

## **Walgreens SWOT Analysis**

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## Overview

Walgreens was originally founded in 1901, in Chicago, as a single store company. Today, they are the second largest drugstore chain in the nation with approximately 5,200 stores in 45 states; however, they are the leader in the industry in terms of sales. In 2005, Walgreens generated 42.2 billion dollars in sales. This figure is a milestone in that it marks the 31<sup>st</sup> year that Walgreens has set a sales record for the industry. At \$46 per square foot, Walgreens averages twice the sales per square foot than their competitors. In light of this success, they project 7,000 stores by 2010. (DSN Retailing Today, 6/12/06)

Walgreens expands through organic growth. They prefer to build, or rebuild their own stores and as a result, the average Walgreens store is six years old.(MMR,5/8/2006)

The Walgreen chain of pharmacies offers prescription and non-prescription drugs. In addition, they sell general merchandise such as beauty and household items, snacks as well as offering a photo lab. They have also begun to add clinics and specialty drugs to their services. Walgreen Pharmacies pride themselves not only on service but convenience and therefore out pace their competitors with the number of stores open 24 hours a day. The average Walgreen visit is seven minutes. To promote their policy of convenience Walgreen Pharmacies are located in high traffic areas while 80% are in free standing buildings and 4,300 offer drive through prescription pick-ups.(Retail Traffic, 5/1/2006)

With these attributes, Walgreens averages a fifteen percent increase in their sales from year to year, and it looks like this statistic will remain constant for the years to come.

## **Strengths**

### Technology:

The successful implementation of technology in both the store and supply chain is a real strength for the Walgreens Company. They have successfully implemented the use of radio frequency identification (RFID) throughout its chain of stores. RFID allows Walgreens to monitor the impact of sales from specific displays. The system will be installed through a multi-year deal with Goliath Solutions and will initially have the participation of fifteen packaged goods manufacturers. The RFID system, at the POS, records, in real time, valuable marketing information such as the length of time an item is on display and where the particular display is located within the store. This technology allows Walgreens to maximize its sales per square foot by tailoring displays to meet each store's needs. It also allows the fifteen manufacturers, along with Walgreens' buyers to see how to orientate future promotions based on past results. Fundamentally, RFID provides Walgreens with the tools to maximize both its efficiency and profits.

Through a partnership with Hewlett Packard and its Snapfish technology, Walgreens has successfully merged together convenience and technology to better serve its customer base. With the implementation of Snapfish, a customer can upload photos at their home computer and then have them printed at a Walgreens location. Presently, eighty percent of their stores have been equipped with digital labs to accommodate this service.

### A Strong Customer Well-Fare Focus:

Walgreens enjoys the benefits of a smaller store format with a more singular focus than does a supercenter and therefore, is able to focus on not only convenience but service as well. By initiating programs such as their *Rx Savings Advisor* Walgreens has enhanced its focus on the aging population. This particular program is a tool whereby Medicare customers can identify the most compatible Part D prescription plan within their particular region. The *Dial-a-Pharmacy*” program allows customers to speak with a pharmacist in one of fourteen languages thereby tailoring its service to reach a broad client base in a very personal way.

Through the acquisition of Medmark Specialty Solutions, on June 30, 2006, Walgreens can now offer its customers prescriptions that are not regularly available in the average neighborhood pharmacy. This addition to the Walgreen family allows customers to have both their regular prescription needs met as well as specialty drugs without the inconvenience of traveling to another pharmacy.

In a move to garner yet another specific market segment, the baby boomers, the fastest growing market segment in the country, Walgreens has aligned itself with AARP. Partnering together they have launched a multi-year program targeting seniors. Through events such as *Ask About Your Medications* organized by AARP and held at various Walgreen locations customers are able to listen to their pharmacist discuss and explain various medications. There is also a website for this program which displays both the AARP and Walgreens logos. This joint venture has allowed Walgreens to enhance its image as both a champion of service and as a knowledge oriented company while gaining access to the 36 million members of the AARP membership, with the organization’s support and backing.

Walgreens also offers the service of in-store medical clinics. As of this summer, in a partnership with Take Care Health Systems, Walgreens opened more than twenty in-store clinics in Kansas City and St Louis with more projected to open once subsequent partnerships are finalized with InterFit Health's RediClinic and Pinnacle Health system in other areas across the country. These in-store clinics are conveniently located across from the Walgreens pharmacy offering customers a diagnoses and treatment inside the store. These services allow Walgreens to promote a strong brand image of both service and personal attention within the healthcare industry.

### **Weaknesses**

Growth:

Walgreens grows organically rather than through acquisition. Rival competitor, CVS, recently added 1,260 Eckerd drug stores to their company's inventory and now, as of this year, out number Walgreens pharmacies. The acquisition of Eckerd, Osco and Save-on stores has given CVS a strong foothold in key regions such as Florida, Arizona and California. These are favorite areas for retirees to settle.

Walgreens spends its resources building its stores from the ground up. In comparison CVS added 1,200 in one recent deal where Walgreens' will only add 390 stores in 2006.(MMR 5/8/06 Walgreens prides itself on its service and personalized care though it jeopardizes its image when it enters the market place by building its own stores and subsequently driving independent drug stores and small chains out of business. They run the risk of alienating the community when the small mom and pop stores go out of business.

Cannibalizing their own market:

The number of pharmacies in the United States is ever increasing. CVS is the nations' leader with 6,100 stores as of 2005 whereas Walgreens has 5,250 for the same period.(Marketwatch, August 2006) The ever increasing number of pharmacies offered in super-centers and grocery stores has expanded the market even more. Wal-Mart, in 2005, had pharmacies in 3,600 of its stores. Walgreens hopes to operate 7,000 stores nation wide by 2010.(MMR,5/8/2006) With the increase of these stores and each company positioned to add even more stores, Walgreens, along with the others, run the risk of cannibalizing their market. Statistically, there is at least one Walgreens within a two mile radius from each consumer's house. In addition, they run the risk of going into markets that can't sustain any more pharmacies.

### **Opportunities**

The Aging Baby Boomer Population:

Within the United States the largest growing market segment is those 50 years and older. They constitute one third of the nation's population while controlling two-thirds of its disposable income. As this population ages, they are finding large super-centers harder to navigate; especially those who require walkers, canes, and wheelchairs. In response to their limitations, this generation is turning to drugstore chains to fill their prescription needs rather than in-house pharmacies within a Wal-Mart for example. The Walgreens chain has the opportunity to capitalize on the baby boomers' demand for more convenient and accessible service.

Seniors are value oriented while still demanding quality therefore; they are more likely to buy generic products from a trusted pharmacy such as Walgreens. If Walgreens

were to expand their inventory of generic products they could potentially see an increase in customer purchases while widening their consumer base.

In addition, this aging population is proactive when it comes to their health. They take advantage of preventative measures to control the aging process, such as foot and skin care. The sale of skin care products such as firming and antiwrinkle creams have risen 8.2% percent in 2005. Within the same period the sale of generic skincare products increased 25% reflecting the trend of a more value conscious senior clientele.

This market segment is also more technologically savvy. With the use of the Internet, they are able to research alternative therapies such as supplements and vitamins to promote and sustain their health. As a trusted and convenient drugstore, Walgreens has the opportunity to actualize their consumer demands. In an effort to meet this generations' health care needs and simultaneously satisfy their desire for sophisticated and value oriented products Walgreens has introduced generic, and private label vitamins and supplements.(Private Label Buyer, May 2006)

Mail order Prescriptions:

In 2005, Walgreens increased, by four times its previous size, their Walgreens Health Services, a branch company that handles mail-order prescriptions. Walgreens Health Services contributes \$1.4 billion in sales to Walgreens, or 3.5% of Walgreen Company's total profit. With this significant increase in the size of their health services division coupled with Walgreens intention to hire more pharmacists, technicians and computer programmers over the course of the next five years, Walgreens Health Services is projected to bring in more than \$5 billion in sales for their parent company.

Walgreens Health Services also operates Walgreens specialty pharmacy and home health care. In 2004, Walgreens Health Services introduced their Advantage90 program. This program allows customers to fill 90 days worth of prescriptions in the store, at one time. This service has served as a cost saving program for Walgreens while enhancing customer convenience. With the expansion of Walgreens Health Services, Walgreens Co. is positioned to expand their customer base by offering more services while saving money for the company in the process.(Chain Drug Review 5/1/2006)

Expanded Merchandise Offerings:

One third of Walgreens sales comes from general merchandise.(DSN Retailing Today, 4/24/2006)) In response to this growing demand, Walgreens has brought in beauty lines such as the European Beauty Collection to 1,000 of their top selling stores. To promote their expanded beauty concept, Walgreens Co. has added make-up test stations and counters to their stores.(Kelly Nolan,Fall 2006) In the US, Walgreens is the second largest beauty retailer in the industry. Sales from beauty products contribute 12% of Walgreens Co. total sales. This figure is significantly higher than the average within the industry.(Edgar,6/30/2006)

Walgreens has teamed up with TonerHead, in a joint venture, to put equipment in Walgreens stores that will refill ink cartridges, for its customers. Currently, the equipment is in place in 1,500 of Walgreens Co.'s 5,200 stores. This service provides its customers with convenience and a service that office supply stores aren't willing to implement out of fear that they will cannibalize their own profits. The quality of the refilled ink cartridges may not be as good as a new cartridge however, Walgreens customers are value and convenience oriented and the stores have found that their refill

stations meet their customer's needs. (DSN Retailing Today, 4/24/2006) These additions to Walgreens services have positioned the company to be a future destination for products other than pharmaceuticals.

## **Threats**

### Medicaid Cuts:

There has been a \$3.6 billion cut from Medicaid which lowered the reimbursement rate, to pharmacies, for the sale of generic drugs. The checks, that pharmacies such as Walgreens received twice a month, have been cut in half. The cash-flow problems that pharmacies are experiencing will only be aggravated, in 2007, when the cut takes place.(Wendy Toth, 2/20/06) The reality is that Walgreens will subsequently lose money on every Medicaid prescription it fills.

### Prescription Privacy Violations:

Independent investigations have been initiated by the US Department of Health and Human Services, Office of Civil Rights and the Indiana Attorney General's Office into the disposal of patient information. Even after Walgreens had issued instructions to its pharmacies, on the proper disposal of patient information, personal data was still discovered in unlocked dumpsters behind stores. As a result, Walgreens maybe facing fines for their violation of the breach of patient prescription privacy.(Bob Segall, 11/22/06)

### Competition with Superstores and Grocery Stores:

Although chain drugstores such as Walgreens have higher pharmacy sales than do supercenters, the supercenters's sales are growing at a higher rate than chain pharmacies. As of 2005, Wal-Mart operated 3,600 pharmacies within its supercenters and is making

them a fixture in its stores' layout. Currently Wal-Mart is third in sales, behind CVS and Walgreens.(Chain Drug Review, 5/1/05) As the supercenters and other retailers such as Meijer offer discounted generic prescriptions, they are building a noticeable client base. Meijer is launching a program where they offer discounts on prescriptions that are most commonly filled for children. Wal-Mart like wise sells generics at a discount and in some cases charging only \$4 for some.(Drug Topics, 11/20/06)

Walgreen Pharmacist Strike, and may join the United Steel Workers:

In July 2005, 1,100 Walgreens pharmacists, as members of the National Pharmacists Association, went on strike for three weeks. Inadequate staff levels and compromised patient safety were cited as their grievances with Walgreens. Although they went back to work in the 400 Chicago area stores, they did not settle their differences and as such, they may join the United Steelworkers Union. By joining the union, they would unite with 4,000 pharmacists from other retailers. A National Pharmacist Union would carry more weight when addressing workplace issues. Both the National Pharmacists Association and the United Steelworkers Union would be open to a boycott of Walgreens.(Chain Drug Review, 5/1/06)

### **Recommendations**

Walgreens has a strong customer base. What they need to do is constantly rethink what other needs they can satisfy for their customers. Capitalizing on the aging baby boomer generation, who seeks preventive therapies and is value oriented they can offer an expanded inventory of generic products or private labels in skincare items, hair color products, foot care and vitamins.

Though Walgreens has added upscale beauty products such as the European Beauty Collection, to its beauty offerings, they have not really addressed the higher end beauty/grooming needs of men. Men also have prescriptions filled at Walgreens and therefore, if the store offered men's grooming products such as higher end aftershave, shaving cream, razors and shaving products they could increase sales as well as their base.

In addition to adding men's' products they could also expand the merchandise that appeals to teens. Often, when mothers are running errands they take their children with them. While waiting for their prescriptions they spend time shopping in-store or if they pass through to the pick-up window they must navigate past the beauty section so either way they are a captive audience. It becomes a perfect time for Walgreens to attract the new beauty aid consumer with an expanded teen/girl make-up line while simultaneously cementing their transition to a destination for beauty products.

Walgreens has established itself as a dominant presence in the drugstore industry but rather than focusing on expansion, by adding more drugstores to their chain, I believe they should focus on expanding their many services. An area ripe for further growth would be in their specialty pharmacies and in particular, the area of fertility drugs. Also, they could seek out additional ventures like their existing partnership with Senior Healthcare Partners LL, which provides prescriptions to the elderly, in assisted living and retirement homes.(Chain Drug Review, 5/1/2006). Walgreens should also add additional clinics to their existing stores. By adding these services they are in a better position to increase their customer base while offering services that supercenters and grocery stores do not. In doing this, they are able to cement their brand identity, as the trusted,

knowledgeable and caring neighborhood pharmacy. Furthermore, by adding and enhancing these services rather than increasing the number of stores Walgreens avoids the possible risk of cannibalizing their market.

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