices	\$105 billion
Prevention failures	\$55 billion
Fraud	\$75 billion
Total	\$765 billion

Source: “US Health Care system Wastes \$750bn a Year”, <http://www.presstv.com/usdetail/260308.html>, September 7th 2012

Despite such huge spends, the enrolment rules in the governmental health plans leaves millions of citizens without healthcare coverage. However, with the ACA taking effect, experts opine that the situation is bound to improve. According to a London-based research and consulting firm, GlobalData, the ACA would also prove to be a boon for the pharmaceutical industry. It would grow by 33% in value from \$359 billion in

²⁶ “Health Care That Works for Americans”, op.cit.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

³⁰ “US Health Care system Wastes \$750bn a Year”, <http://www.presstv.com/usdetail/260308.html>, September 7th 2012

³¹ The Institute of Medicine (IOM) is an American non-profit, non-governmental organization founded in 1970, under the congressional charter of the National Academy of Sciences.

³² “US Health Care system Wastes \$750bn a Year”, op.cit.

2012 to \$476 billion in 2020, giving the drug-makers an additional profit of \$10 billion – \$35 billion.³³ This growth was expected to come despite expiring patents of blockbuster drugs (like Lipitor from Pfizer³⁴ for lowering blood cholesterol, diabetes drug Actos from Eli Lilly³⁵, blood thinner Plavix by Bristol-Myers Squibb,³⁶ etc.) and the ACA. Though the expiring patents, higher rebates for prescription drugs, new excise taxes on branded drugs and increased competition from cheaper generic drugs would minimize the companies' growth, the ACA and the aging population would spur growth in sales, as around 19.5 million³⁷ people would be added to the Medicaid health insurance program alone.

The ACA was also impaired by website outages, negative public perceptions, political opposition by Republican state governors and a fine of about 1%³⁸ of income to people who do not obtain health insurance by March 31st 2014. With such pitfalls in its rollout, an IMS Health Inc.³⁹ report expected that the ACA would cause a 30%⁴⁰ loss in US prescription-drug sales in 2017. However, Joshua Ovide, Head of GlobalData's industry dynamics team stated, "This reform was inevitable in the US, and while a number of the changes will negatively impact pharma's fortunes, the overall balance could be positive."⁴¹

Supporting the ACA, the Pharmaceutical Research and Manufacturers of America (PhRMA) stated that, "We believe comprehensive health care reform will benefit patients and the future of America. That's why we have been involved in this important public policy debate for more than a year and why we supported the final health care reform bill and the amendments found in the reconciliation legislation. But throughout this long process, we have been guided by a belief that all Americans should have access to high-quality, affordable health care coverage and services. This legislation, while not perfect, is a step in that direction."⁴² While the demand for pharmaceuticals would increase as they become more affordable, the demand for industry services from Pharmacies and Drug Stores would also continue to increase.

Pharmacies and pharmacists, on the other hand, had a greater role to play as they were on the front-end of healthcare delivery. A 2007 industry study mentioned that people visit a pharmacy two to three times a month, which was 12 times more often than visiting a primary care doctor and 16 times more often than

³³ Bruce Japsen, "Obamacare Will Bring Drug Industry \$35 Billion In Profits", <http://www.forbes.com/sites/brucejapsen/2013/05/25/obamacare-will-bring-drug-industry-35-billion-in-profits/>, May 25th 2013

³⁴ Pfizer, Inc. is one of the world's largest pharmaceutical companies based in New York, US. It produces medicines and vaccines for a wide range of medical disciplines, including immunology, oncology, cardiology, diabetology/endocrinology and neurology.

³⁵ Eli Lilly and Company is a global pharmaceutical company headquartered in Indiana, US. It was the first company to mass-produce penicillin, the Salk polio vaccine, and insulin.

³⁶ Bristol-Myers Squibb is a pharmaceutical company based in New York, US. It manufactures prescription pharmaceuticals in several therapeutic areas, including cancer, HIV/AIDS, cardiovascular disease, diabetes, hepatitis, rheumatoid arthritis and psychiatric disorders.

³⁷ "Obamacare Will Bring Drug Industry \$35 Billion In Profits", op.cit.

³⁸ Elizabeth Reuter, "How Much is the ObamaCare Penalty? What You'll Pay for Not Having Health Insurance", www.nerdwallet.com/blog/health/2014/10/02/how-much-is-the-obamacare-penalty-not-having-health-insurance/, October 2nd 2014

³⁹ IMS Health is the largest vendor of US physician prescribing data that provides information, services and technology for the healthcare industry.

⁴⁰ Anna Edney, "Obamacare Failure May Shave 30% From U.S. Drug Sales", <http://www.bloomberg.com/news/2013-11-19/obamacare-failure-may-shave-30-from-u-s-drug-sales.html>, November 19th 2013

⁴¹ "Obamacare Will Bring Drug Industry \$35 Billion In Profits", op.cit.

⁴² "What Is the Pharmaceutical Industry's Position on the Affordable Care Act (ACA)?", <http://www.medicarenewsgroup.com/news/medicare-faq/individual-faq?faqId=f25bdc56-513a-41fa-8efc-2f18af4107a1>

seeing a specialist.⁴³ The US Department of Health and Human Services (HHS)⁴⁴ was banking on these facts and was partnering with pharmacy chains across the country to promote ACA and online health insurance marketplaces. The pharmacies envision patients lined up at their counters, getting the prescriptions filled and asking questions about coverage, and their pharmacists promoting ACA by providing information on how to select an appropriate insurance plan from the health exchanges. While major pharmacy chains were coming up with free in-store events along with providing information, even small community pharmacies were doling out plans to promote ACA and educate customers about the overhauled health law. It was expected to become a customer service requirement across drug stores in the country.

However, there were many factors that affect the pharmacy employers and employees. As some states expand Medicaid, the pharmacies might be expected to fill prescriptions at lower reimbursement rates and hence pharmacies would need to make up the difference with volumes. This was expected to hurt small independent pharmacies and pharmacists at big chains, as it was going to put more stress on them. For instance, earlier if they were filling 200 prescriptions, they might need to fill 300 a day. The pharmacies, on the other hand, could have increased liability and workforce expenses. The employer mandate also would affect pharmacies. With the postponement in employer mandate's implementation till 2015, the bigger organizations (with at least 50 full-time employees) may not have to purchase insurance through exchanges as they already offered health insurance to its employees for the current year. However, employers with part-time workers such as Kroger, Kmart, Sears, Target, and Walmart would be affected as they need to provide them with health insurance for the year.

The personnel associated with the healthcare industry and patients noticed changes as the ACA came into effect. Nonetheless, the pharmacists needed to know the exact changes that took effect, to educate and guide the patients who come to their pharmacies. Pharmacists from hospitals, independent and retail pharmacies and technicians were getting trained from a non-profit organization, Senior PharmAssist located in Durham. The organization helps Durham senior citizens get access to and learn about their medications. The organization trained the participants about the upcoming changes to Medicare Part D, which deals with drug coverage and prescription plans for seniors and people with disabilities. Bigger hospitals and corporations like CVS Pharmacy too were holding sessions to train their pharmacists. However, Neil MacKinnon, Dean of the College of Pharmacy at the University of Cincinnati expects an increase in the number of pharmacists jobs as the ACA extends health benefits to millions in US.

The Walgreen Company

With 6.3 million⁴⁵ customers visiting its stores daily, the Walgreen Company was the largest drug retailing chain in the US. It was instituted in Chicago, Illinois, in 1901 and was headquartered at Deerfield, Illinois. As of early 2014, the company provided access to pharmacy, consumer goods and services and health and wellness services in the US through its retail drugstores, Walgreens Health Services division, and Walgreens Health and Wellness division (Exhibit IV). In addition Walgreens operated several online stores, such as beauty.com, drugstore.com and visiondirect.com.

⁴³ Bill Toland, "Pharmacies will play key role in spreading word about Obamacare", <http://medcitynews.com/2013/09/pharmacies-will-play-key-role-spreading-word-obamacare/#>, September 18th 2013

⁴⁴ The United States Department of Health and Human Services (HHS), also known as the Health Department, is a cabinet-level department of the US federal government with the goal of protecting the health of all Americans and providing essential human services.

⁴⁵ "Frequently Asked Questions", http://news.walgreens.com/article_display.cfm?article_id=831#4

Exhibit IV: Walgreens Company Structure

Source: Nicole Holsted, et al., "Walgreen Co.", <http://economics-files.pomona.edu/jlikens/seniorseminars/likens2012/reports/Walgreens.pdf>, April 11th 2012

Walgreens was started by Charles R. Walgreen (Walgreen Sr.). He was born in Galesburg, Illinois, and then his family relocated to Dixon, Illinois. He had his first experience of working in a drug store (Horton's Drugstore) at the age of 16. After working there for a year and a half, he moved to Chicago in 1893. However, with 1,500 drugstores existing in the city, he figured that there was stiff competition in the business. To sustain himself, he took up a series of jobs with leading pharmacists in Chicago – Samuel Rosenfeld, Max Grieben, William G. Valentine and Isaac W. Blood. He became a registered pharmacist in 1897, but was dissatisfied with the old-fashioned, complacent methods of these stores. He found that the stores lacked customer service, innovative merchandize, had congested store display, did not serve the complete needs of the customers and most importantly lacked commitment to provide genuine value to the customer.

He then decided to buy the store in which he worked (owned by Isaac Blood) and in 1901 bought it for \$6000.⁴⁶ Walgreen's store was located in Barrett's Hotel at Cottage Grove and Bowen Avenue in Chicago South. Though the neighbourhood was a thriving one, the store struggled because of the dimly lit, poorly merchandized and unwelcoming appearance. This was the first challenge for Walgreen Sr.

Reinventing Over the Years

After acquiring the store, Walgreen Sr. experimented with his ideas to improve the ambience of the store. He installed bright lights to create cheerful and warm ambience in the store. Aisles were widened to create enough space to give a welcoming feeling to customers. Merchandize was improved and broadened to even include pots and pans. The drugs were reasonably priced and met high standards for purity and freshness. However, the most important thing that Walgreens came to be known for was the level of service and personal attention given to each customer, which could not be equalled by any other pharmacy in Chicago. These strategies worked in favor of Walgreens as they were not apparently the standard practices followed by the drug stores of the times. With each new store Walgreen Sr. tried to offer unique experience and the company's practices became the industry standards and were copied by many.

⁴⁶ "Our Past", <http://www.walgreens.com/topic/history/hist2.jsp>

Customer Service

Walgreens' thrilled its customers by providing an incredible service. Each customer was personally greeted by Walgreen Sr. or his colleague and personally attended to. When customers ordered for non-prescription items over the telephone, most of the times Walgreen Sr. ensured that the items reached the customer before the customer put the receiver of his telephone down. When a call was received, Walgreens Sr. would repeat the caller's name, address and items slowly and loudly, so that his assistant would quickly prepare the order. Then, Walgreen Sr. would prolong the conversation, while his assistant would reach the customer and deliver the goods before the conversation was complete. But, he could not offer such quick service to people who stayed far from his store. However, customers recommended this store to their friends. Walgreens ensured the legacy extended to all the stores that were established across the country in future.

The Soda Fountain in Winter

By 1910, Walgreens had two stores and was in constant search for ways to please his ever-increasing customer base and outshine his competitors. During the 19th century, bottled soda water and charged soda water were considered health aids and thus the soda fountain had become an essential part of every drugstore in the US. Later, flavored syrups and ice creams were added as soda fountains grew in popularity. Walgreens too followed suit, however, the cold items that were made available through these fountains were only sold during summers and the machines were idle during the winters, which was a loss of an important revenue stream.

However, Walgreen Sr. did not accept the status quo. In response to this dilemma, Walgreen Sr. thought 'why not serve hot foods during winter?' Walgreens then started serving sandwiches, chicken tongue, egg salad sandwiches, beans, tomato soups and desserts, cakes and pies to keep the soda fountain open during the winter months. The hot food served was affordable, nutritious, fresh and home-cooked by Walgreen Sr.'s wife Myrtle Walgreen. Since then, food service became an integral part of Walgreens and the fountain facilities at its stores served breakfast, lunch and dinner. With customer-friendly services, wholesome food and fair prices the customer loyalty towards Walgreens increased exponentially and by 1919 the stores rapidly grew to 20 in numbers.⁴⁷

The Milkshake

During the next decade, by 1929, Walgreens expanded to 525⁴⁸ stores in various cities including New York, Florida, etc. The core management team was assembled during this decade, which included William Scallion, A.L. Starshak, Willis Kuecks, Arthur C. Thorsen, James Tyson, Arthur Lundecker, John F. Grady, Roland G. Schmitt, Harry Goldstine and Robert Greenwell Knight, who were responsible for the growth of the company. Apart from the phenomenal management, the company owed its success to the modern merchandize, innovative store design, fair pricing, outstanding customer service and high quality of pharmacy as well.

A part of its impressive success also was owed to the innovation of the Walgreens' malted milkshake. In 1922, Ivar Pop Coulson, invented the revolutionary drink; adopted by fountain managers in every Walgreens store, priced at 20 cents. Malted milkshake became the talk of the town as it was an instant hit with the customers. The introduction of the drink translated into higher levels of customer satisfaction and customer

⁴⁷ "Our Past", <http://www.walgreens.com/topic/about/history/hist4.jsp>

⁴⁸ Ibid.

loyalty thereby contributing to the company's growth and revenues. In 1927, the company became a publicly-traded corporation and by the end of the decade the most prominent drugstore chain in the US.

Fighting the 'Great Depression'

On October 29th 1929, the US stock market crashed and marked the beginning of the Great Depression which lasted through the early 1940s, until the US entered into World War II. Though Walgreens was not immune to the dire effects of the tumbled economy, it persevered and came up with new ways to serve customers and employ thousands of people.

The company recognized the importance of advertising and was one of the biggest newspaper advertisers in the country during these times. In 1931, the company ran the largest promotion campaign spending \$75,000.⁴⁹ It was also the first drugstore to advertise on radio. The company also created employment by erecting a new building to serve as its warehouse, distribution centre and research and manufacturing facility. Further the company expanded its line of high-quality, private labels, value-packed items like sundries and over-the-counter remedies, talc and other products. During this period, the company also got itself involved into philanthropy. In 1937, the company associated itself with the University of Chicago and donated \$550,000⁵⁰ in stock to establish Charles R. Walgreen foundation for the study of American Institutions.

The Store Model

The Walgreens stores were designed such that they were connected to local groceries (Exhibit V). The company teamed up with Eagle Food Centers or Dominick's Finer Foods in Chicago. The Walgreens store generally had a 'walkthrough' to the adjoining store and often shared serving personnel. The concept was invented by the company to compete with the popular dual store format used by its competitor Jewel-Osco⁵¹/Albertsons-Sav-On⁵². However, by 2009, the company tweaked its business model, and became freestanding corner stores, with the entrance on the street with the most traffic flow. Some stores even had a 'drive-through pharmacy'. There were several factors that the company took into account while selecting its store location, which include places like major intersections, traffic patterns, demographics and locations near hospitals. A typical Walgreens store was about 14,500 sq. ft. with an average sales floor of about 11,300 sq. ft.

Other Initiatives

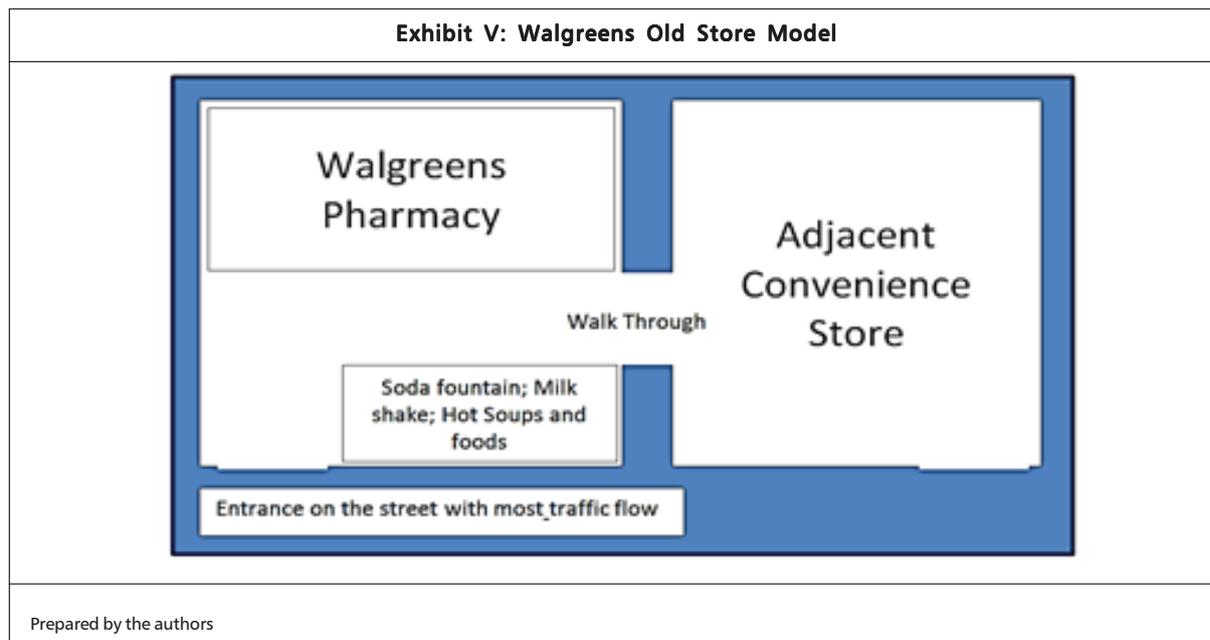
During the World War II, the company opened a not-for-profit drugstore in the Pentagon and was a marketer of War Bonds as a part of war effort. The company was recognized by then President Dwight D. Eisenhower, for its efforts during war times. It was the first US company to have a profit sharing and pension plan for its employees. The company was also a pioneer of a new concept of retailing known as 'self-service' among the

⁴⁹ "Our Past", <http://www.walgreens.com/marketing/about/history/default.jsp>

⁵⁰ Ibid.

⁵¹ Jewel-Osco is a supermarket chain headquartered in Itasca, Illinois, a Chicago suburb. Jewel-Osco has 176 stores across Northern, Central, and Western Illinois; Eastern Iowa; and portions of NorthWest Indiana. Jewel-Osco and Jewel are currently wholly-owned subsidiaries of Boise, Idaho-based Albertsons.

⁵² Albertsons Inc. was founded as a food store by Joe Albertson in 1939 in Boise, Idaho. In 1999, Albertsons acquired American Stores Company, which included the chains ACME, Lucky, Jewel and Jewel-Osco and two pharmacy chains: Osco Drug and Sav-on Drugs. In 2006, Albertsons Inc., was acquired by Albertsons LLC.



drugstore chains. With such commitment to innovation and customer service the drugstore chain prospered and went on to open its 1000th store⁵³ in 1984. Walgreens was also the largest private user of satellite technology. It used Intercom Plus to link all its stores into a single network to fill prescriptions.

In 2002, Walgreens opened two distribution centres and recruited disabled people to fulfil almost 40% of the required staff to work side by side with typical workers. The model was then replicated by other companies like Glaxo Smith Kline, Best Buy and Costco. In 2006, in its effort to provide cleaner environment, the company teamed up with ImaginIt to power its two distribution centres and 100 stores⁵⁴ with solar power systems. The initiative significantly lowered the power intake from outside sources. It also installed energy saving lighting systems such as motion sensitive lights in restrooms, warehouse, etc.

Acquisitions

Though the company expanded rapidly, it went mostly in the organic way by expanding its stores on its own till 1980. However, in 1986, it acquired the MediMart Chain from Stop&Shop. In 2006, Walgreens acquired the Happy Harry's chain which had its presence in Delaware, Pennsylvania, Maryland and New Jersey. The company acquired a chain of more than 100 stores called Option Care in 2007. It also bought Take Care Health Systems, a leading convenient care clinic chain operating 51 clinics in Chicago, Kansas City, Milwaukee, St. Louis and Pittsburgh. In addition to these, in January 2008, the company bought 20 stores from Farmacias El Amal in Puerto Rico. Further, it acquired New York City-area chain Duane Reade for \$1.075 billion in 2010 and drugstore.com (including beauty.com) in 2011. In June 2012, it acquired 45% of Alliance Boots and for the first time in its history stepped out of the country for its expansion. In July of the same year, the company had an agreement to acquire Mid-South Drug store chain and acquired Kerr Drug in September 2013.⁵⁵

⁵³ "Walgreens Historical Highlights", www.walgreens.com/topic/about/press/facts.jsp

⁵⁴ "Walgreens", www.usnook.com/english/Community/seattle/medical/pharmacy/2014/0528/105476.html, May 28th 2014

⁵⁵ "Walgreens Historical Highlights", op.cit.

The company had always been proactive in finding ever-new ways to satisfy its customers and stay ahead of competition. With all these acquisitions and opening of new stores, the company became the largest drugstore chain in the US. As of August 31st 2013, the company operated 8,116 stores⁵⁶ in all 50 states of the US including the District of Columbia, Puerto Rico and Guam (Exhibit VI). The company had revenue of \$72.217 billion and a net income of \$2.45 billion during the financial year ending August 31st 2013.⁵⁷ The company provided 18,000 different items in its stores, employed 240,000 people⁵⁸ and filled 784 million⁵⁹ prescriptions during the financial year 2012, which was a significant contribution in the US healthcare industry.

Exhibit VI: Walgreens in US – Drugstores State-wise (through August 30th 2013)					
Alabama	106	Maine	14	Oklahoma	116
Alaska	7	Maryland	70	Oregon	71
Arizona	250	Massachusetts	168	Pennsylvania	122
Arkansas	78	Michigan	228	Rhode Island	26
California	633	Minnesota	153	South Carolina	109
Colorado	160	Mississippi	76	South Dakota	14
Connecticut	95	Missouri	214	Tennessee	256
Delaware	64	Montana	12	Texas	700
Florida	857	Nebraska	56	Utah	45
Georgia	200	Nevada	83	Vermont	3
Hawaii	16	New Hampshire	30	Virginia	140
Idaho	40	New Jersey	186	Washington	130
Illinois	601	New Mexico	65	West Virginia	14
Indiana	204	New York	491	Wisconsin	226
Iowa	68	North Carolina	198	Wyoming	10
Kansas	69	North Dakota	1	Puerto Rico	118
Kentucky	95	Ohio	253	Washington D.C.	5
Louisiana	150				
Total Locations – 8,541*			Total Drugstores – 8,116		
* In addition to its drugstores, Walgreens also operates worksite health centers, home care facilities and specialty, institutional and mail service pharmacies. Its Take Care Health Systems subsidiary manages more than 700 convenient care clinics at Walgreens drugstores and health and wellness centers on the campuses of large employers.					
Source: "Store Count by State", http://news.walgreens.com/article_display.cfm?article_id=1044					

Differentiation Strategies of Walgreens

For the past three decades, Walgreen's success came through expansion of its retail footprint, through its strategy of 'seven by 10'. The strategy meant that the company wanted to have 7,000 stores by the end of 2010. Walgreens was successful in making this strategy come true, from 4,250 stores in 2003 to 7,000

⁵⁶ "Store Count by State", http://www.walgreens.com/article_display.cfm?article_id=1044

⁵⁷ "Walgreens – 2012 Annual Report", http://files.shareholders.com/downloads/WAG/2771990503x0x608988/5A4CA423-46A7-876E-0EA1FBDF14AA/WAG_2012_AR_10.pdf

⁵⁸ "Frequently Asked Questions", op.cit.

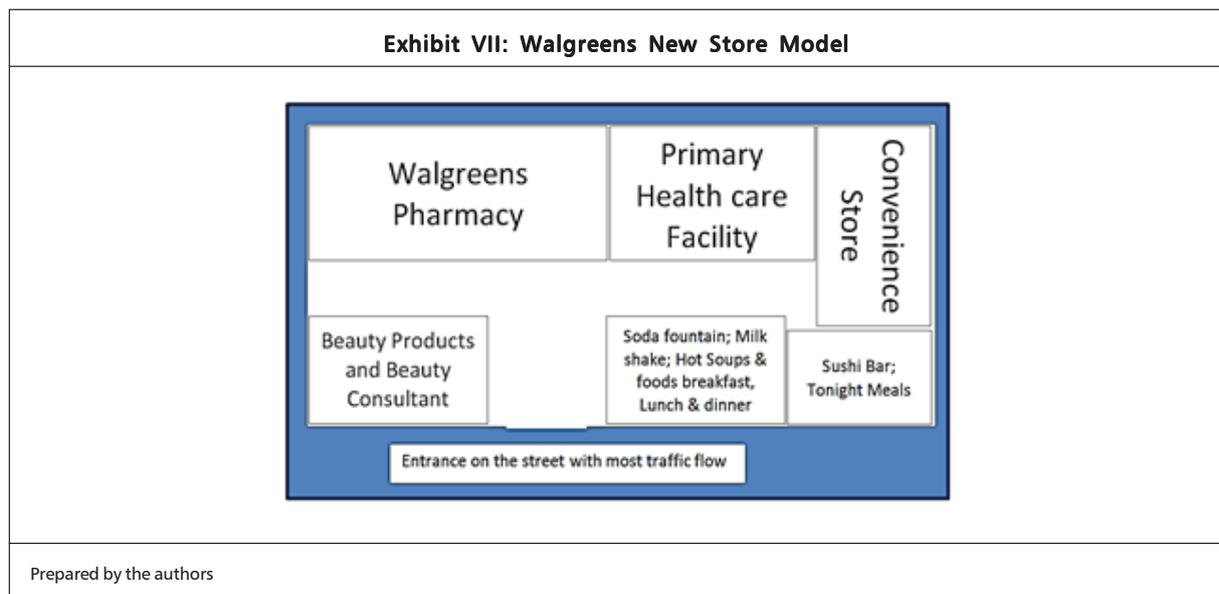
⁵⁹ Ibid.

stores in 2009.⁶⁰ The company was able to achieve this feat because of its good command and control over approach to leadership, good real estate management and analytics.

Nevertheless, the organization also changed its strategy with a change in the business scenario with more competitors, the economic crisis and Affordable Care Act. The emphasis was more on improved healthcare quality and reduced costs. The company saw the opportunity to play a significant role in the healthcare value chain. It decided to evolve from being a drug store filling prescriptions to become a destination store for patient's healthcare and daily living products. Thus, its focus changed from relying on store locations to improving customer experience.

The company realized that its command and control approach was not bringing out the best out of its employees and missed out on the emotional connect with its consumers. The company's research also brought to light an important aspect like consumers' perception of little differentiation among major drug stores. This changed the way it engaged with its consumers – it now focused on being an experience provider rather than a simple drug store chain. It redesigned few components of the organization.

A major change was taken up in the store format and appearance. The earlier Walgreens store format included the pharmacy and food and beverage sections, along with an adjacent convenience store connected to it. The new store format included many more sections that included a primary healthcare facility along with a practitioner nurse, a section for beauty products along with a beauty consultant to offer beauty solutions to the customers, an additional section that had a Sushi bar and offered tonight meals (Exhibit VII).



Apart from the store design, Walgreens recognized the importance of the pharmacist in the drug stores and healthcare. Earlier, the pharmacist was not qualified to give immunizations and vaccinations. But, in 2008, a Walgreens store supervisor in Denver, recognizing the trust and respect a pharmacist has in the local community, decided to get his pharmacists certified to give vaccinations. This changed the scenario for the company and now all pharmacists of the company are certified to give immunizations and vaccinations,

⁶⁰ Mark Wagner and Wayne Orvis, "Changing Structures and Behaviors at Walgreens", <http://www.strategy-business.com/article-full-preview/00195>, August 27th 2013

health screenings, cholesterol and blood pressure testing and everything that's focused on wellness. The company, as of January 2014, was second to the Government of US in administering vaccinations. Even the industry stepped forward and every other community pharmacy got its pharmacists certified to give vaccinations.

Walgreens partnered with the Blue Cross Blue Shield Association⁶¹ to launch a campaign to inform customers about their options under the ACA through a website, LearnAboutReform.com. The website explained how consumers were affected by the law, provided information on subsidies to purchase insurance, described the workings of the individual mandate and offered a primer on how the health exchanges will function. In addition, informational brochures were distributed at all Walgreens pharmacies.

Walgreens also collaborated with WellStar Health System⁶² to provide coordinated and expanded healthcare services, while improving access to high-quality, convenient and affordable care for patients in the NorthWest Atlanta market. WellStar would work with Walgreen's select Healthcare Clinics to handle serious conditions outside of the clinics' scope, through direct communication between WellStar physicians and healthcare clinic nurse practitioners to facilitate care coordination and sharing of patient information and enhanced awareness.

The company also extended its services to its customers by setting up in-store primary healthcare facility (walk-in clinics) along with a nurse practitioner to extend its services beyond pharmaceutical care to acute care, episodic care, etc. The company pharmacists and nurse practitioners were also equipped to extend their services related to guiding patients about ACA and related information about their eligibility and access to it.

The company's pharmacies were also added with convenience stores that offered healthier, daily need items, fresh foods and beauty products. The beauty products section was also provided with the beauty consultant to offer customers the guidance in selecting the right products. The company further planned to move into the premium beauty segment and began to add additional lines of products with beauticians playing a central role in managing the department. In addition, Walgreens was also focused on building business beyond core pharmacy offerings. The company was revving up its stores with private label offerings instead of value priced alternatives of national brands as it did earlier. Walgreens expanded Duane Reade's Good & Delish line, and carried it across the chain. The Deerfield brand was consolidated under 'Nice!' private label. It launched a small selection of 20 Nice! items in August 2011 and had planned to expand the line to nearly 400 products in all stores by 2012.

Simultaneously, the company was also focused on expansion. It began to invest into and take advantage of the digital media as a medium of reaching new customers. It furthered its reach to international market by taking over 45%⁶³ stake in Alliance Boots⁶⁴ of UK in 2012. This was the first retail pharmacy chain that went global with this takeover. Walgreens also entered into a 10-year partnership with AmerisourceBergen⁶⁵

⁶¹ The Blue Cross Blue Shield Association (BCBSA) is a federation of 37 separate health insurance organizations and companies in the US. It was formed in 1982 with the merger of two organizations – Blue Cross and Blue Shield. Together, they directly or indirectly provide health insurance to over 100 million Americans.

⁶² Recognized as the fifth most integrated healthcare delivery system in the country, WellStar Health System is one of the largest not-for-profit health systems in Georgia and serves a population of nearly 1.4 million residents in five counties.

⁶³ "Walgreens Gets a Modern Makeover", op.cit.

⁶⁴ Alliance Boots is a leading beauty retailer in UK.

⁶⁵ AmerisourceBergen Corporation is a Chesterbrook, Pennsylvania based drug wholesale company that was formed by the merger of Bergen Brunswig and AmeriSource in 2001.

to distribute pharmaceuticals to more than 8,000⁶⁶ Walgreens locations across the country. Walgreens expected that the takeover and collaboration would help enhance its beauty department, create the world's largest pharmaceutical supply chain and eventually grow its foothold in Asia and Latin American markets.

In addition to the expansions and collaborations, Walgreen focused on equipping its frontline employees by providing training and enabling them to have the right consumer interactions. The role of the frontline employees was redefined and the necessary structural changes were made to support and free-up their time to take better decisions at the right time. The goal of the company was to build a high-performance culture in its field operations. Incentives were offered to motivate and reward employees to engage employees and thereby ensure customer satisfaction. A similar approach was put in place for district managers, who oversaw almost 1,000 employees, so that they could take decisions based on the local business needs where one-size-fits-all approach of the corporate decision-making process was inapplicable. The district managers were accountable for the local market.

The employees and store managers were trained to focus less on standard operational activities and more on employee engagement, to drive innovation in serving customers and improving customer experience. The evaluation, bonus and advancement were purely based on financial performance – sales and profits, community engagement and events. Since 2011, the company's stores have participated in almost 16,000⁶⁷ community events each year. While the performers were considered 'Heroes' of the company, the underperformers were either trained to perform better or moved out. Other practices that were put in place to improve the employee network were the daily five-minute meetings in-store, store walks by district managers where observations were made about what is working well for the store and what is not. The company had spent about \$30 million⁶⁸ on training.

Walgreens further provided its eligible employees with employer-sponsored health insurance coverage in 2014 through its proprietary 'Live Well Benefits Store', a marketplace that is an outsourced solution through Aon Hewitt Corporate Health Exchange. Walgreens offered coverage to 160,000 workers (and their dependents) of its 240,000⁶⁹ employees across the country. The company spokesman Michael Polzin said, "Our exchange is a completely separate thing from the state-run exchanges for individuals. This is a corporate private exchange. The drugstore chain decided to offer this coverage to 160,000 workers in order to keep them off government exchanges and provide them with broader coverage options."⁷⁰

Another important aspect of Walgreens differentiation was in terms of its pricing. The company prices its products based on the location of the store and the type of item (core or convenience) for the area it serves. For instance, a store located in a busy New York street, then the products are priced higher compared to the prices in a down-town store. The pricing also depended on the type of product that is served – the core product or convenience product. Convenience products like juices, sushi, dinner, etc., might be priced higher compared to other nearby stores in the area, where as competitive products like diapers, medicines would be available at a cheaper price. However, based on a National Consumer League survey on 25 items

⁶⁶ "Walgreen's Captive Insurance Companies Support its Brand Strategy", <http://www.captivatingthinking.com/walgreens-captive-insurance-companies-support-its-brand-strategy.html>, September 19th 2012

⁶⁷ "Changing Structures and Behaviors at Walgreens", op.cit.

⁶⁸ Ibid.

⁶⁹ Kate Rogers, "Walgreens to Move 160K Workers to Private Health-Care Exchange", <http://www.foxbusiness.com/personal-finance/2013/09/18/walgreens-to-move-160k-workers-to-private-health-care-exchange/>, September 18th 2013

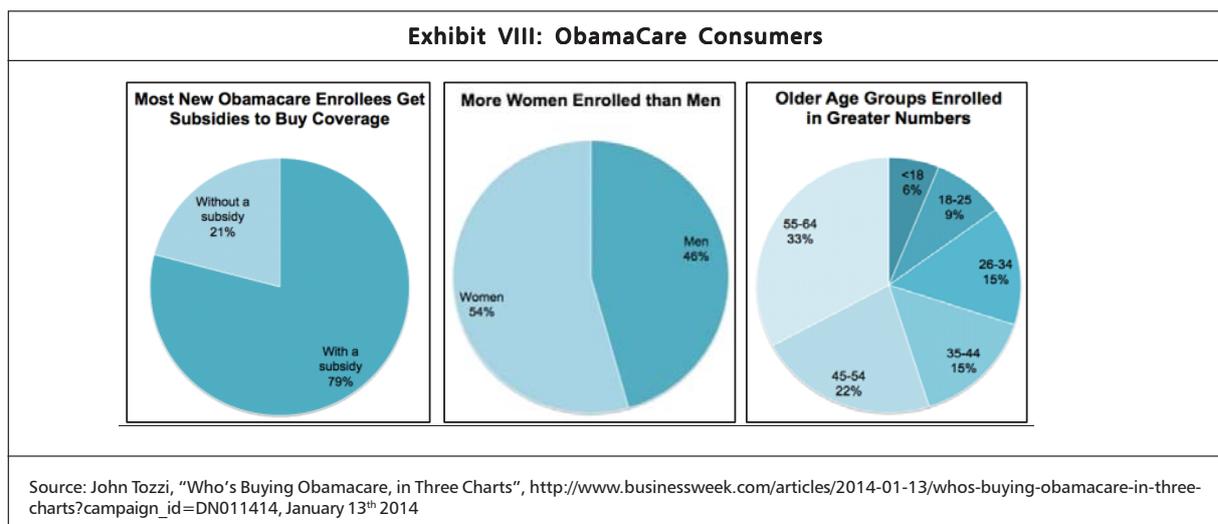
⁷⁰ Ibid.

in 485 stores across 4 cities at Walgreens, CVS and Rite Aid, CNN Money, Time and other accused Walgreens of charging 55% more than others depending on the store location.

However, an optimist commenter wrote, “Walgreens is doing a good job of segmenting their customers and using their analytics to guide their pricing moves, and it is working. I suspect if the price differentiation was causing them to lose market share, we would see much poorer results, or they would stop doing it.”⁷¹ Walgreens spokesman Jim Graham confirmed that variable pricing is part of the retail chain’s business model. He said, “Costs can vary from one location to another, even when they are a few blocks apart in dense urban areas, based on the store’s cost of real estate, its hours of operation including whether it is open 24 hours, labor costs and the number of customers it serves each day, among other factors. We strive to be price competitive with nearby competition, and we believe our pricing reflects that.”⁷² However, competition from individual pharmacies and pharmacy chains was coming up as they too planned strategies to face the changes post ACA implementation.

Challenges and Road Ahead

ACA was open for enrolment since October 1st 2013. By January 2014, more than 2.1 million US citizens had selected private health plans through healthcare.gov and state-run websites and 1.6 million more were judged eligible for Medicaid.⁷³ Women and elder citizens were enrolled in greater numbers and almost 30% of new enrollees were under the age of 35 years (Exhibit VIII).



With ObamaCare coming into effect, several major pharmacy chains had announced plans to help educate customers about the ACA and the exchanges through which they should buy health insurance. Pharmacies anticipated a growth in their business and that patients would come to them with questions regarding the ACA and its effect on their healthcare spends.

⁷¹ Scott Francis, “WALGREENS PRICING: DIFFERENTIATION IS SMART”, <http://stratpricing.com/2013/09/16/walgreens-pricing-differentiation-smart/>, September 16th 2013

⁷² Melanie Hicken, “Walgreens prices vary as much as 55% at some stores, study finds”, <http://money.cnn.com/2013/09/06/pf/walgreens-prices/>, September 6th 2013

⁷³ John Tozzi, “Who’s Buying ObamaCare, in Three Charts”, http://www.businessweek.com/articles/2014-01-13/whos-buying-obamacare-in-three-charts?campaign_id=DN011414, January 13th 2014

In September 2013, Rite Aid⁷⁴, planned to place independent insurance agents in its 2,000 stores (of the 4,600 stores)⁷⁵ across the country. It also set up a website of its own to educate its customers about the new health insurance coverage. Rite Aid CEO John Standley, stated, “With the implementation of the health insurance marketplace, our customers will now have many new choices to make in the coming enrolment period. We know they will look to Rite Aid for information and guidance, and that’s why we’re providing free resources.”⁷⁶

CVS Caremark⁷⁷ (CVS) planned to provide access to information to its customers to select an appropriate insurance plan from health exchanges, through its in-store events, brochures, and its website www.cvs.com/insurance. It also planned to invite government-trained navigators to its stores to help customers pick a suitable insurance plan. Helena Foulkes, Executive Vice President and chief healthcare strategy and marketing officer at CVS, said, “Seventy-five percent of Americans live within 3 miles of a CVS pharmacy, and we serve 5 million people each day in our stores. That gives us a tremendous opportunity to help Americans understand the new health care law and how it affects them so they receive the coverage that best fits their families. Most people without insurance today still fill at least 1 prescription during the year, and many are in our stores several times a month,” said Foulkes. “Our pharmacists can spot customers who are paying for medicines with cash and help them find information about insurance available through the exchanges.”⁷⁸

On the other hand, many new rivals entered the market. Grocery stores too started offering in-store pharmacies and online players like Amazon, etc., took business out of pharmacy retail stores. Some pharmacists and pharmacies have been blurring the line between themselves and traditional healthcare providers. They were positioning themselves as the gateway to the larger healthcare system, with in-store health clinics and on-site nurse practitioners, developing personalized ‘health plans’ to address chronic conditions, reduce hospital readmissions and even developing their own ‘accountable care organizations’. With such challenges coming up from the competitor pharmacy chains and individual pharmacies, will Walgreens be able to create a competitive advantage with its differentiation strategies in the changed landscape?

Assignment Questions

- I. What is a differentiation strategy? What is the purpose of a differentiation strategy? How does it help a company? In what different ways can a company differentiate itself from its competitors?
- II. What is Affordable Care Act? How would this Act affect the healthcare system of the US – the hospitals, the insurance industry and drug stores?
- III. How was Walgreens trying to differentiate itself from others? Will Walgreens be able to create a competitive advantage with this differentiation? Will its differentiation strategy be sustainable or short-lived?

⁷⁴ Rite Aid is a drugstore chain in the US headquartered in East Pennsboro Township, Pennsylvania. It is the largest drugstore chain on the East Coast and the third largest drugstore chain in the US.

⁷⁵ Bill Toland, “Pharmacies will play key role in spreading word about Obamacare”, <http://medcitynews.com/2013/09/pharmacies-will-play-key-role-spreading-word-obamacare/#>, September 18th 2013

⁷⁶ Ibid.

⁷⁷ CVS Caremark Corporation is an American retailer and healthcare company. It provides pharmacy services through its over 7,000 CVS Pharmacy and Longs Drugs stores.

⁷⁸ Daniel Weiss, “Pharmacies Plan to Promote Benefits of Affordable Care Act”, <http://www.pharmacytimes.com/news/Pharmacies-Plan-to-Promote-Benefits-of-Affordable-Care-Act>, August 1st 2013

Annexure I: Provisions of the Patient Protection and Affordable Care Act

<ul style="list-style-type: none"> Expansion of Medicaid to individuals with incomes up to 138% of the federal poverty level based on modified adjusted gross income. Eligibility for Medicaid and the Children's Health Insurance Program (CHIP) for children with family incomes above 138% of the poverty level will continue at their current eligibility levels until 2019.
<ul style="list-style-type: none"> The federal government will provide 100% federal funding for the costs of those who become newly eligible for Medicaid for years 2014 through 2016, 95% federal funding for 2017, 94% federal funding for 2018, 93% federal funding for 2019, and 90% federal funding for 2020 and subsequent years. States that have already expanded adult eligibility to 100% of the federal poverty level will receive a phased-in increase in the FMAP for non-pregnant childless adults.
<ul style="list-style-type: none"> The recent Supreme Court ruling on the ACA limits the ability of the Department of Health and Human Services to enforce the Medicaid expansion. This change in enforcement authority may affect state decisions to implement the expansion.
<ul style="list-style-type: none"> States will create the American Health Benefits Exchanges where individuals can purchase insurance and separate exchanges for small employers to purchase insurance. These new marketplaces will provide consumers with information to enable them to choose among plans. Premium and cost-sharing subsidies will be available to make coverage more affordable.
<ul style="list-style-type: none"> Access to Exchanges will be limited to US citizens and legal immigrants. Small businesses with up to 100 employees can also purchase coverage through the Exchange.
<ul style="list-style-type: none"> Plans in the Exchanges will be required to offer benefits that meet a minimum set of standards. Insurers will offer four levels of coverage that vary based on premiums, out-of-pocket costs, and benefits beyond the minimum required plus a catastrophic coverage plan.
<ul style="list-style-type: none"> Premium subsidies will be provided to families without access to other coverage and with incomes 100-400% of the poverty level (\$23,050 to \$92,200 for a family of four in 2012) to help them purchase insurance through the Exchanges. These subsidies will be offered on a sliding scale basis and will limit the cost of the premium to between 2% of income for those up to 133% of the poverty level and 9.5 % of income for those between 300-400% of the poverty level.
<ul style="list-style-type: none"> Cost-sharing subsidies will also be available to people with incomes between 100-250% of the poverty level to limit out-of-pocket spending.
<ul style="list-style-type: none"> New insurance market regulations will prevent health insurers from denying coverage to people for any reason, including their health status, and from charging people more based on their health status and gender. These new rules will also require that health plans provide comprehensive coverage that includes at least a minimum set of services and caps annual out-of-pocket spending.
<ul style="list-style-type: none"> Health plan premiums will be allowed to vary only based on age (by a 3 to 1 ratio), geographic area, tobacco use (by a 1.5 to 1 ratio), and the number of family members.
<ul style="list-style-type: none"> Young adults will be allowed to remain on their parent's health insurance up to age 26.
<ul style="list-style-type: none"> Health insurers will be prohibited from imposing lifetime limits on coverage and will be prohibited from rescinding coverage, except in cases of fraud. New health plans will be required to cover certain preventive services with no cost-sharing. Increases in health plan premiums will be subject to review. Insurers will be required to spend at least 80% of premiums on medical costs or pay rebates back to consumers.
<ul style="list-style-type: none"> Individual mandate requires all individuals not covered by an employer sponsored health plan, Medicaid, Medicare or other public insurance programs (such as Tricare) to secure an approved health insurance, with some exceptions, beginning in 2014. Those who do not have coverage will be required to pay a yearly financial penalty of the greater of \$695 per person (up to a maximum of \$2,085 per family), or 2.5% of household income, which will be phased-in from 2014-2016. Exceptions will be given for financial hardship and religious objections; and to American Indians; people who have been uninsured for less than three months; those for whom the lowest cost health plan exceeds 8% of income; and if the individual has income below the tax filing threshold (\$9,500 for an individual in 2011).
<ul style="list-style-type: none"> There is no employer mandate but employers with more than 50 employees will be assessed a fee of \$2,000 per full-time employee (in excess of 30 employees) if they do not offer coverage and if they have at least one employee who receives a premium credit through an Exchange. Employers with 50 or more employees that offer coverage but have at least one employee who receives a premium credit through an Exchange are required to pay the lesser of \$3,000 for each employee who receives a premium credit or \$2,000 for each full-time employee (in excess of 30 employees).
<ul style="list-style-type: none"> Large employers that offer coverage will be required to automatically enrol employees into the employer's lowest cost premium plan if the employee does not sign up for employer coverage or does not opt out of coverage.
<ul style="list-style-type: none"> Minimum standards for health insurance policies are established.
<ul style="list-style-type: none"> The law includes subsidies to help people with low incomes comply with the mandate.
<ul style="list-style-type: none"> Low-income individuals and families whose incomes are between 100% and 400% of the federal poverty level will receive federal subsidies on a sliding scale if they purchase insurance via an exchange. Those from 133% to 150% of the poverty level will be subsidized such that their premium costs will be 3% to 4% of income. In 2013, the subsidy would apply for incomes up to \$45,960 for an individual or \$94,200 for a family of four; consumers can choose to receive their tax credits in advance, and the exchange will send the money directly to the insurer every month.
<ul style="list-style-type: none"> Small businesses will also be eligible for subsidies.
<ul style="list-style-type: none"> The State Children's Health Insurance Program (CHIP) enrolment process is simplified.
<p>Source: "Summary of Coverage Provisions in the Affordable Care Act", http://kaiserfamilyfoundation.files.wordpress.com/2013/01/8023-r.pdf, July 17th 2012</p>