

University of Michigan Stephen M. Ross School of Business

Final Report  
CVS Health

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Our recommendation for CVS is to globally expand into the United Kingdom's retail pharmacy industry through the acquisition of the UK-based company LloydsPharmacy. Our rationale for this is the passing of both the better-off and ownership tests, the attractiveness of the fragmented UK industry, and the similarities of the markets through CAGE analysis.

The UK pharmacy market is attractive, reaching \$18.66 billion in 2017 and increasing by \$2.03 billion since 2012. This is largely due to the growing trend of self-care and health and wellbeing, resulting in pharmacy spending growth to outperform the total market growth since 2012<sup>1</sup>. Furthermore, the online pharmacy market in Europe is expected to grow at a CAGR of over 14% from 2019-2025, primarily due to an increase in consumer activity in the UK, Germany, and France<sup>2</sup>. Looking at pharmacy and drugstore data from 2016, the market is very fragmented with more than 14,000 community pharmacies and the top 12 players owning less than 50% of the market. The top players are Boots (2,376 stores), LloydsPharmacy (1,576 stores), and Well (815 stores)<sup>3</sup>.

Our recommendation passes both the industry-attractiveness and better-off tests. The UK industry is not concentrated, so there is not a high level of intra-industry rivalry. The larger pharmacies in the UK also have significant bargaining power over their suppliers due to their size and market shares. These factors contribute to the attractiveness of the UK market. The better-off test determined that the presence of CVS in the UK market improves their competitive advantage beyond what its business units could achieve independently. For example, the National Health Service in the UK is committed to funding pharmacies that provide clinical services<sup>4</sup>. CVS can implement their MinuteClinic services abroad and receive funding from the government to cover costs. The MinuteClinic's established success in the US would give CVS an advantage over the many pharmacies now transitioning to provide clinical services in the UK. Reputability, expertise, and convenience are key factors for acquiring and retaining customers, all which CVS has over smaller local pharmacies currently piloting their clinical services. As an established cost leader in the US, CVS can bring their expertise to LloydsPharmacy, expanding CVS's global market share, recognition, and profits.

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<sup>1</sup> *The UK Pharmacy Market 2012 - 2017* (Rep. No. 4703736). (n.d.). Retrieved November 30, 2020, from GlobalData website:

<https://www.researchandmarkets.com/reports/4703736/the-uk-pharmacy-market-2012-2017#:~:text=The%20UK%20Pharmacy%20market%20reached,the%20five%20years%20to%202017>

<sup>2</sup> *Europe's Online Pharmacy Industry, 2020 Analysis by Platform, Type and Geography* (Rep.). (2020). Research and Markets. Retrieved November 30, 2020, from

<https://www.globenewswire.com/news-release/2020/04/08/2013547/0/en/Europe-s-Online-Pharmacy-Industry-2020-Analysis-by-Platform-Type-and-Geography.html>.

<sup>3</sup> Sukkar, E. (2016). Community In Great Britain 2016: A Fragmented Market. *THE PHARMACEUTICAL JOURNAL*, 296(7889), 282-283. Retrieved November 30, 2020, from <https://www.pharmaceutical-journal.com/download?ac=1070824>.

<sup>4</sup> *PSNC Briefing 010/20: Community Pharmacy Funding in 2020/21* (pp. 1-7, Issue brief). (2020). PSNC. Retrieved November 30, 2020, from

<https://psnc.org.uk/wp-content/uploads/2020/02/PSNC-Briefing-Community-Pharmacy-Funding-in-2020-21.pdf>.

An analysis of the differences between the United States and the United Kingdom with the CAGE framework supports the recommendation of CVS entering the new market. Culturally, the United States and the United Kingdom are closely related, as they share a common language and have similar cultural norms, especially in larger cities. Regarding administrative differences, the two countries share similar democratic views due to their mutual participation on political, security, and economic issues. The GBP is stronger than the USD, causing goods and services to be more expensive. However, many companies successfully operate in both countries, so this should not deter CVS from operating in the UK. The UK and US are geographically separated. CVS would have to develop a new distribution network to import products to the UK and source products locally, which would involve significant upfront costs. However, if CVS enters the market through acquisition or partnership, these costs would be eliminated. The UK and the US benefit each other economically through mutual trade and investment. They are each other's top source of "foreign direct investment, and two-way direct investment totals over \$1 trillion" (U.S. Department of State, 2020)<sup>5</sup>.

The ownership test helps determine CVS's method of entry into the UK market by acquiring LloydsPharmacy because it is the second largest UK pharmacy company. By acquiring a leading UK pharmaceutical company, CVS can capture a significant portion of the market immediately. CVS can also take advantage of LloydsPharmacy's existing isolating mechanisms, including time compression diseconomies. LloydsPharmacy has 1576 locations, an established distribution network and supplier relationships, and knowledge of UK consumer preferences and competitors. CVS's unique culture would also contribute to its advantage through social complexity. CVS focuses on giving back, innovation, collaboration, accountability, and encouragement of personal and professional growth<sup>6</sup>. CVS can implement this culture in LloydsPharmacy stores through operational, personnel, and policy changes. A partnership would not be optimal given a lot of what CVS offers is its expertise, which makes creating a contract difficult and would not give CVS as much control. After analyzing this acquisition using the ownership test, we determined that acquisition would produce a greater competitive advantage and shareholder value than if CVS grew organically or created a contract.

Looking at two recent acquisitions, we determined a reasonable cost estimate. First, Walgreens fully acquired Alliance Boots, the largest pharmacy chain in the UK, for a total of \$10.7 billion<sup>7</sup>. McKesson Corporation acquired LloydsPharmacy for \$8.3 billion in 2014. Accounting for inflation, LloydsPharmacy would be worth about \$9.13 billion today. If CVS purchased the company, the price would likely be around \$10-12 billion. This value encompasses the additional costs for rebranding and some redesigning of the stores, marketing materials, software integration, employee training, and cross-continental communication. CVS's revenue from this deal can be estimated using LloydsPharmacy's revenues. In 2018, the revenue was

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<sup>5</sup> U.S. Relations With United Kingdom - United States Department of State. (2020, February 06). Retrieved November 29, 2020, from <https://www.state.gov/u-s-relations-with-united-kingdom/>

<sup>6</sup>Harris, P. (2019, March 29). CVS's Organizational Culture Characteristics & Strategic Implications. Retrieved November 30, 2020, from <https://www.rancord.org/cvs-organizational-culture-analysis-cultural-characteristic>

<sup>7</sup> Walgreens Boots Alliance, INC. (2014, December 31). Form 8-K [Press release]. Retrieved November 30, 2020, from <http://edgar.secdatabase.com/190/119312514457671/filing-main.htm>

\$2.93 Billion, resulting in about \$666 Million in Gross Profits<sup>8</sup>. In 2017, LloydsPharmacy captured approximately 14% of the UK's Pharmacy market. However, LloydsPharmacy has reported a negative net income for the last two years, which seems to be driven by an increase in their cost of goods sold. As CVS operates with a cost leadership strategy, their corporate strategy will be beneficial to stabilizing LloydsPharmacy's finances. CVS should also be able to increase revenue by implementing their operational tactics to increase efficiency, offer a greater variety of goods and services, and attract tourists from the United States and abroad.

There are several risks for CVS to consider with this deal. First, the UK has a stricter regulatory system, several different distributors and suppliers, and norms. By entering the market through acquisition and adopting LloydsPharmacy's existing operations and policies, the operational learning curve and risk could be mitigated. Another risk is that an American brand will not be welcomed in the UK. This is partially due to the fact that UK and US drug stores traditionally carry very different products. To avoid this, we recommend that the stores be co-branded with both CVS and LloydsPharmacy signage on the stores. This will prevent existing LloydsPharmacy customers from leaving and attract additional customers such as American tourists. Also, this would differentiate the CVS-LloydsPharmacy co-branded stores from other UK pharmacies while still minimizing costs.

As mass merchants, mail-order, and online pharmacies are continuing to increase the intense competition of the US pharmacy and drugstore industry, CVS can continue to grow and sustain their cost leadership advantage by expanding into the fragmented UK market<sup>9</sup>. Although they will face a variety of risks, many will be mitigated through the acquisition of LloydsPharmacy.

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<sup>8</sup> LloydsPharmacy Stock / Share Price, Funding ... - craft.co. (n.d.). Retrieved November 30, 2020, from <https://craft.co/lloydspharmacy/metrics>

<sup>9</sup> Lombardo, C. (2020, August). Pharmacies & Drug Stores in the US. Retrieved from <https://my-ibisworld-com.libproxy.bus.umich.edu/us/en/industry/44611/industry-outlook>.

**Exhibit A**  
Analysis of the External Environment

	<b>Factor</b>	<b>Data on important trends from published sources (please cite using footnotes)</b>	<b>Impact on industry for each trend (your analysis)</b>
1	<b>Political Segment</b>	<p>1. “Growth in Medicaid spending during 2020-2027 is projected to rise further to an average of 6.0 percent per year”<sup>10</sup></p> <p>2. “Medicare spending is projected to grow at an average annual rate of 7.6 percent” for the period 2020-2027”<sup>1</sup></p>	<p>1. More funding for medicare and medicaid will allow for greater subsidies on prescription drugs costs. Consumers will pay lower prices for prescriptions. More affordable prescriptions will boost the demand for them among common consumers resulting in more business for retail pharmacies</p>
2	<b>Economic Segment</b>	<p>1. Growth of natural and organic market<sup>11</sup></p> <p>2. Retail healthcare stores donate money to COVID-19 research including Walgreens which donates \$100,000 and 150,000 thermometers<sup>12</sup></p> <p>3. Per capita disposable income is expected to decrease in 2020<sup>13</sup></p> <p>4. Private health insurance spending is projected to decline<sup>14</sup></p>	<p>1. Increased investment in natural and organic medications.</p> <p>2. Drop in revenue due to massive donations of PPE and Coronavirus research.</p> <p>3. Sales of prescription drugs will likely remain unaffected, but sales of non-essential, front-end goods will likely decrease as a result of less disposable income.</p> <p>4. Less individuals will be able to afford medication. Managed-care organizations are more flexible on</p>

<sup>10</sup> Klees, Barbara, et al. “Brief Summaries Of Medicare & Medicaid.” *Centers for Medicare & Medicaid Services*, 15 Nov. 2019, [www.cms.gov/files/document/brief-summaries-medicare-medicaid-november-15-2019.pdf](http://www.cms.gov/files/document/brief-summaries-medicare-medicaid-november-15-2019.pdf).

<sup>11</sup> Strailey, Jennifer. “8 Trends Driving Growth in Natural and Organic.” *Winsight Grocery Business*, Winsight Grocery Business, 28 Feb. 2020, [www.winsightgrocerybusiness.com/topics/8-trends-driving-growth-natural-organic](http://www.winsightgrocerybusiness.com/topics/8-trends-driving-growth-natural-organic)

<sup>12</sup> *Walgreens Donations Help*. (2020, March). Retrieved October 25, 2020 from <https://www.cdcfoundation.org/blog/walgreens-donation-helps-extend-emergency-response-covid-19>

<sup>13</sup> *Disposable Personal Income*. (2020, August). Retrieved October 25, 2020 from <https://fred.stlouisfed.org/series/A229RC0>

<sup>14</sup> *National Health Expenditure Projections*. (2019, January). Retrieved October 25, 2020 from <https://www.cms.gov/files/document/nhe-projections-2019-2028-forecast-summary.pdf>

			drug reimbursement rates, increasing industry revenue.
3	<b>Sociocultural Segment</b>	<p>1. The opioid crisis instills fear towards prescription drugs and pharmaceutical companies. According to the CDC more than 140 Americans die from drug overdoses every day, 91 specifically from opioids <sup>15</sup></p> <p>2. The 65-and-older population grew by over a third during the past decade due to the baby boomer generation reaching this age range. No other age group saw such a fast increase. <sup>16</sup></p> <p>3. Long term trend of increasing life expectancy. Between 1959 and 2014 life expectancy increased from 69.9 years to 78.9 years. <sup>17</sup></p>	<p>1. General fear of taking prescription drugs because people without prior addiction problems are getting hooked on opioids prescribed to them. People are purposely avoiding certain prescriptions such as Oxycontin.</p> <p>2. An aging population and increase in people aged 65 and older means there are more people who have age related medical problems that need treatment. It's a general assumption that older people are more likely to need prescriptions than young people. This increases demand in the retail pharmacy industry.</p> <p>3. Longer life expectancy means more people are surviving with health problems. Typically a cause of longer life expectancies in the first place is advanced medicine, which prescriptions are a part of. So, longer life expectancies require more prescription drugs which increases demand in the industry.</p>
4	<b>Technological Segment</b>	<p>1. Increasing benefit in adopting AI technologies<sup>18</sup></p> <p>2. Introduction of GoodRX <sup>19</sup></p>	<p>1. Patients remain more connected with health information systems, algorithms help monitor and predict patient outcomes, and industry</p>

<sup>15</sup> U.S. Department of Health and Human Services. "HHS Acting Secretary Declares Public Health Emergency to Address National Opioid Crisis." *HHS.gov*, US Department of Health and Human Services, 23 May 2018, [www.hhs.gov/about/news/2017/10/26/hhs-acting-secretary-declares-public-health-emergency-address-national-opioid-crisis.html](http://www.hhs.gov/about/news/2017/10/26/hhs-acting-secretary-declares-public-health-emergency-address-national-opioid-crisis.html).

<sup>16</sup> Bureau, US Census. "65 And Older Population Grows Rapidly as Baby Boomers Age." *The United States Census Bureau*, 25 June 2020, [www.census.gov/newsroom/press-releases/2020/65-older-population-grows.html](http://www.census.gov/newsroom/press-releases/2020/65-older-population-grows.html)

<sup>17</sup> Weiner, Scott. "What's in a Number? Looking at Life Expectancy in the US." *Harvard Health Blog*, 7 Feb. 2020, [www.health.harvard.edu/blog/whats-in-a-number-looking-at-life-expectancy-in-the-us-2020020718871](http://www.health.harvard.edu/blog/whats-in-a-number-looking-at-life-expectancy-in-the-us-2020020718871).

<sup>18</sup> *Walgreens Partners with Microsoft to bring AI into Healthcare*. (2019, January). Retrieved on October 25, 2020 from <https://xtalks.com/walgreens-microsoft-to-bring-artificial-intelligence-into-healthcare-1738/>

<sup>19</sup> *How GoodRX works*. Retrieved on October 25, 2020 from [www.goodrx.com/how-goodrx-works](http://www.goodrx.com/how-goodrx-works)

		<p>3. High number of technological advancements from the Biotech industry<sup>20</sup></p> <p>4. Rise of online pharmacies</p>	<p>employees are relieved of tedious tasks because AI streamlines internal operations.</p> <p>2. Customers have more information about drug prices available, making them more price sensitive and increasing intra-industry competition.</p> <p>3. Industry wide disintegration: large pharmaceutical companies outsource R&amp;D, large companies overpay to acquire biotech companies creating opportunities for new pharmaceutical suppliers.</p> <p>4. Companies forced to grow online presence, improve/develop an app, optimize online ordering in order to remain competitive.</p>
5	<b>Environmental Segment</b>	<p>1. Pharmacies/drug stores were allowed to remain open during nonessential business closures due to COVID-19</p> <p>2. Drug stores offer COVID testing, COVID prevention products</p> <p>3. Social distancing measures put in place by federal government to reduce impact of COVID-19</p> <p>4. Increase consciousness towards global warming</p>	<p>1. Expected steady revenue growth in 2020<sup>21</sup></p> <p>2. Increased demand for services and products offered by retail healthcare locations.<sup>22</sup> For example, the increase in growth of hand sanitizer sales as of February 2020, which wasn't even the peak of the pandemic, was 80.7% for drugstores.<sup>23</sup></p> <p>3. Retail pharmacies have allowed longer refills on prescriptions. Online drug prescribing, medication consultation, and drug delivery services were implemented.<sup>24</sup></p>

<sup>20</sup> *The Future of Pharma: The Role of Biotech Companies*. (2019, May). Retrieved on October 25, 2020 from <https://www.forbes.com/sites/forbestechcouncil/2019/05/29/the-future-of-pharma-the-role-of-biotech-companies/#633953616bb3>

<sup>21</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", pg4, Retrieved From <https://my.ibisworld.com/download/us/en/industry/1054/1/0/pdf>

<sup>22</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", pg 4, Retrieved From <https://my.ibisworld.com/download/us/en/industry/1054/1/0/pdf>

<sup>23</sup> Statista Industry Report 2020, Drugstore and Pharmacy, pg 32

<sup>24</sup> "The Face of Retail Pharmacy Operations During COVID", *Ambimbola Farinde*, 2019, Retrieved From <https://www.pharmacytimes.com/news/the-face-of-retail-pharmacy-operations-during-covid-19>

			4. Companies beginning to focus on environmental implications of drugs, pressure to utilize “green pharmacy practice[s]” <sup>25</sup>
6	Legal Segment	<p>1. The Medicare Prescription Drug Improvement and Modernization Act of 2003 added prescription drug coverage and provided Medicare recipients with the opportunity to use a discount card.</p> <p>2. Affordable Care Act (2010)</p> <p>3. The number of people with private health insurance is expected to decrease in 2020.</p> <p>4. Coronavirus Aid, Relief, and Economic Securities (CARES) Act (March 2020)</p>	<p>1. This Act provided additional coverage options and cost savings, particularly to Seniors. The impact was lower prices paid by consumers, resulting in an increase in the use of pharmaceuticals/demand for retail pharmacy products.<sup>26</sup></p> <p>2. The ACA extended health insurance coverage to millions of previously uninsured Americans and required all Americans to have healthcare coverage. The Act prevented insurance companies from denying coverage to individuals with pre-existing conditions and reduced “out-of-pocket” costs such as deductibles and copays at doctors’ offices or for prescription medications.<sup>27</sup> The impact of this was an increase in consumer access to retail healthcare services and an increase in industry sales.<sup>28</sup> However, this can also reduce margins for pharmacies, since they are subject to</p>

<sup>25</sup> “Pharmacists and Scientists can Take the Lead in Reducing the Environmental Impact of Medicine”, 2015, Retrieved From <https://www.pharmacytimes.com/news/pharmacists-and-scientists-can-take-the-lead-in-reducing-the-environmental-impact-of-medicines>

<sup>26</sup> “Medicare Prescription drug, Improvement, and Modernization act of 2003”, 2003, Retrieved From <https://georgewbush-whitehouse.archives.gov/news/releases/2003/12/20031208-3.html#:~:text=Today%20the%20President%20signed%20into,drug%20benefits%20and%20more%20choices>

<sup>27</sup> “Understanding the Affordable Care Act”, *Will Kenton*, 2020, Retrieved From <https://www.investopedia.com/terms/a/affordable-care-act.asp#:~:text=The%20Affordable%20Care%20Act%E2%80%94also,to%20millions%20of%20uninsured%20Americans.&text=Lower%2Dincome%20families%20can%20qualify,credits%20and%20cost%2Dsharing%20reductions.>

<sup>28</sup> *Retail: Drugstores in the U.S. 2020*. (2020, January). Retrieved October 25, 2020, from <https://www-statista-com.proxy.lib.umich.edu/study/15814/industry-report--health-and-personal-care-stores/>.



			<p>set reimbursement prices for drugs by the government.</p> <p>3. As private health insurance coverage increases, the number of people who can afford medication also increases. Since coverage is expected to decrease, this could have a negative impact on demand and industry revenues.<sup>29</sup></p> <p>4. This act provided funds to households and businesses suffering during COVID-19, and the Paycheck Protection Program provided significant assistance to small or local operators in the retail healthcare industry<sup>30</sup></p>
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Please highlight 3 significant trends from the table above and the likely impact for firms in the industry from the table above in 150 words or less:

One trend that has impacted this industry is the rise of GoodRX. GoodRX increases customers' price sensitivity. It does this by providing price comparisons for medications across many companies. This has the effect of increasing intra-industry rivalries as consumers are able to directly compare competitors.

Another trend is that retail healthcare stores were allowed to remain open during COVID-19. As these businesses continue to provide access to preventative products like face masks, revenues are expected to grow. Retail healthcare locations have also gained business due to an increase in the use of flu vaccines. Once a vaccine for COVID-19 is available, that will also lead to an increase in revenues.

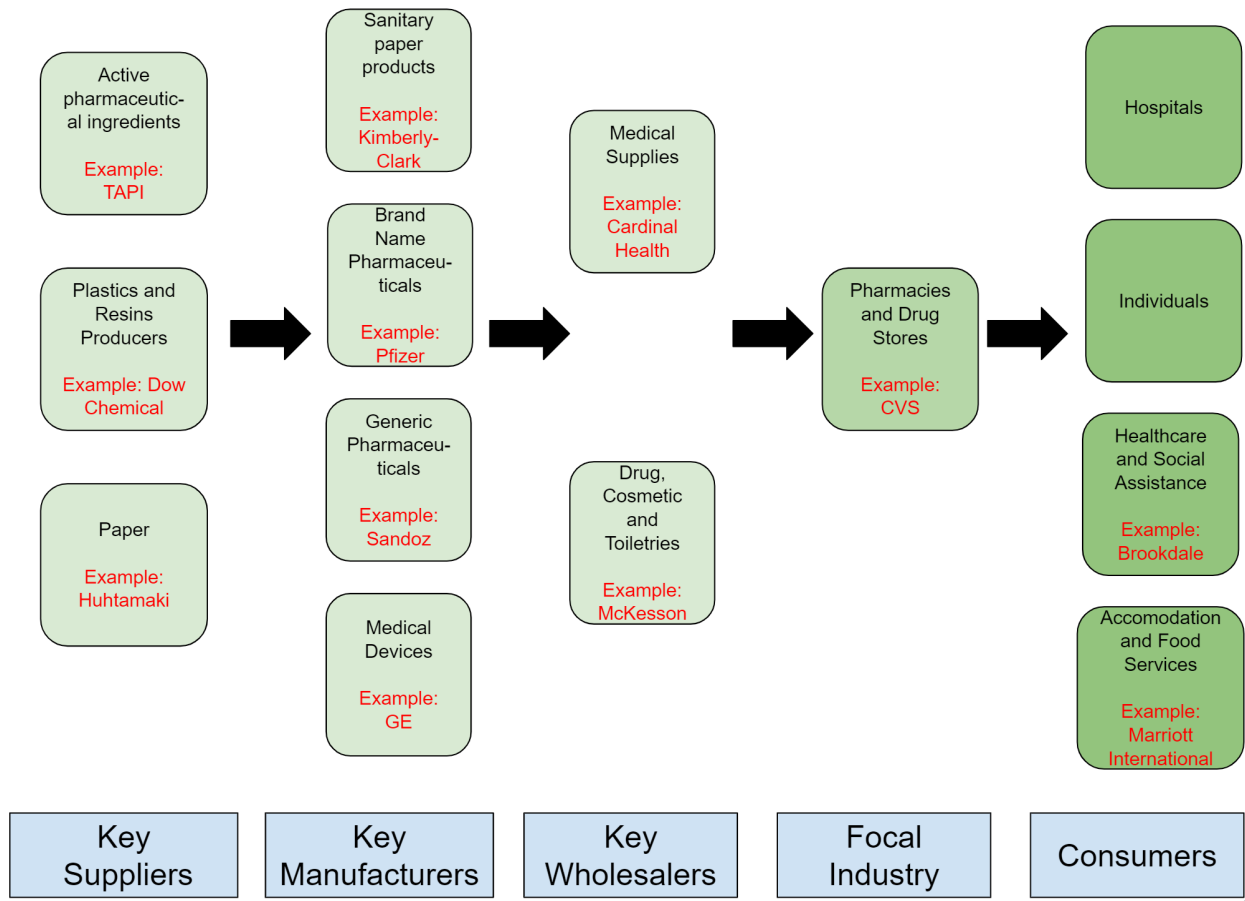
A third significant trend is the long-term rise in life expectancy in America. Older people face a general decline in health, so an increasingly older population requires more health services and therefore creates more demand in the retail pharmacy industry.

<sup>29</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", pg 11, Retrieved From <https://my.ibisworld.com/download/us/en/industry/1054/1/0/pdf>

<sup>30</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", pg 52, Retrieved From <https://my.ibisworld.com/download/us/en/industry/1054/1/0/pdf>

## Exhibit B

A Visual Representation of the Industry System (Diagram)  
(The flow of suppliers, industry incumbents, buyers, and other relevant influencers)



Other factors that directly impact the Pharmacy and Drug Store industry's success are the number of people with private health insurance, per capita disposable income, number of adults aged 65 and older, number of physician visits, and federal funding for Medicare and Medicaid.<sup>31</sup> Likewise, pharmacy benefits managers (PBMs) significantly affect the industry as they can exert

<sup>31</sup> Lombardo, C. (2020). M Weblogin. *Pharmacies & Drug Stores in the US*.  
<https://my-ibisworld-com.proxy.lib.umich.edu/us/en/industry/44611/about>

significant influence on the pricing and delivery of drugs.<sup>32</sup> Caremark, by CVS, is the PBM with the largest market share.<sup>33</sup>

### Exhibit C

#### Analysis of the Retail Healthcare Industry

	Structural analysis	Who / What are they? <i>Sourced from IBIS Industry Report</i>	Power according to IBIS	Power according to you	Rationale for your conclusion based on methodology taught in class. Please use data (not from IBIS) to support your reasons and cite using endnotes
1	Barriers to Entry	<ul style="list-style-type: none"> <li>● Incumbents have favorable distribution networks and supply-side contracts with pharmaceutical manufacturers <ul style="list-style-type: none"> <li>○ low cost is passed down to the consumer</li> </ul> </li> <li>● economies of scale</li> <li>● High Capital requirements: <ul style="list-style-type: none"> <li>○ establishing a store in areas of high foot</li> </ul> </li> </ul>	Medium/increasing	High	<ul style="list-style-type: none"> <li>● Supply Side Economies of Scale <ul style="list-style-type: none"> <li>○ Large chains are able to control prices and decrease overhead costs by better utilizing delivery, storage, and transport capabilities<sup>36</sup></li> <li>○ Private label products and generics allow CVS, Walmart, Rite Aid to increase their margins</li> </ul> </li> <li>● Restrictive Government Policy: the industry is subject to federal and state laws that make retailing</li> </ul>

<sup>32</sup> Gosalia, R. (2011). CVS Caremark Part I: Industry and Business Analysis. *CVS Caremark Part I: Industry and Business Analysis*. <https://www.gurufocus.com/news/129153/cvs-caremark-part-i-industry-and-business-analysis>

<sup>33</sup> Paavola, A. (2019). Top PBMs by Market Share. *Becker's Hospital Review*.

<https://www.beckershospitalreview.com/pharmacy/top-pbms-by-market-share.html>

<sup>36</sup> *Retail: Drugstores in the U.S. 2020*. (2020, January). Retrieved October 25, 2020, from

<https://www-statista-com.proxy.lib.umich.edu/study/15814/industry-report--health-and-personal-care-stores/>.

		<p>traffic is costly<sup>34</sup></p> <ul style="list-style-type: none"> <li>First Mover Advantage: Potential industry entrants will compete with current pharmacies and drug stores having a range of locations, which will cause potential industry entrants to struggle to develop a market presence in an already saturated market.<sup>35</sup></li> </ul>			<p>certain products subject to stringent regulations.</p> <ul style="list-style-type: none"> <li>licensing for prescription drugs</li> <li>U.S. and the rest of the world have different drug regulations, which restricts the drug export<sup>37</sup></li> <li>Industry consolidation: <ul style="list-style-type: none"> <li>Consolidation will allow already established firms to have larger operations, increase their purchasing power to utilize low-cost pharmaceuticals from brand-name and generic drug makers and have better advertising.<sup>38</sup></li> </ul> </li> </ul>
2	Threat of Substitutes	<ul style="list-style-type: none"> <li>Supermarket chains</li> <li>mass merchandisers</li> <li>online retailers</li> </ul>	High	High	<ul style="list-style-type: none"> <li>Number of drugs that are over the counter are increasing, which are available at lots of different places<sup>39</sup></li> </ul>

<sup>34</sup> US INDUSTRY REPORTS (NAICS) PHARMACIES & DRUG STORES. (n.d.). Retrieved October 26, 2020, from <https://clients1-ibisworld-com.libproxy.bus.umich.edu/reports/us/industry/competitivelandscape.aspx?entid=1054>.

<sup>35</sup> US INDUSTRY REPORTS (NAICS) PHARMACIES & DRUG STORES. (n.d.). Retrieved October 26, 2020, from <https://clients1-ibisworld-com.libproxy.bus.umich.edu/reports/us/industry/competitivelandscape.aspx?entid=1054>.

<sup>37</sup> *Retail: Drugstores in the U.S. 2020*. (2020, January). Retrieved October 25, 2020, from <https://www-statista-com.proxy.lib.umich.edu/study/15814/industry-report--health-and-personal-care-stores/>.

<sup>38</sup> US INDUSTRY REPORTS (NAICS) PHARMACIES & DRUG STORES. (n.d.). Retrieved October 26, 2020, from <https://clients1-ibisworld-com.libproxy.bus.umich.edu/reports/us/industry/competitivelandscape.aspx?entid=1054>.

<sup>39</sup> US INDUSTRY REPORTS (NAICS) PHARMACIES & DRUG STORES. (n.d.). Retrieved October 26, 2020, from <https://clients1-ibisworld-com.libproxy.bus.umich.edu/reports/us/industry/competitivelandscape.aspx?entid=1054>.

		<ul style="list-style-type: none"> <li>● mail-order pharmacies</li> <li>● supercenters/ware houses</li> </ul>			<ul style="list-style-type: none"> <li>○ “Average annual expenditure on nonprescription drugs per consumer unit in the US from 2007 to 2019 has grown by 77.3%”<sup>40</sup></li> <li>○ For 2019, it is estimated that OTC sales in the United States grew to an estimated 32.2 billion U.S. dollars.<sup>41</sup></li> <li>● New companies that deliver prescriptions at customer’s door (capture younger consumers) <ul style="list-style-type: none"> <li>○ Other drug retail outlets include supermarkets, and online pharmacies, which offer mail-order drugs to customers, which provides convenience for those who can’t leave the house, especially for the elderly during the pandemic<sup>42</sup></li> <li>○ The pharmacy market recently saw some impactful changes, especially with the growing impact of online</li> </ul> </li> </ul>
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<sup>40</sup> Drug store/pharmacy market in the U.S. (2020). Retrieved from <https://www-statista-com.proxy.lib.umich.edu/study/14333/drug-store-pharmacy-market-in-the-us-statista-dossier/>.

<sup>41</sup> Drug store/pharmacy market in the U.S. (2020). Retrieved from <https://www-statista-com.proxy.lib.umich.edu/study/14333/drug-store-pharmacy-market-in-the-us-statista-dossier/>.

<sup>42</sup> Drug store/pharmacy market in the U.S. (2020). Retrieved from <https://www-statista-com.proxy.lib.umich.edu/study/14333/drug-store-pharmacy-market-in-the-us-statista-dossier/>.

					<p>pharmacies around the world.</p> <ul style="list-style-type: none"> <li>• Big Box Stores featuring pharmacies, like WalMart and Costco instestify industry rivalry, and threaten the growth of traditional pharmacies like Walgreens and CVS<sup>43</sup></li> </ul>
3	Rivalry	<ul style="list-style-type: none"> <li>• “Consolidation allows key players to have larger operations, increase their purchasing power to leverage low-cost pharmaceuticals from brand-name and generic drug makers and have stronger advertising abilities”</li> <li>• “Highly price competitive: compete on basis of price and product selection”</li> <li>•</li> </ul>	High	High	<ol style="list-style-type: none"> <li>1. the retail healthcare industry consists of three main players and smaller companies, and intensity of rivalry increases when players are numerous or equal in size (main players are similar in size)</li> <li>2. 2020 Industry growth is expected to be -6%<sup>44</sup>, so companies will be forced to steal share from each other to maintain the same market share</li> <li>3. lack of product differentiation, compete based on price</li> <li>4. fixed costs high, marginal costs low (to build locations, marketing, but cost for drug products lower bc of negotiations)</li> <li>5. Main players generally operate in same geographical locations, often times with locations very close together, increasing competition within those regions</li> </ol>

<sup>43</sup> Drug store/pharmacy market in the U.S. (2020). Retrieved from <https://www-statista-com.proxy.lib.umich.edu/study/14333/drug-store-pharmacy-market-in-the-us-statista-dossier/>

<sup>44</sup> Barnes Industry Reports, Pharmacy and Drugstore Industry

4	Buyer Power	<ul style="list-style-type: none"> <li>● OTC/Retail goods consumers</li> <li>● Pharmacy services users <ul style="list-style-type: none"> <li>○ Prescriptions</li> <li>○ clinicals</li> <li>○ specialty advising</li> </ul> </li> </ul>	N/A	<p>Bargaining Power: Low</p> <p>Price Sensitivity: Low</p> <p>Switching costs: High</p>	<p>OTC/ Retail Segment Consumers (buyers of general pharmacy goods):</p> <ol style="list-style-type: none"> <li>1. This group is price sensitive because many OTC drugs like Advil have off brand versions and substitutes that can be found at supermarkets and convenience stores. The same goes for the food and general goods sold at retail pharmacies.</li> <li>2. Switching costs for users getting OTC medication and general healthcare products are low because they are common goods</li> </ol> <p>Pharmacy health services users:</p> <ol style="list-style-type: none"> <li>3. Consumers and organizations that are on a pharmacy's health services plans will face high switching costs because there are time and effort fees for setting up health plans at other pharmacies. This could involve working with the pharmacy and insurance companies to switch or reestablish systems that get your prescriptions delivered by mail.</li> <li>4. Price sensitivity is also low for this group because the health services that retail pharmacies supply aren't easily substitutable and necessary, both for people that use them personally and businesses that use the services. These buyers need their prescriptions and other health services and wouldn't give them up because of an increase in price.</li> </ol> <p>Summary: Most of the retail pharmacy revenues come from their health services segment opposed to their OTC and common goods segment.</p>
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					Because the consumer's of these services face high switching costs and low price sensitivity, they will have lower bargaining power and be representative of the buyer side.
5	Supplier Power	<ul style="list-style-type: none"> <li>• Drug manufacturers</li> <li>• drug, cosmetic, toiletry wholesalers</li> <li>• medical supply wholesalers</li> </ul>	N/A	<p>Bargaining Power for Retail Portion: Low for Drugs: Low/Medium</p> <p>Price Sensitivity: High</p> <p>Switching costs: Low</p>	<p>1. Bargaining power for suppliers is low because the retail healthcare industry is more consolidated than their supplier industries. For "front store categories" such as OTC drugs, cosmetics, and greeting cards, the retail healthcare industry does not overly depend on any one supplier and could easily replace products if one supplier were to cease selling to them<sup>45</sup>.</p> <p>2. Largest group of suppliers in terms of volume are Drug, Cosmetic, and Toiletry Wholesalers. "Drug wholesalers may experience margin pressure on generic drug sales, because pharmacies will be more price sensitive and require bigger discounts to remain competitive" due to expanded Medicaid coverages<sup>46</sup>. This demonstrates that the retail healthcare industry has enough power to cut into the margins of their suppliers instead of their own when facing downwards pricing pressure. However, wholesalers are extremely consolidated, with 53% of</p>

<sup>45</sup> "CVS Costs vs Sales of Supplier Growth", *CSI Market*, Retrieved From [https://csimarket.com/stocks/suppliers\\_glance.php?code=CVS](https://csimarket.com/stocks/suppliers_glance.php?code=CVS)

<sup>46</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", pg 11, Retrieved From <https://my.ibisworld.com/download/us/en/industry/964/1/0/pdf>



					<p>market share occupied by three companies, increasing their bargaining power slightly.<sup>47</sup></p> <p>3. supplier group depends on the retail healthcare industry. One example of this is that Amerisourcebergen Corporation's "long-term contract to supply Walgreens has been the main reason behind the company's growth over the past five years."<sup>48</sup></p> <p>4. For generic drugs, suppliers are not differentiated at all and compete based on price. Companies with brand name drugs have more power because they are the only outlet for those medications. However, name brand drugs do not make up a significant portion of retail healthcare business.</p> <p>5. Supplier groups do not pose viable threat of forward integration</p>
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One reason this industry is unattractive is that there is immense intra-industry rivalry, particularly between the three major players. This rivalry is driven by a multitude of factors, including little product differentiation, slow industry growth, and relatively equal size of the main players causing incumbents to compete based on price. The threat of substitutes is high and growing due to the rise of online drug retailers who offer unparalleled convenience to consumers. The increase in the number of over the counter drugs has contributed to both rivalry and substitutes, since big box retailers and supermarkets are able to sell these products in their locations. Since it is difficult to differentiate products and services within the retail healthcare industry, establishing cost-leadership is critical to success in this industry.

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<sup>47</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", pg 11, Retrieved From <https://my.ibisworld.com/download/us/en/industry/964/1/0/pdf>

<sup>48</sup> "IBIS Drug, Cosmetic, and Toiletry Wholesalers Industry in US", Retrieved From <https://my.ibisworld.com/download/us/en/industry/964/1/0/pdf>

## Exhibit D

### Three Important Trends at the Industry Level and the Impact of These Trends on the Industry Structure

	Description of Industry Trend	Impact on Industry Structure and incumbents
1	<p>The COVID-19 pandemic has impacted the pharmaceutical industry in numerous ways. One significant change is that numerous biopharma companies and regulators have begun working together in order to develop a COVID-19 vaccine<sup>49</sup>. Also, as a result of COVID-19, many biopharma companies have increased investment in and deployment of home-based health technologies in order to create further value for their companies<sup>35</sup>. Some examples are sensors, monitors, at-home diagnostics, and digital therapeutics<sup>35</sup>. All of these create massive amounts of data that can be used for improving clinical processes, as well as for targeting products to patient populations<sup>35</sup>.</p>	<p>The collaboration among biopharma companies and with regulators has two potential consequences. If only partnerships between biopharma and regulators remain after the pandemic, the drug development and review processes will become more streamlined and the emergence of new drugs will be easier. This will lead to more competition for the suppliers of pharmacies and drug stores, raising the buying power of stores like CVS. However, if partnerships within the biopharma industry persist too, this will raise the supplier power and lower the power of pharmacies and drug stores like CVS.</p> <p>If biopharma companies are successful with their new technologies, they may be able to efficiently target consumers directly. This may be a first step in their forward integration or it may also promote use of direct drug deliveries. Both of which will cause a decrease of power for those in the pharmacies and drug stores industry.</p>

<sup>49</sup> Ford, J., Blair, A., Naaz, B. and Overman, J. (2020). Biopharma leaders prioritize R&D, technological transformation, and global market presence. *Deloitte Insights*.

<https://www2.deloitte.com/us/en/insights/industry/life-sciences/pharmaceutical-industry-trends.html>

2	<p>Over the past decade, the industry has faced increased competition from new substitutes. Walmart, Target, and Hy-Vee are among the prominent discount and supermarket chains that have gained market share in the pharmacy business. Additionally, many regional and national supermarket chains have developed significant pharmaceutical departments.</p> <p>Furthermore, Amazon has entered the market with an efficient online store, changing the way people purchase medicine. This increased competition has forced the industry leaders to adjust.</p>	<p>One of the innovations used to combat non-drugstore competitors is placing health clinics into stores, where nursing practitioners provide health services. To better compete with its digital rivals, CVS and Walgreens have both launched fee-based subscription programs that offer discounts on eligible prescriptions and delivery to members. Another strategy for market leaders like Walgreens and CVS has been the expansion into general merchandise and food fields. Besides that, loyalty programs have become popular ways to capture and retain customers.</p> <p>For gaining cost advantage, firms have also worked closely with manufacturers to offer discount drug programs.<sup>50</sup></p>
3	<p>Over the last five years, the drug store and pharmacy industry has seen heightened competition from both internal and external companies. In order to combat the threat of losing market share, leading drug stores and pharmacies have started to consolidate and acquire smaller players in the space.</p>	<p>Major drug stores and pharmacies are combating competition by becoming “one-stop-shops.” By acquiring companies that provide more niche or specialized equipment and services, such as sleep apnea machines or providing more immunization shots, larger incumbents are able to maintain their dominant market shares. Incumbents such as CVS and Rite Aid have also begun acquiring pharmacy benefit managers, which are responsible for processing and paying prescription drug claims. Overall, these effects have cut smaller drug stores and pharmacies out of the industry, decreasing the number of operants in the industry by 0.6% annually from 2015-2020.<sup>51</sup></p>

<sup>50</sup> Landi, H. “3 Ways CVS and Walgreens Are Trying to Beat Amazon and e-Pharmacy Startups.” *FierceHealthcare*, 4 Feb. 2020, [www.fiercehealthcare.com/tech/3-ways-cvs-and-walgreens-are-revamping-to-compete-amazon-e-pharmacy-startups](https://www.fiercehealthcare.com/tech/3-ways-cvs-and-walgreens-are-revamping-to-compete-amazon-e-pharmacy-startups).

<sup>51</sup> US INDUSTRY REPORTS (NAICS) PHARMACIES & DRUG STORES. (n.d.). Retrieved October 26, 2020, from <https://clients1-ibisworld-com.libproxy.bus.umich.edu/reports/us/industry/competitivelandscape.aspx?entid=1054>.

**Exhibit E**  
Analysis of the Competitors: Key Metrics and Ratios

Metrics / Ratios	Rite Aid (RAD) <sup>52</sup>			CVS Health (CVS) <sup>53</sup>			Walgreens (WBA) <sup>54</sup>		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>Revenue (in Millions)</b>	21,639	21,528	32,845	25,6776	194,579	184,756	136,866	131,537	118,214
<b>Total Debt to EBITDA</b>	6.1597	6.0026	6.4060	4.1863	10.8961	2.2509	2.3161	1.7219	1.7965
<b>Gross Margin</b>	21.61%	22.20%	23.67%	38.19%	19.60%	15.45%	21.97%	23.41%	24.67%
<b>Operating Margin</b>	0.39%	0.60%	1.62%	4.67%	2.07%	5.15%	3.65%	4.88%	4.70%
<b>Return on Assets</b>	-0.53%	9.17%	0.04%	3.17%	-0.41%	6.99%	5.87%	7.49%	5.88%
<b>Cash Ratio</b>	91.27%	84.75%	74.14%	61.51%	65.43%	84.62%	36.35%	38.22%	58.52%
<b>SGA as a % of revenue</b>	21.22%	21.60%	22.05%	13.06% <sup>55</sup>	10.98% <sup>56</sup>	10.30% <sup>57</sup>	18.44%	18.68%	20.08%
<b>Inventory turnover (please use COGS divided by average inventory)</b>	9.24	9.33	9.06	9.35	9.86	9.53	11.30	10.91	9.975
<b>Your choice of measure/ratio that you believe is critical to understanding the competitive landscape</b>	-7.99	0.9	0	5.08	-0.57	6.47	4.31	5.05	3.78

<sup>52</sup> “Home.” *Online Pharmacy and Store*, [www.riteaid.com/corporate/investor-relations/annual-reports](http://www.riteaid.com/corporate/investor-relations/annual-reports).

<sup>53</sup> “Annual Report Archive.” *Investors*, [investors.cvshealth.com/investors/financial-information/annual-reports-archive/default.aspx](http://investors.cvshealth.com/investors/financial-information/annual-reports-archive/default.aspx).

<sup>54</sup> “Financials.” *Walgreens Boots Alliance, Inc. - Financials*, [investor.walgreensbootsalliance.com/financials/default.aspx](http://investor.walgreensbootsalliance.com/financials/default.aspx).

<sup>55</sup> Operating expenses used as a proxy for SG&A expenses.

<sup>56</sup> Operating expenses used as a proxy for SG&A expenses.

<sup>57</sup> Operating expenses used as a proxy for SG&A expenses.

(Diluted EPS)									
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\* Not all firms may have the identical measures for all items. In cases there are some differences, you could base your comparison on the most equivalent measures and indicate the rationale behind your choices.

Most of these ratios are available or can be calculated from the company's annual report / 10K. When reliable ratio information is available, the ratios can be used directly and do not have to be recalculated. Often the annual report has information for three years and the numbers for previous years have been adjusted. For the purposes of our analysis, we need to look at comparative performance at each point in time. Therefore, we need to look at the originally reported numbers by looking at the annual report for each year. You may color cells to indicate excellent or weak performance.

What is your interpretation of the competitive landscape using the ratios you have calculated and other ratios you have calculated and other more recent financial and business information? Look across firms to see trends and superior / inferior performance and try to understand what underpins these numbers. Obviously, you cannot analyze every ratio for every year for every firm. So, focus on the most significant sources of variation and the most recent available performance information on these companies (250 words or less).

From the ratios we have calculated, we see that every company experienced an increase in revenue. Walgreens key metrics and ratios have remained consistent across all three years. Both CVS and Rite Aid experienced some negative net income throughout the years. Also, CVS's growth margin has improved every year. However, CVS's EBITDA decreased by almost half from 2018 to 2019, and also had negative net income in 2019. We chose to look at the diluted earnings per share as our key metric of choice. This is a key metric for shareholders and investors, because they want to see the company earning positive net income each year, which translates to increased share prices. Public companies like CVS, Rite Aid, and Walgreens all work on a quarterly basis to impress their shareholders, and EPS is a key metric that investors use. The volatility of Rite Aid's and CVS's EPS is not a great sign for potential investors, and could deter them from investing. Overall, it is clear that Walgreens has been the most consistent company from 2017 to 2019. This is indicative of a competitive advantage because Walgreens is able to remain ahead of their competitors in terms of multiple metrics. Additionally, this consistency would make investors more likely to choose Walgreens over CVS and RAD which would further propel their competitive advantage.

## Exhibit F

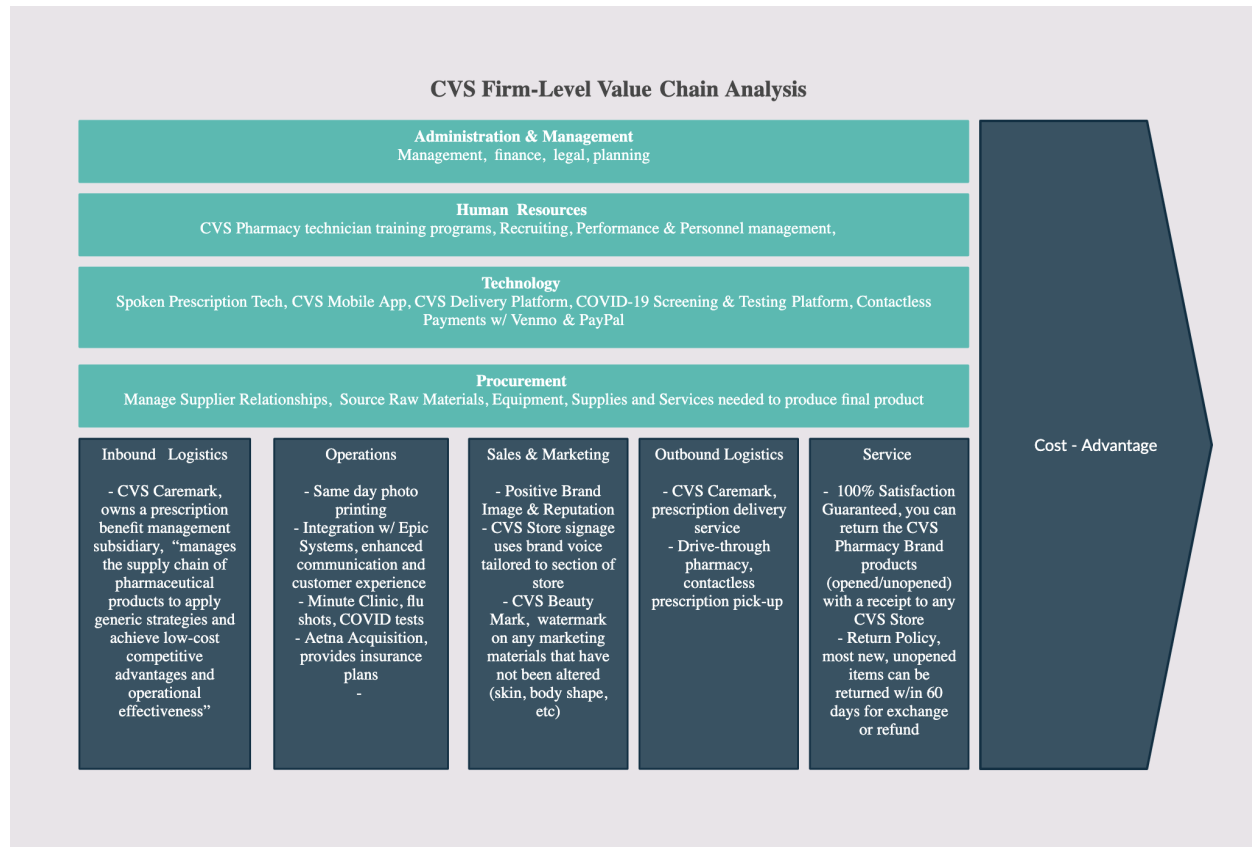
A visual representation of the Firm Level Value Chain  
(The activity choices of the firm)

Analyze the activity choices of the focal firm. Which activities are the sources of competitive advantages or disadvantages? You could highlight activities that the focal firm does well or its unique activities in green text, activities that are a source of parity **bolded**, and the ones where the firm has a competitive disadvantage in red text (150 words or less).

A source of competitive advantage for CVS Health is their **Prescription Benefits Management subsidiary CVS Caremark**. Caremark aggregates buyer power to negotiate higher rebates from pharmaceutical manufacturers resulting in lower prescription costs, widening their margins. These lower prices are partially passed on to CVS customers, increasing the quantity of purchases and generating more revenue. **CVS' ownership of Aetna** furthers its cost leadership and savings strategy. CVS will work with its customers to set up Aetna plans and guide them to living healthier lives with the long-term goal of reducing the insurance payments that Aetna covers.<sup>58</sup> CVS will use data analytics collected from their own records and Aetna's to provide more accurate healthcare plans based on each client's needs. Neither Walgreens or Rite-Aid own health insurers. Walgreen's has a partnership with the company Humana and Rite Aid has no presence in the health insurance industry.

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<sup>58</sup> "Why the CVS-Aetna Merger Will Disrupt Retail Pharmacy Strategy and Healthcare Delivery", *Karen Tam and Jeff Anderson*, 2019,  
<https://www.gehealthcare.com/article/why-the-cvs-aetna-merger-will-disrupt-retail-pharmacy-strategy-and-healthcare-delivery>



### Exhibit G

#### Firm level analysis of Resources and Capabilities

<b>Resource / Capability / Activity</b>	<b>Valuable? Yes / No? Why</b>	<b>Rare? Yes / No? Why</b>	<b>Costly to imitate / substitute? Yes / No? Why</b>	<b>Organized to exploit? Yes / No? Why</b>	<b>Isolating mechanisms if any</b>	<b>Competitive implication (Parity, temporary advantage...)</b>
Partnerships with Walmart, American Cancer Society, etc. <sup>59</sup>	Yes. Partnerships with these organizations expands their reach and improves their image.	Yes. These organizations only choose specific and few brands to partner with.	Yes. It takes time and success to be recognized as a potential partner with these companies.	Yes. Relationships between executives play a large role in partnerships like this.	Legal contract.	Sustained Competitive Advantage.

<sup>59</sup> National partnerships. (n.d.). Retrieved December 01, 2020, from <https://cvshealth.com/social-responsibility/our-giving/national-partnerships>

CVS Brand Reputation	Yes. Their logo is instantly recognizable due to their numerous locations and reliable services.	Yes. With 3 major pharmacies, it is a great accomplishment to be such a recognizable company in a highly competitive and fragmented industry.	Yes. Growing such a large brand takes a lot of time, effort, and capital.	Yes. Execution by management to grow into such a recognizable brand is key.	Time Compression Diseconomies, Social Complexity, Causal Ambiguity	Sustained Competitive Advantage.
CVS Patents <sup>60</sup>	Yes. These patents allow CVS to sell specific products other pharmacies can't such as their child-resistant bottle caps.	Yes. Only CVS has access to these items.	Yes. The patents they have make sure other pharmacies can't imitate them.	Yes. These patents are long term, and prevent other organizations from copying their products.	Legal Patents.	Sustained Competitive Advantage.
Supplier Relationships & Contracts <sup>61</sup>	This allows CVS to source their products at a lower cost.	Yes. CVS's size puts them in a unique position to negotiate and build lasting relationships with suppliers, which smaller	Yes. Only an established pharmacy such as CVS can create strong relationships with their suppliers.	Yes. Having these relationships creates lower costs for CVS products.	Economies of Scale, Time Compression Diseconomies	Sustained Competitive Advantage.

<sup>60</sup>(2020, July). Retrieved November 30, 2020, from <https://www.cbinsights.com/investor/cvs-caremark-patents>

<sup>61</sup> "IBISWorld Report", Retrieved From <https://my-ibisworld-com.libproxy.bus.umich.edu/us/en/industry/44611/major-companies>



		pharmacies cannot do as effectively.				
Trained Employees/Pharmacists <sup>62</sup>	Yes. Customer service and knowledgeable pharmacists are very important in the healthcare retail industry.	No. Competitors have access to similar levels of talent and also have the ability to steal talent from CVS.	No.	No.	-	Competitive Parity.
Distribution Network <sup>51</sup>	Yes. For a company as large as CVS efficient distribution plays a big part in keeping costs low.	Yes. Not many companies have the ability to have such a wide spanning and consistently strong network.	Yes. Requires a lot of capital investment and time to build up to a beneficial scale.	Yes. Networks are built to maximize customers' relationships with CVS.	-	Sustained Competitive Advantage.
CVS Retail Locations <sup>63</sup>	Yes. Being in populated locations promotes brand recognition and overall profit from increased foot traffic.	Yes. Only a certain number of prime properties are available in terms of retail space in big cities.	No. Competitors have the opportunity to buy similar spaces as they become available.	No.	-	Temporary Competitive Advantage.

<sup>62</sup> "VRIO Analysis of CVS Health", Zachary Edwards, 2018,  
<https://www.case48.com/vrio-analysis/12614-CVS-Health>

<sup>63</sup> "CVS's Business Model" Daniel Anderson, 2019,  
<https://www.rancord.org/cvs-business-model-generic-competitive-intensive-growth-strategies>

CVS Caremark (Pharmacy Benefits Manager Entity) <sup>64</sup>	Yes. Having a PBM increases the number of customers that can purchase the pharmaceutic als at CVS.	Yes. The top 3 PBMs own 80% of the US market share. CVS is the only pharmacy that owns one of these top three PBMs.	Yes. The top 3 PBMs own about 80% of the market share.	Yes. This allows more customers , so more products sold, allowing CVS to maintain price leadership . Also, CVS achieves cost effectiven ess by aggregatin g bargainin g power against the pharmace utical companie s.	Time compression diseconomie s and virtuous cycle.	Sustained Competitive Advantage.
Aetna Acquisition <sup>65</sup>	Yes. CVS will combine it's clinical and healthcare services to encourage Aetna client's to live healthier lives. This will cause Aetna to pay	Yes. CVS is the only drug store in the US to own an insurance company.	Yes. expensive to acquire and would take significant time and money to create.	Yes. CVS is efficiently integratin g this acquisitio n with what they currently have. The fact that CVS health	Time compression diseconomie s and virtuous cycle.	Sustained Competitive Advantage.

<sup>64</sup> "PBM FAQs." Pharmacists United for Truth and Transparency, Truthrx, 2018, [www.truthrx.org/pbmfaqs.html](http://www.truthrx.org/pbmfaqs.html).

<sup>65</sup> US INDUSTRY REPORTS (NAICS) Health & Medical Insurance in the US. (n.d.). Retrieved November 27, 2020, from <https://my-ibisworld-com.libproxy.bus.umich.edu/us/en/industry/52411b/major-companies>

	less medical fees for its clients (because hopefully less medical attention will be required)			services and Aetna work together to lower Aetna's coverage costs means CVS is organized well to exploit this		
Technology (Mobile App, Website, Delivery service)	Yes. It allows CVS to serve a wider range of customers.	No. This kind of technology is not differentiated and is common within the industry.	No.	No.	-	Competitive Parity.
Significant Free Cash Flow <sup>66</sup>	Yes. This increases their liquidity, which allows them to acquire other companies, payout dividends, invest in the company, or increase salaries.	Yes. CVS has one of the highest free cash flows in the industry.	Yes. Companies would have to change their operational strategy or spending to achieve this.	Yes. The ability to successfully acquire companies has allowed CVS to maintain cost leadership.	Path Dependence	Sustained Competitive Advantage.
Minute Clinics	Yes. Brings more customers to the store. One-stop-shop.	No. Many others in the industry have clinics as well.	No.	No.	-	Competitive Parity.

<sup>66</sup> Elliot, Sean, and Taylor VanFleet. "CVS Health Corporation (NYSE: CVS)." *Smf.business*, 2017, [smf.business.uconn.edu/wp-content/uploads/sites/818/2017/04/CVS-Report.pdf](http://smf.business.uconn.edu/wp-content/uploads/sites/818/2017/04/CVS-Report.pdf).

One significant source of competitive advantage for CVS is their distribution network. Having a strong distribution network provides an advantage in terms of overall profitability and customer satisfaction. This advantage is sustainable because of the time and capital it takes to establish such a distribution system. Another source of CVS's competitive advantage is their strong brand recognition, bringing in additional customers. CVS is the largest pharmacy in the United States, with the most locations, making their products accessible to a larger population. CVS's Caremark business adds to its sustainable competitive advantage by increasing CVS's buyer power with pharmaceutical companies, passing on lower drug prices to CVS's customers. Finally, CVS's size allows them to more effectively negotiate with their suppliers, further contributing to lower input costs, resulting in CVS's cost leadership within the industry.