Firm Analysis: CVS

Introduction of Firm:

CVS Health Corporation (Consumer Value Stores), founded in 1964, is an American retail pharmacy and health care company. The company was started as a beauty and health aid store, but very soon pharmacies were included in its services. Following a sequence of mergers and acquisitions during its growth over the years, the company was renamed 'CVS Health' in 2014. Recently, it completed the acquisition of the health care company, Aetna, in a $69 billion deal. CVS Health was ranked 7th on the Fortune 500 and 17th on the Fortune Global 500 list in 2018 with annual revenue at $184 billion. It currently has more than 9800 retail locations spanning 49 US states, Puerto Rico and Brazil (Corporate Homepage, n.d.).

Underlying Business Domain:

CVS exists primarily in three business domains; retail pharmacy, pharmacy benefit management, and health services.

Pharmacy can be defined as the science and technique of preparing and dispensing drugs (CVS Health: Most Innovative Company, 2000). Pharmacy links health sciences with chemical sciences and aims to ensure the safe and effective use of pharmaceutical drugs. Pharmacy includes traditional roles such as compounding and dispensing medications, and it also includes more modern services such as clinical services, reviewing medications for safety and efficacy, and providing drug information. A pharmacy benefit manager (PBM) is a company that administers, or handles, the drug benefit program for your employer or health plan. PBMs process and pay prescription drug claims and are responsible for creating and updating your health plan's drug formulary (CVS Health, 2000). In the health services domain, health services consist of medical professionals, organizations, and ancillary health care workers who provide medical care to those in need.

Strategic Drivers of Performance in Industry:

In order to gain a competitive advantage, drugstores often personalize their customer's experience, both in terms of the retail and pharmacy departments, by using data related shopping habits to

develop methods to effectively interact with their customers (Dudzinski, 2016). These pharmaceutical retailers also enlist specially trained pharmacists that can address customers with other medical concerns. In store healthcare is becoming popular, with locations offering these services which allow customers to receive screenings, immunizations, check-ups, and other medical related support (Dudzinski, 2016).

CVS focuses heavily on using data to optimize adherence and returns based on a high intake prescription group. According to Helena B. Foulkes, chief health care strategy and marketing officer for CVS Caremark, CVS found that their best customers were individuals who visited their pharmacy frequently (Clifford, 2013). Prescription pickups would lead to store purchases. CVS discovered one-third of consumers stopped taking their medication after a month, and one-half stopped after a year. To address this, CVS implemented an automated program of texts, phone calls, and emails to remind customers to refill their prescriptions. Alerts were also added to customer's profiles, this allowed pharmacists to ask individuals picking up another prescription why they had stopped using their previous medication (Clifford, 2013). With CVS's ScriptSync app, refill notification and deals were brought together. This app increased prescription adherence by ~10% (Here's How CVS, (n.d.). This method as well as their partnership with IBM to use Watson's artificial intelligence system, which can identify customers who need interventions to avoid health crises, increased the number of customers who come back and visit, and in turn increased sales. This was proven with their 2.5% boost in overall sales and a 7% increase in food purchases (CVS Health, n.d.).

Business Model and Unique Products/Services:

CVS Health has three main services, a retail pharmacy business, a PBM (Pharmacy Benefit Management), and a health services business.

CVS sell prescription drugs and a wide range of general retail merchandise which includes drugs, greeting cards, cosmetics, and convenience foods. Newer stores also include a drive-thru pharmacy. CVS also provides a full range of PBM services to manage care and other organizations. Their PBM business is ranked one of the top ten full service PBMs in the US and also includes Specialty Pharmacy operations, which represent the largest integrated retail and mail provider of specialty pharmacy services in the US (CVS Health Corp, (n.d.).

The retail drugstore industry is highly competitive, with CVS competing mainly on the basis of store location, customer service, product selection, and price. To stay competitive in this landscape, CVS Health launched five new digital offerings in 2015, which included an Apple Watch app, primarily designed to alert customers when their prescriptions are ready, a prescription scanning feature, which allows users to scan their prescriptions, an insurance card scanning feature, which scans insurance cards and gets it directly uploaded to the CVS Health's system, a medication reminder system called MedRemind that is focused on prescription reminders and in-store messages, and push notifications to apprise in-store customers if their prescriptions are ready for pick up.

As a recent move, CVS acquired Aetna Inc., an American health insurance company. Even as Amazon's entry into pharmacy threatens many established brands, CVS Health continues to grow. With the acquisition of Aetna, the shares rose by 2.2% from previous quarter (CVS Health: Most Innovative Company, 2000).

Evaluation of Competitors:

The major competitors for CVS when it comes to retail are Walgreens, Kroger Pharmacy, Costco Pharmacy and Safeway Pharmacy. Of all these competitors, only Walgreens offers digital offerings that can compete with CVS's digital offerings. Walgreens is expanding its relationship with Inovalon, Inc., a leading technology company, to implement its patient assessment tool and technology platform to support improvements in care, quality, and risk score accuracy programs across more than 400 Healthcare Clinic at select Walgreens locations.

The convergence of Inovalon's data-driven patient assessment tool, Electronic Patient Assessment Solution Suite (ePASS®), and Healthcare Clinic at select Walgreens creates a unique offering within the health plan and retail clinic industry. With the implementation, Inovalon's analysis of more than 8.3 billion medical events brings analytic insights to Healthcare Clinic programs (Deerfield, 2014). On July 26, 2018 Walgreens also launched their mobile app, called FindCare, which helps connect the company's millions of mobile and online visitors to health care services at Walgreens stores and a growing selection of recognized providers in the community.

Would We Invest in the Firm?

SWOT Analysis

Strength	*Weakness*
Market Reputation - Widely viewed as a well-run company, with robust earnings Strong Brand Portfolio – Over the years CVS Health has invested in building a strong brand portfolio.	**Limited success outside core business** – Even though CVS Health is one of the leading organizations in pharmaceutical industry it has faced challenges in moving to other product segments
Opportunity	*Threat*
Aetna Acquisition - The combined CVS-Aetna partnership is at a controlling position in shaping the consumerism of healthcare	**Amazon.com (AMZN)** – Amazon expressing interest in competing with CVS on the prescription drug distribution front. **Government Regulations** - CVS being one of the largest PBMs is under increased scrutiny by the government in lowering drug prices

CVS appears to have a promising future, and the stock is currently priced at an appealing $78.91 (O'Connell, 2018). However, the Aetna acquisition and the questions surrounding the PBM business introduce a great deal of risk to investors. As a result, we would not currently recommending investing in CVS until the uncertainties listed above have time to stabilize.

Recommendations to Firm's CEO to Enhance Firm's Strategic Edge:

Moving forward, our recommendations for CVS to enhance the firm's strategic edge focus on four primary aspects. First, CVS should continue investing in their data analytics programs. Secondly, CVS would be wise to expand their MinuteClinic services to cover more locations and include virtual care services. Thirdly, a continued emphasis on their health-based rebranding initiative is recommended. Finally, CVS should continue investing in the digital shopping experience.

With the pending merger of Aetna, CVS in a unique position as a healthcare and pharmacy provider, which will give them a direct advantage over current competitors and new entrants. A natural extension of their healthcare services, which are provided by their MinuteClinics, would be to extend the MinuteClinic availability to additional stores, and integrate virtual care into the services they provide.

Currently, CVS has MinuteClinics present in approximately 12% of their 9,800 retail locations, and it is estimated by Bank of America analyst Michael Cherny that for every 100 stores CVS expands its lab testing services offered by MinuteClinics, CVS could add another $45 million in gross profits (Duggan, 2018). These expansions would strengthen CVS's competitive advantage as a healthcare provider as they seek to transition to a new business model, and would also generate additional store traffic by an estimated 10 million visitors per year (Duggan, 2018). All of the recommendations can be supplemented and supported by their continued investment in the digital shopping experience. This is further supported by the data provided by Helena Foulkes, CVS/pharmacy president, who noted that digitally engaged consumers visit stores six times more per year and spend 4.5 times more, while also filling prescriptions at a rate of 2.4 times higher than non-digital customers (CSA, 2017).

The above recommendations would place CVS at a competitive advantage over their primary brick and mortar competitors, as well as potential new digital entrants.

Sources:

CVS Health: Most Innovative Company.(n.d.) Retrieved from
https://www.fastcompany.com/company/cvs-health

Clifford, S. (2013, June 19). Using Data to Stage-Manage Paths to the Prescription Counter.
Retrieved from https://bits.blogs.nytimes.com/2013/06/19/using-data-to-stage-manage-paths-to-
the-prescription-counter/

Here's How CVS is Using Technology to Grow their Healthcare Service to Epic Proportions.
(n.d.). Retrieved from https://futurestoreseast.wbresearch.com/cvs-using-technology-to-grow-
healthcare-service-ty-u

Dudzinski, R. J. (2016, August 18). 5 Strategies of Successful Retail Pharmacy Chains.
Retrieved from https://www.west.com/blog/industries/healthcare-industries/5-strategies-
successful-retail-pharmacy-chains/

Walgreens ePass. Retrieved from https://www.inovalon.com/news/walgreens-brings-big-data-
analytics-to-healthcare-clinics-through-expanded-relationship-with-inovalon/

Features offered by FindCare Now. Retrieved from https://news.walgreens.com/presskits/find-
care-now.htm

Duggan, W. (2018, June 20). CVS Has an Amazing Growth Opportunity. Retrieved December
02, 2018, from https://money.usnews.com/investing/stock-market-news/articles/2018-06-20/cvs-
health-group

Chain Store Age (CSA). (2017, October 07). 7 ways CVS is driving growth in its stores.
Retrieved December 04, 2018, from https://www.chainstoreage.com/news/ways-cvs-driving-
growth-its-stores/

CVS Health Corp. (n.d.). Retrieved from https://csimarket.com/stocks/CVS-Business-
Description.html

CVS Health: Most Innovative Company. (2000, January 01). Retrieved from
https://www.fastcompany.com/company/cvs-health

Corporate Homepage. (n.d.). Retrieved from https://cvshealth.com/