



Walgreens: Strategic Evolution¹

America's largest drugstore chain, Walgreens, had 8,210 locations by 2011, including 7,761 drugstores. Almost 75 percent of Americans lived within five miles of a Walgreens pharmacy, and more than 6 million customers were served each day. Walgreens issued more than 800 million prescriptions annually, representing 20 percent of the U.S. market. Its online business, Walgreens.com, had almost 17 million visitors per month. Walgreens' strategy had evolved for more than a century in business. By 2012, the company faced a number of major strategic questions, including international expansion and a changing health care environment.

History of Pharmacy²

People have been trying to create remedies for illnesses and ailments since the beginning of time, but most historians credit Babylon with the first organized apothecary. This was followed by the Romans, who created a system of pathology and therapy that became standards for Western medicine for more than 1,000 years.

For the most part, though, pharmacy remained a sketchy and shadowy business for centuries, practiced by (among others) witch doctors and alchemists. Advances in medicine and the Renaissance era led to more structured and scientific approaches. In 1240, German Emperor Frederick II issued a proclamation establishing the practice of pharmacy along three tenets: (1) separation of the pharmaceutical profession from the medical profession; (2) official supervision (regulation) of pharmacy; and (3) "obligation to prepare drugs reliably, according to skilled art, and in a uniform, suitable quality."³ Public pharmacies and university training began spreading throughout Europe.

¹ This case was written by John S. Strong, CSX Professor of Finance and Economics, Mason School of Business, College of William and Mary (USA). The early history of Walgreens is drawn heavily from two sources: John U. Bacon, *America's Corner Store: Walgreens' Prescription for Success*, (Hoboken, NJ: John Wiley and Sons, 2004), and H. Kogan and R. Kogan, *Pharmacist to the Nation*, (Deerfield, IL: Walgreen Co., 1989).

² This section is drawn heavily from Bacon, op cit., and also from D. Drake and M. Uhlman, *Making Medicine, Making Money*, (Kansas City: Andrews and McMeel, 1993).

³ Bacon, p.16.

In early America, though, these practices were slower to take root. Through colonial times, anyone could call himself a pharmacist and practice how he saw fit. In much the same way that blacksmiths often doubled as dentists, many printers practiced pharmacy as well; Benjamin Franklin was a pharmacist selling everything from medicines to snake root.

The 19th century proved to be the beginning of a new age for health sciences. In 1820, a physician named Lyman Spalding led the production of the first *American Pharmacopoeia*, a reference of all known drugs and how to prepare them. The professionalization of pharmacy accelerated after the Civil War, with many pharmacy boards, associations, and university programs established. These government, industry, and education programs proved helpful in establishing professional standards and practice, and worked to keep some of the seedier elements out of the field.

By the late 1800s, pharmacy in America was growing rapidly, with broad attempts at licensing and regulation. Because there were many more pharmacists than doctors, they came to be known for offering practical, proven advice to the general population about medicines and treatment. This was especially true in rapidly growing cities such as Chicago, which had 1,500 pharmacies by the late 1880s.

Charles R. Walgreen and the Beginning of Walgreens Drug Stores⁴

The son of Swedish immigrants, Charles Walgreen was born in 1873 and grew up in Rio and Dixon, Illinois, small towns in the heart of the American Midwest. After a year at Dixon Business College, he began a series of short-lived jobs. He left an early job as a bookkeeper in a general store because he soon realized that his daily work would hardly change. Years later, he recalled the lesson from this experience, “that if you don’t give your employees a chance to advance, you’ll lose them ... and that opportunities should be based on ability, not merely on longevity.”⁵

Walgreen went on to work a series of jobs in Dixon in the 1880s, the last as a clerk in Horton’s Drug Store for \$4 a week. Although Charles was initially apprehensive about waiting on customers, he quickly discovered it was the best part of the job and learned that genuinely friendly, helpful customer service not only was good for business but also made work more enjoyable. However, even this job lasted only a year and a half, as Charles got into a disagreement with Mr. Horton. Walgreen left Dixon in 1893 with \$20 in his pocket, to seek more opportunities in the booming big city of Chicago.

Having worked at Horton’s, Walgreen immediately found work as a drugstore clerk in Chicago. He spent the weekend celebrating, spending the entire \$20 and having to ask his new employer for a salary advance on his first day of work. Walgreen was clearly embarrassed by this situation; his wife, Myrtle, later wrote, “The experience must have made an impression on him ... because I never remember a single time he took on

⁴ See Bacon, op cit., for a more extensive discussion of this period.

⁵ Bacon, p.5.

anything, either in business or pleasure, that he didn't know ahead of time he could pay for."

Walgreen drifted from one pharmacy job to another, which exposed him to many methods of running a drugstore, and to a variety of neighborhoods and customers. By 1896, Walgreen had settled at Valentine's Drug Store on Chicago's rough-and-tumble South Side. Valentine began mentoring the young man, and, a year later, Walgreen had passed the required Illinois examinations and become a registered pharmacist. This meant that for the first time, Walgreen was free to own and operate his own pharmacy.

Before he could do so, the Spanish-American war broke out, and Walgreen immediately enlisted. His pharmacy background led the Army to put him in hospital service, where he contracted both yellow fever and malaria and was near death. Once he recovered, he returned to civilian life in 1898 with a more focused and determined sense of purpose.

He was hired as a clerk at Isaac Blood's pharmacy, a small (1,000-square-foot), dark and dingy building lit by dangerous gaslights, with cracked and dirty tile floors. In time, Walgreen assumed more responsibilities, and eventually approached Blood about buying the pharmacy. Blood said his minimum price to sell was \$4,000. Two years later, when Walgreen had saved that amount, Blood told him the price was now \$6,000, but offered Walgreen joint ownership converting to full ownership once Walgreen had paid the additional \$2,000. Charles and his new wife, Myrtle, then set out to buy out Blood as soon as possible, a process that took until 1907.

Walgreen set out to completely refurbish the Blood Pharmacy. He installed electric lights, replaced the flooring, widened the aisles, and added a new front awning, displaying the words, Drugs and Surgical Dressings. He was vigilant about the quality, value, and variety of the products he displayed on his shelves. He also made sure that every customer was cheerfully greeted by him or his employees when he or she walked in.

Since pharmacies at that time produced medicines on sight, Walgreen felt that this store and service environment would differentiate his pharmacy from the rest. As an example:

"While other proprietors required customers to walk to their stores and wait for the pharmacist to get to them in due time, Walgreen encouraged his patrons to call their orders in. He developed an impressive routine he called the Two Minute Drill. When a customer called, Walgreen would repeat the customer's name, address and order as he wrote them down; then he would quietly pass the slip to his assistant, Caleb Danner. Walgreen would then keep the customer on the phone while discussing the weather or sports while Danner collected the items, dashed over to the customer's house, and knocked on the door. The customer would tell Walgreen that someone was at the door, find Danner there with their order, and then come back to the phone and ask Walgreen, 'Just how you did that?' " This trick helped spread the word that Walgreens was a cut above the competition.

In late 1907, Valentine approached Walgreen with the opportunity to buy his flagship store for \$15,000. This would be a huge step, since there were only a few operators with more than one pharmacy. As his son, Chuck, wrote later, “To make a down payment on the second store, Dad had to sell half-interest in the first store, which he had just paid off. His friends advised against it. ‘Chicago has too many drugstores already,’ they warned. And Dad said, ‘Chicago may have too many drugstores, but it hasn’t enough Walgreens drugstores.’ ”

This second store was the beginning of a new strategy of chain drug stores. The new store served as a laboratory for trying out soda fountains and lunch counters, for handsome window displays and glass cases, for expanding the merchandise offer (including his private brands of coffee, and as a training ground for Walgreens employees. With its roots in seltzer water as a medicinal aid, the soda fountain had its origins in the hot Southern part of the United States, but Walgreen felt that they could play a key role in Chicago as well. He acquired the property next to his second store, cut an archway door and built a soda fountain and café with a marble counter and booths and tables. The fountain area gave the whole store a style different than other drugstores, one that Walgreen felt was one of the best business-building assets a drugstore could have.

By 1912, the three Walgreens stores each had a professional pharmacy, a soda fountain and popular lunch service, and skilled ambitious employees who were paid better than at competing drugstores. Walgreens was the first pharmacy to have an open pharmacy area with half-height partitions, so that customers could observe pharmacists at work. The drugstores were staffed by young workers who would become Walgreen’s senior executives during the next decades. With this success and the booming Midwestern work ethic and optimism of Chicago, it was felt that anything was possible if you were willing to work hard for it. The company grew from five stores in 1915 to 19 by 1919, all at densely populated intersections on the city’s South Side. This growth placed large demands on management, and made the company realize that the post of store manager was the most crucial to the company’s success. From the beginning, Walgreen encouraged his store managers “to think of themselves as independent retailers with a large and worthwhile organization behind them.” When the company opened a new store, it would begin with a veteran manager but once it was started, it would be turned over to a younger person with high potential. To give managers a stronger sense of ownership in their stores, from the start Walgreens gave managers bonuses based on their store’s profits, with which they were strongly encouraged to buy Walgreen stock.

In 1921, Walgreens opened its first location in Chicago’s city center (known as the Loop). The pharmacy gave the chain credibility, while the soda fountain was the heart of the business, which became even clearer when Pop Coulson invented the milkshake which became a Chicago tradition.⁶

⁶ In 1922, Walgreens employee Ivar “Pop” Coulson made a milkshake by adding two scoops of vanilla ice cream to the standard malted milk drink recipe (milk, chocolate syrup, and malt powder). This item, under the name, Horlick’s Malted Milk, was featured by the Walgreens drugstore chain as part of a chocolate milk shake, which itself became known as a malted or malt and became one of the most popular soda-fountain drinks. See <http://www.highlandparksodafountain.com/content/fun-4.pdf>.

Customer service also got much of Walgreen's attention. In the company newsletter in 1923, he wrote, "The business of handling displeased customers is simply a matter of a little tact and a lot of common sense ... even if the customer appears to be wrong, explain your side of the matter, but be willing to make an exchange or adjustment, at the expense of the store. Such expense will amount to nothing as compared with the goodwill created." This policy not only helped customer relations, but also made employees feel that he or she was valued and trusted to make decisions without first consulting the boss or filling out forms.

From 1920 to 1925, Walgreens expanded from 20 to 65 stores, expanding from Chicago into other Midwestern cities, including St. Louis and Milwaukee. During that time, a professor from the University of Chicago, James McKinsey, had one of his students, Robert Knight, undertake a comprehensive study of the new development of chain stores with Walgreens as the detailed case study. (McKinsey would leave the university a few years later to found the now famous consulting firm.) The Knight Report, as it became known, provided a detailed look into Walgreens operations and strategy; subsequently, Knight was hired as controller and served in executive roles at Walgreens for 35 years.

Knight found that while there was much more store-level autonomy at Walgreens, there also was constant communication between the central office and the stores to ensure consistent presentation. Knight also noted the practice of its senior executives to visit stores regularly, to "visit, share, and monitor."

In contrast, there was much emphasis on centralized purchasing and marketing activities. Knight believed the purchasing department was at the cutting edge of practice. Jim Ward oversaw the development of centralized purchasing that bought about 90 percent of store merchandise, much of it handled through the company's warehouses. Another innovation, quite at odds with the times, was Ward's practice of purchasing merchandise in smaller quantities. While this limited volume discounts, Ward believed that any cost reductions would be lost by the company being stuck with outdated stock, too much capital tied up in inventory, and overburdened warehouses (which already were feeling the pain of Walgreens' expansion. Ward's methods also reduced the need for clearance sales, which Walgreens felt was "an admission of bad merchandising strategy."

Walgreens always had been a firm believer in advertising—it consistently spent 2-3 percent of sales in newspaper ads—about twice what other chain stores spent. The ads focused on merchandise and prices; not customer service. Walgreen noted, "Do not talk about service; let it speak for itself." The company also paid more attention to window displays and visual merchandising, with a dedicated team for the task. This was facilitated by the company's adoption of a relatively standard store layout and size of approximately 2,000 square feet (including pharmacy, store, and soda fountain). Walgreens also became the first drugstore chain to advertise on the radio, sponsoring popular shows across the country.

In terms of results, Knight reported that three performance measures were particularly noteworthy. First, the growth in the number of stores had increased from two in 1910 to 20 by 1920, to 65 by 1925. Second, the increase in sales per store, grew from \$30,000 per store in 1916 to \$67,400 in 1920, to \$138,000 in 1925. Third, operating profit margins had grown from 5 to 8 percent during that time.

To fund its accelerating growth, Walgreens went public in 1928, including requiring all employee shareholders to cash in 7 percent of their (previously private) company stock; one soda fountain manager got a check for \$24,000. Charles Walgreen said he felt it was important that one could become wealthy working within a company as readily as if one were self-employed.

By 1929, Walgreens had 397 stores in 87 cities across the country, with \$47 million in revenue and \$4 million in profit. At that time, a New York investment house summarized key factors in Walgreens success: carefully selected locations; clean store layouts with the pharmacy at the rear to drive traffic through the store; attractive displays; powerful marketing; an unusual dedication to customer service; exceptionally strong employee relations and loyalty; and the role the pharmacy played in fostering customer trust and loyalty. (See Table 1 for photographs of early Walgreens stores.)

1929–1945: The Depression and World War II

Like all companies, Walgreens faced unprecedented challenges with the economic collapse of the 1930s. Charles Walgreen sought to reassure his employees about the future. To avoid layoffs, Walgreens cut all wages by 10 percent; senior executives cut their salary by one-third.

During this time, Walgreens began its Agency System, which was aimed at providing independent pharmacies in small markets a means to link into the Walgreens organization. Similar to a cooperative, these pharmacies were given access to more than 1,000 Walgreens products, and operations and merchandising support, in exchange for a relatively small monthly payment. This provided incremental financial benefits to Walgreens, but more importantly extended brand awareness to smaller markets and helped Walgreens identify talented young pharmacists and managers. By 1934, there were 600 Agency stores in 33 states.

Walgreens' growth slowed in the 1930s. While the company ended the decade with 493 stores, it had done so by opening about 200 stores and closing about 100, which created stores with more current layout and design. Also, Charles Walgreen's son, Chuck, led an effort to renegotiate the company's leases, which brought substantial cost savings and help sustain profitability. When Charles Walgreen became ill with cancer in and died in 1939, Chuck Walgreen became CEO, supported by the senior executive team and the board. This was notable because it established the continuing role of the Walgreen family in the business.

During World War II, Walgreens was slowed in opening stores due to shortages of materials. However, the company did keep profit margins stable while the chain's sales grew from \$84 million in 1941 to \$119 million in 1945. The company also submitted the winning bid to operate the pharmacy in the newly constructed Pentagon in suburban Washington (at that time the world's biggest building). The 6,000-square-foot space was 50 percent larger than the handful of SuperStores that Walgreens had built in the late 1930s.

The Postwar Era: 1946–1970

When the war ended, many expected Walgreens to resume its rapid growth. Believing that retail boundaries were blurring, the company made a series of smaller acquisitions of department stores in Mexico and in Houston, and launched optical shops and three chain restaurants. (None of these initiatives were successful, although they remained part of the company for decades.)

However, the company did not expand the number of new drug stores greatly—only about 20 percent during the 30 years that Chuck Walgreen was CEO. Instead, the company devoted its resources to refurbishing, replacing, and expanding the size of its existing outlets, from 4,000 to 6,000 to 8,000 square feet per store. At the same time, breakthroughs in medicine were changing the role and importance of the pharmacy, with more business and profits being driven by the rear of the store. Recognizing the new demands this created for pharmacists, Chuck Walgreen sought to shift the emphasis of the company from retail to pharmacy. He improved pharmacist working conditions and pay, including a share in the store's profits. He also sought to change the relationship with doctors, who were increasingly upset that pharmacists were diagnosing and recommending treatment for customers, a practice known as counter-servicing. After discussions with the American Medical Association, Chuck Walgreen decided that the company would adopt a strict policy against counter-servicing, taking ads out in more than 200 cities announcing that doctors and Walgreens were now “partners in health.” The company also gave 13,000 doctors and dentists courtesy cards, offering discounts on Walgreens merchandise. Partly as a result, the number of prescriptions filled at Walgreens in the same 500 stores rose from 7.5 million in 1962 to 30 million by 1975.

Although each Walgreens store was being renewed and the prescription business was growing, so was the rest of American retailing. By the late 1940s, the advent of self-service retail had taken hold and had become the dominant format for supermarkets. A number of new pharmacy chains, such as Osco Drug, began operation based solely on the self-service model. In contrast, Walgreens' 400 stores were entirely based on clerk service. The company believed that self-service pharmacy was harder than in grocery, because it believed customers would not feel comfortable buying pharmaceuticals without assistance. But, in 1949, while in California to finalize the acquisition of Thrifty, a 200-store, clerk-service pharmacy chain, Walgreens executives visited Sav-On Drugs, a tiny five-store, self-service chain, that was offering much lower prices, greater sales, and lower labor and overhead costs. Chuck Walgreen decided to drop the Thrifty deal and push Walgreens toward the Sav-On model. Walgreens soon realized that new self-

service stores offered a number of benefits. Customers traveled farther and spent more in self-service stores, which opened up opportunities for larger stores in secondary locations. The stores also could be volume driven with much higher profitability.

To achieve this performance, though, store layout, displays, packaging, and checkout all needed to be rethought. The problem, though, was that Walgreens' existing network of clerk-service stores had higher costs and required higher prices than self-service stores. This slowed the adoption of self-service by the company, especially relative to competitors. To make matters worse, drugstores lost the soda fountain and restaurant business to fast food chains in the 1960s. Given its history and standardization, Walgreens was more affected by this development than other drugstores. During this period, Walgreens' internal focus was occurring when other chain drugstores were growing more rapidly, adopting many of Walgreens practices, while adding their own retail innovations.

The result was a drugstore industry led by chains each with regional dominance—Walgreens in the Midwest, Rite Aid in the East, CVS in the Northeast, Revco in the Mid-Atlantic and South, Eckerd in the Southeast, and Rexall Drug franchises in small towns. There also were a number of strong companies in specific markets, such as Long Drugs in southern California and Duane Reade in New York. During this time, many independent drugstores went out of business, while the chains largely concentrated on building dominance in their local or regional markets—with little emphasis on entering each other's markets. The growing pharmacy business and breakthroughs in medicines allowed for growth and profits. As one observer noted, "During this time, the business environment was NOT competitive. Each had his own territory, they all went golfing together, everyone was happy."⁷

By 1970, Walgreens was just one of a number of successful regional drug chains with the same number of stores it had 30 years earlier (although the stores were now larger and self-service). While company sales had increased from \$119 million in 1945 to \$743 million in 1970, this was much slower growth than other chain drugstores. Profits also declined sharply, with profit margins of only 1.2 percent by 1970.

1970–1989: Fixing Walgreens

In 1969, Chuck Walgreen's son, known as Cork, took over as president from his father. The U.S. economy was suffering from a combination of inflation and recession, while the company's long-overlooked internal problems were all too clear. Cork Walgreen brought in a new management team that initially focused its attention on store operations. Customer research found that Walgreens' stores had become "beat up, junky, disorganized, hard to shop, with merchandise clogging the aisles." The company began a major effort at store refurbishment and remodeling. In the process, they learned that many merchandise problems came from an outdated distribution system; sometimes it took two weeks to replenish stores. The company responded by building six distribution centers in the 1970s, laying the groundwork for a much stronger and effective supply

⁷ Bacon, p. 164.

chain established during the 1980s. In addition, the company launched its Intercom system, which installed computers in every store so that the central systems were connected to each store. Every store's pharmacy records now were interconnected, so that customers could access their prescriptions through any Walgreens store.

Cork Walgreen also realized that many legacy decisions were weakening Walgreens core operations. The company divested seven major divisions in 11 years, including the restaurant chains, the department stores, and the food business, including the 500 soda fountains. The company also shut down the 2,000 stores involved in the Agency business, which had first brought Walgreens to small markets. Overall, much of the 1970s and early 1980s involved getting out of legacy businesses and improving the company infrastructure. By 1979, the company had 688 stores, revenues of \$1.34 billion, and profits of \$30.2 million. Although store size and revenues per store had grown, Walgreens had added only 200 stores in 40 years, despite the rapid growth in both the American economy and in pharmacy especially.

After mediocre results with a series of small acquisition in the early-to-mid 1980s, "Walgreens finally concluded that it no longer made any sense to buy someone else's stores and spend all the time, money, and managerial talent to contort the building and its inhabitants to fit the Walgreens mold. They decided it was far better—and faster and cheaper, in the long run—to start from scratch."⁸ Dan Jorndt, who became Walgreens CEO in 1990, noted, "All the drugstores were buying up other drugstores. Rite Aid was buying up everybody, CVS was buying up everybody, Eckerd was buying up everybody."⁹ In contrast, Walgreens sat out the wave of largely debt-financed pharmacy mergers and acquisitions that began in the 1980s, and accelerated during the 1990s.

By the mid-1980s, Walgreens had sorted out its infrastructure, gotten out of secondary businesses, strengthened the balance sheet to the point where there was virtually no long-term debt, and improved profitability significantly. The company was poised to move to a more aggressive growth phase, with store growth accelerating after 1985. Walgreens' expansion was mainly adjacent to existing markets. Company stores were largely the same size, location, and format (in town centers, shopping centers, and malls). The store was 10,000 square feet with about 8,000 square feet of selling space, and was less cluttered than before. These investments brought a number of milestones, including the 1,000th store in 1984, reaching \$4 billion in sales in 1987, and \$5 billion two years later. Walgreens ended the 1980s with 1,484 stores, \$5.3 billion in revenues and \$154 million in profits. However, profit margins remained just below 3 percent of sales, and returns on assets of less than 10 percent. (Summary financial results for 1970–1989 are presented in Table 2.)

1990–2005: A New Growth Strategy

⁸ Bacon, p.198.

⁹ Bacon, p. 198.

By 1990, it was becoming clear that the “just more of the same” was not going to be successful in the long term. The pharmacy/drugstore business was changing in fundamental ways. Demographically, there were more people older than 50; as a result, more prescriptions were being filled each year, making pharmacies a hot commodity. The population aged 65+ was to increase 36 percent from 1980 to 2000; this group averaged seven prescriptions per person compared to an average of 2.3. Prescriptions, which had long been less than 10 percent of Walgreens sales, had risen to 15 percent in 1980, 20 percent by 1985, and 24 percent by 1990.

Consequently, competition became fiercer as other drugstore chains, especially CVS, Rite-Aid, and Eckerd sought to grow through consolidation and acquisition. (See Table 3.) In addition, aggressive discount chains such as Wal-Mart challenged Walgreens’ leading position in prescription drugs. Leading supermarkets chains also brought new competition as they opened in-store pharmacies.

Additionally, managed-care health plans grew increasingly important as the 1990s progressed, putting pressure on drugstores to lower prices on prescriptions, and thereby squeezing margins. Walgreens responded to these challenges by investing heavily in technology and by launching new initiatives aimed directly at taking advantage of the trend toward managed care.

With a dramatically changed environment, Walgreens came to realize it needed a new strategy for a new era. Walgreens decided to become “the nation’s most convenient drugstore.” Indeed, what it meant to be a drugstore was quite different—the category now included health and beauty care, wellness, and a rapidly expanding set of over-the-counter drugs.

Given that Walgreens had decided not to embark on aggressive acquisitions, this strategy would require rapid store growth, a scalable infrastructure, and standardized store formats and investments. It also would require hiring unprecedented numbers of employees, a critical consideration given the company’s long-standing, internally focused culture.

The investments in systems and distribution infrastructure created an important asset for Walgreens. Always very data-driven, the company realized that larger, free-standing stores were capable of providing far better returns than smaller, center-based stores that had to deal with a variety of constraints, from shared parking to restrictions on operating hours and practices. As Walgreens worked on prototypes, the company learned that particular innovations were especially valuable—drive-through pharmacies, photo-finishing services, and 24-hour operations where feasible. To accommodate these and other ideas about store layout and design, the company sought prominent sites (described as “the intersection of Main and Main”) that could accommodate a 14,500-square-foot store with 11,000 square feet of selling space. Walgreens also learned that these stores could be supported by smaller trade circles than the long-held belief that 20,000 customers were required to support a store. As a result, expansion efforts were on two fronts—not only new or underserved markets, but also increased penetration of existing markets due to efficiencies in overhead, distribution, and advertising. (For example, the

distribution system was now capable of two-day delivery to stores anywhere in the country, and 90 percent of prescription drugs now moved through Walgreens' own centralized supply chain.)

The new store and growth strategy also had implications for operations. The stores, almost 40 percent larger, had entirely new categories of merchandise that played key roles in driving traffic and expanding customer acceptance. This merchandise also brought new demands for employee service and knowledge. The breadth of stock included both known national and international brands, as well as a strong assortment of private label merchandise in select categories. The need for high sales volume per store meant that merchandise intensity had to increase so as not to lose sales. Everyday pricing characterized most of the range, although weekly specials and sales were prominent (often funded by suppliers).

On the technology side, the company improved its inventory management capabilities when it rolled out point-of-sale scanning equipment chainwide in late 1991, followed by the chainwide completion in 1994 of SIMS (Strategic Inventory Management System), which united all elements of the purchasing-distribution-sales cycle. By 1997, Walgreens was rolling out a second-generation Intercom Plus system, which performed more than 200 functions and enabled customers to order prescription refills using the keys on a push-button phone. The system also cut in half the time customers had to wait to receive their prescriptions.

One byproduct of the growth of managed health care companies was the birth of cost-effective mail-order pharmacies. Walgreens formed a subsidiary, Healthcare Plus, in 1991 to offer managed care providers a pharmacy mail service. Launched with an Orlando, Florida, mail service facility capable of handling 5,000 prescriptions a day, Healthcare Plus added a second facility in late 1994 in Tempe, Arizona, with a capacity of 7,500 prescriptions per day. Mail service sales were expected to hit \$500 million by 1998. In the fall of 1995, Walgreens expanded Healthcare Plus into WHP Health Initiatives Inc.—a pharmacy benefits manager—in order to offer additional products and services to managed care providers, including long-term care pharmacies, durable medical equipment, and home infusion services. WHP was aimed at small- and medium-sized employers and HMOs in Walgreens' top 28 retail markets.

Meanwhile, store openings accelerated, supported by the opening of two more distribution centers—in Lehigh Valley, Pennsylvania, in June 1991, and in Woodland, California, in July 1995—bringing to eight the number of such centers. The Woodland center was particularly important as it supported an aggressive expansion in California, as well as the opening of the first Walgreens in Portland, Oregon. Walgreens also expanded into several other new markets in the mid-1990s, including Dallas/Fort Worth, Detroit, Kansas City, Las Vegas, and Philadelphia. Throughout the 1990s expansion, the chain concentrated on opening free-standing stores, which were considered more convenient than mall stores. The first free-standing store opened in 1992; by 1996, more than half of all Walgreens were free-standing. Drive-through prescription service at more than 700 Walgreens further enhanced the chain's image of convenience. In addition to all the store

openings—210 in 1996 alone—the chain also remodeled or closed some of its older units; consequently, the average age of a Walgreens stood at 7.4 years in 1996, about half of what it was 10 years earlier.

Walgreens also began its online efforts in 1999. Walgreens.com, a comprehensive online pharmacy, was launched, offering customers a convenient and secure way to take care of many pharmaceutical and healthcare needs online. In addition, the site provides Mayo Clinic Health Information, a trusted source in health and wellness information.

As shown in Table 4, Walgreens' growth was nothing short of staggering from 1990–2005. The company opened its 2,000th store in 1994, its 3,000th store in 2000, its 4,000th location in 2003, and its 5,000th store in 2005. At the peak, the company was opening a store every 17 hours. Employment grew from 48,500 in 1990 to 179,000 in 2005. During that 15-year period, sales grew from \$6 billion to \$42 billion, a sevenfold increase on a tripling of stores. Profits grew from \$174 million to \$1560 million, a ninefold increase. The company share price rose from (split-adjusted) \$2.75 per share in 1990 to \$45 per share at the end of 2005, a 1,400 percent increase and about five times greater than the overall market's 250 percent increase. (See Table 5 for share price performance.) The company also made a number of low-key executive transitions of CEOs, from Dan Jorndt to Dave Bernauer to Jeff Rein. All were long-term Walgreens employees, all trained pharmacists with store operations backgrounds, and all had been promoted from within.

During this time, Walgreens' main drugstore competitor, CVS, continued its acquisition strategy. The financial and operating consequences of these two business models can be seen in Table 6, which presents financial and productivity data for the four largest drugstore chains in 2003. The table shows the strength of Walgreens' relative competitive position. Although CVS had higher sales per square foot in 2003, this was mainly due to CVS having smaller, urban stores with higher population density and much higher merchandise intensity. However, higher lease costs meant that CVS was unable to translate this into superior profitability. This situation became even more evident with the acquisition of Eckerd by CVS and Canadian drugstore chain Jean Coutu in 2004, where the diversity of store operations and a fragmented infrastructure led to weaker results for CVS, while the consistency of Walgreens' organic model was reflected in better results, as shown in Table 7.

Walgreen's growth continued through fiscal 2007, opening 536 new stores that year, for a total of 6,000 locations (see Table 8). Eighty percent of the stores had been opened in the prior 10 years, and only 8 percent of the total company stores open in 1990 were still operating in their same locations. The company announced a goal of 7,000 stores by 2010 and a long-term goal of 13,000 locations. More than 140 million people lived within two miles of a Walgreens store. The company issued 583 million prescriptions, 17 percent of the U.S. market. Walgreens now employed 226,000. The company also acquired TakeCare Health Clinics, which offered basic services such as immunizations, and began to roll them out to select stores. The company announced its 33rd consecutive year of record sales and profits. It ranked 44th on the Fortune 500 list of the largest U.S.

companies, and was recognized as one of the most admired companies for the 14th year in a row.

Some issues began to emerge, however. Fourth quarter earnings were down 3.8 percent. Profitability of generic drugs and the pharmacy business were under pressure. Wal-Mart introduced its \$4 generic drugs prescription program, which promised to roil the industry. Perhaps most worryingly, there were increasing rumblings among customers about the level and quality of service. Pressures on employees also were becoming apparent; at the current rate of growth, Walgreens needed to hire/promote 875 new store managers each year to cover growth, turnover, and retirements.

Merchandise issues also were beginning to become clear. As pressure to beat rising same store sales grew, Walgreens expanded into more general merchandise categories, including (for example) convenience grocery items and general merchandise. The number of SKUs per store rose from 18,000 in 2000 to 25,000 by 2007. In addition, efforts to grow profitability led to renewed emphasis on Walgreens private label products, which had been targeted to grow from 15 to 25 percent of sales. However, the proliferation of merchandise led to higher out of stocks, especially on key branded items. There were increasing challenges with store level execution, especially in the area of noncompliance with headquarters initiatives. Customers began to complain that “all Walgreens has is their own brands of medicine and a bunch of cheap stuff in a messy store.” The cumulative effect of these issues can be seen in financial performance in Table 8 and share price performance in Table 9.

2008: Rethinking Strategy

While Walgreens reported its 34th consecutive year of record sales and profits in 2008, the company was faced with a softening economy, slower growth in prescriptions, and a growing internal debate about strategy—whether to continue the growth initiatives, or to slow growth, restructure merchandise and operations, and seek higher returns on capital.

This debate came to a head as Walgreens entered into discussions to acquire Long’s Drug, a well-respected chain of more than 500 stores in California and the Western states, which had previously received a \$2.57 billion offer from CVS. Despite its long-standing policy of not aggressively pursuing acquisitions, Walgreens had made an exception when it acquired Happy Harry’s, a 76-store chain located in the Mid-Atlantic region where Walgreens’ presence was limited. But, a Long’s acquisition would be far different than anything Walgreens had ever done. The rivalry between Walgreens and CVS Caremark entered a more heated stage with Walgreens’ surprise \$2.7 billion bid for Long’s.

CVS had its origins as part of Melville, a retail conglomerate built through acquisitions. After divesting its other units to concentrate on drugstores, CVS began an aggressive acquisition program, building a reputation for acquiring and integrating other chains (see Table 3). CVS had acquired the 500 Peoples Drug Stores in the mid-Atlantic in 1990, and then tripled its size in 1997 when it acquired 2,500 Revco Drug Stores in the South and Midwest. In 2004, CVS acquired 1,268 southern Eckerd Drug Stores from JC Penney,

and, in 2006, acquired Osco and Sav-On Drugs from Albertsons. Having established itself as the strongest national competitor to Walgreens, CVS, in 2007, acquired Caremark, one of the largest Pharmacy Benefits Managers (PBM) in the country with \$34 billion in revenues. (Pharmacy Benefits Managers are independent managers of prescription drug programs for companies and organizations.)

CVS Caremark's vertically integrated business model was completely different from Walgreens' strategy of being only in the drugstore and pharmacy business. The combined company, CVS executives argued, will become more profitable and attractive to shareholders by controlling a larger portion of health-care spending. Walgreens, meanwhile, has grown mainly through opening new stores, while making a series of smaller acquisitions, primarily in the lucrative specialty-pharmacy arena. "We're not out there searching to buy a PBM," Walgreens' Rein said. "The independent model is very important to the clients we serve." Rein argued that some health-insurance companies are wary of signing a contract with a drugstore chain that owns a large PBM, because of potential conflicts of interest with the insurance company's business.

CVS suggested that a Walgreens acquisition of Long's would be bad for competition (Walgreens already had 525 California drugstores, compared to 374 for CVS.) and Long's board of directors recommended the lower CVS bid because of the regulatory risk that the government would not permit the acquisition on anticompetitive grounds. When CVS failed to raise its bid and both CVS and Long's maintained their position, Walgreens then withdrew its offer. (CVS then completed the acquisition of Long's.) The hubris of the offer and its subsequent failure marked a humiliating event for Walgreens, especially because it ran counter to the company's quiet culture. Soon after, Rein was forced to resign, and after a period with a board member serving as interim CEO, Greg Wasson became Walgreens' next senior executive.

Wasson, also a trained pharmacist, had a long career in Walgreens' store operations until taking over Walgreens' Health Initiatives division in 2001. As a result, he believed Walgreens needed to expand its health and wellness delivery activities, including specialty pharmacy, home infusion services, and on-site clinics in large organizations.

2009: New Strategies

The growing problems and strategic debate of the recent years culminated in Walgreens' 34 years of record profits coming to an end in 2009. The company announced \$259 million in restructuring charges, and the rollout of the Rewiring for Growth initiative begun in 2008 in wake of declining operating results and a weakening economy. The new strategy was built on three initiatives: (1) a new store strategy; (2) expanding health delivery; and (3) technology investments to support multichannel retailing and health services delivery, especially improving online capabilities and improving pharmacist efficiency through automation.

The new retail strategy was called "customer centric retailing" (CCR). Working with the existing stores, CCR was a remodeling and renovation program that shifted the emphasis

from a convenience general merchant back to greater emphasis on pharmacy/medicine and health/wellness/beauty. The goal was to create a retail health and daily living store. The stores were redesigned to have lower shelving, better signage and visibility, and made easier to shop (see Table 10). The merchandise assortment was narrowed and more emphasis placed on branded products at good value. Investments were accelerated in next-generation distribution centers. Service levels and training were increased. By 2011, 5,000 Walgreens stores had been converted into the CCR format.

The company sought to move away from high/low promotional retailing to reduce the number of promotions, but make them more significant. In financial terms, Walgreens hoped to reverse the slowing of same-store sales that had begun in late 2007. The company also hoped that the renewed emphasis on pharmacy and traditional drugstore categories would help restore its place as one of America's most trusted brands.

The new strategy also seemed to include a willingness to undertake acquisitions, despite the Long's Drug experience. In April, 2010, Walgreens surprised analysts by acquiring Duane Reade, the largest drugstore chain in New York City, for \$623 million. Subsequently in April 2011, the company acquired drugstore.com, the leading online pharmacy retailer, for \$409 million. The company also agreed to sell Walgreens Health Initiatives to Catalyst Health Solutions for \$525 million, marking Walgreens' final exit from all Pharmacy Benefit businesses. Given the CVS acquisition of Caremark, it was clear that the two leading drugstores had quite different views about the future of the pharmacy and drugstore industry.

Although the remodeled stores were providing good results, Walgreens' 2010 results were disappointing. Overall sales growth of 6 percent masked a decline in same-store sales from 3 to 1.6 percent, and profits of \$2.1 billion were only slightly higher than 2009. However, the 2011 results began to improve; sales rose 7 percent, profits rose 30 percent, and same-store sales increased to 3.3 percent. Financial and productivity metrics improved across the board.

New Developments in 2012

By late 2011, Walgreens appeared to have a core strategy of retail pharmacy drugstores, complemented by a variety of health and wellness services. Then, in June 2012, Walgreens shocked the pharmacy community by announcing it was acquiring a 45 percent stake in Alliance Boots, the largest pharmacy chain in Europe.

Alliance Boots GmbH is a multinational pharmacy-led health and beauty group. It has two core business activities—pharmacy-led health and beauty retailing, and pharmaceutical wholesaling and distribution—and has a presence in more than 25 countries, including associates and joint ventures. It has revenue of £25.4 billion. It was formed in 2006 through a merger of the listed British high street pharmacist Boots Group and the pan-European wholesale and retail pharmacy group Alliance UniChem. Alliance Boots was initially a British plc listed on the London Stock Exchange. In 2007, it was bought out in a private equity transaction, owned by the private equity firm Kohlberg

Kravis Roberts (KKR) and the Italian businessman Stefano Pessina, who built Alliance UniChem and became the executive chairman of Alliance Boots. The Group's operations are mainly carried out under the Boots and Alliance Healthcare brands. Boots UK is the UK's leading pharmacy-led health and beauty retailer. Alliance Boots also is the largest pharmaceutical wholesaler in the UK through its Alliance Healthcare (Distribution) Ltd business. Alliance Boots employs more than 116,000 staff, and operates more than 3,330 retail stores, of which a little more than 3,200 of these have pharmacies. Alliance Boots pharmaceutical wholesale division serves more than 170,000 pharmacies, doctors, hospitals, and health centers from more than 370 distribution centers in 21 countries.

Walgreens' 45 percent stake is the first part of a three-year merger. The final stage of the merger will cost \$9.5 billion when Walgreens takes full control of Alliance Boots, creating the world's largest Health and Beauty retail group with more than 11,000 stores worldwide.

Another Deal¹⁰

In March 2013, Walgreens and partner Alliance Boots signed a 10-year deal with AmerisourceBergen that will include daily drug distribution, enabling Walgreens to increase its sales of pricey specialty drugs. Walgreens, the nation's largest drugstore operator, distributes more than 80 percent of its own drugs, but over time most if not all of that distribution will be handled by AmerisourceBergen. Walgreens will use AmerisourceBergen's network to start daily distribution of most or all generics.

Previously, Walgreens used its employees, transportation, and warehouses to ship on a weekly basis and used Cardinal Health on a daily basis for some drugs. Much of what it sells now are bulk, low-profit prescriptions. By combining its distribution in the United States and Europe with AmerisourceBergen, Walgreens hopes to be able to negotiate better prices for those bulk drugs. In addition, it said it will have new access to more specialized drugs, such as those for cancer treatment. The move also will give Walgreens access to better rates on specialty drugs used to treat diseases such as cancer, rheumatoid arthritis and multiple sclerosis, which have higher profit margins but also are more expensive to keep on hand. More of these drugs are becoming available in oral pill form. "A network of 8,000 stores could never have those drugs in stock. They couldn't afford to carry them," BB&T analyst Andrew Wolf said.

There is pressure on the healthcare industry, from pharmaceutical makers to sellers, to cut medical costs, especially as millions of Americans will soon receive more healthcare coverage. Consumers also have reduced their spending on prescriptions, making it even tougher to increase profitability in the business.

¹⁰ This section is taken from Caroline Humm and Jessica Wohl, "Walgreens to Buy Stake in Amerisource Bergen, Cardinal Loses Out," Thomson Reuters, March 20, 2013, cited from http://newsandinsight.thomsonreuters.com/Legal/News/2013/03_-_March/Walgreen_to_take_stake_in_AmerisourceBergen_drops_Cardinal/

“Alliance Boots and AmerisourceBergen are experts in pharmaceutical supply chain distribution,” Walgreens CEO Greg Wasson said on a conference call. “We are very good at it, but the combination of what they both do to improve our supply chain, take that off of our hands, and improve our service levels is really the opportunity that we are excited about.”

The move will give AmerisourceBergen and Walgreens a boost in size that can help them negotiate better prices. “If you run more product through your network, the more you can scale the assets, the more you can scale costs, and the more bargaining power you have,” said Vishnu Lekraj, an analyst at Morningstar.

Walgreens and Alliance Boots have the right to buy up to 23 percent of AmerisourceBergen, starting with a 7 percent stake on the open market, now valued at about \$800 million. Walgreens and Alliance Boots also received warrants exercisable for 16 percent equity in AmerisourceBergen. The first tranche, an 8 percent stake, can be exercised at a strike price of \$51.50 in March 2016.

“It’s a trend of everyone having to be larger to compete in the new world, post ACA,” said Les Funtleyder, a strategist at investment firm Poliwogg. “You’ll see increasing tie-ups between industries that might not have always been tied up.”

Looking Ahead: The Outlook for Pharmacy/Drugstores in the United States

As shown in Table 11, the \$220 billion U.S. pharmacy industry in 2012 looked very different than it had 20 years earlier. Of the top 50 pharmacies with prescription sales greater than \$1 billion, there were three large drugstore chains (Walgreens, CVS Caremark, and Rite Aid), eight supermarkets, five general merchandise chains, and four independent pharmacy groups backed by wholesalers. The industry had seen the rise of in-store pharmacies across discount department stores and supermarkets; by 2011 Wal-Mart and Kroger were the fourth- and sixth-largest pharmacies in the country. More than 60 percent of all supermarkets now had a pharmacy. After the wave of consolidation, Walgreens and CVS were by far the largest national chains, with Rite Aid a weak third player (see Table 12). The contrasts between the major chains and the neighborhood franchise drugstores were just as dramatic, as shown in Table 13. The neighborhood stores were much more dependent on prescriptions and their wholesaler relationships. (The importance of the prescription business also had grown markedly for Walgreens, from 24 percent of revenues in 1990 to 65 percent by 2010.)

At the macro level, changes in national health care policy were reshaping the business environment in both positive and negative ways. Pressures were rising for cost control, especially from insurers and PBMs (95 percent of Walgreens prescription revenues were paid through third-party health care organizations). In addition, more branded drugs were moving to generic status, while a growing number of drugs had moved from prescription to over-the-counter status. The drugstore industry faced new questions about its role in delivery of health services, from immunizations to in-store clinics.

As pharmacies moved into this new environment, it once again faced fundamental strategic questions. The industry faced the challenge of blending health care/pharmacy with multichannel retailing:

“Traditional drugstores fighting for share can no longer afford to worry only about competing with other drugstores. Vendors looking to maximize distribution no longer can afford a myopic, single-channel view. The lines that once defined the different classes of trade haven’t just blurred—they’re GONE.”

Or, as one analyst commented, “Everybody sells everything everybody else sells, and everyone shops everywhere for everything.”

Table 1: Early Walgreens Drug Photos (top 1901; bottom 1939)



Source; <http://www.walgreens.com/marketing/about/press/facts/fact3.jsp>

TABLE 2												
WALGREENS SUMMARY FINANCIAL PERFORMANCE												
1970-1989 (\$ MM)												
	Sales	Operating Profit	Net Income	Total Assets	Equity	Oper Profit/ Sales	ROS	ATO	ROA	LEV	ROE	
1970	\$ 743.6	\$ 23.0	\$ 9.4	\$ 214.6	\$ 96.9	3.1%	1.3%	3.5	4.4%	2.2	9.7%	
1971	\$ 817.5	\$ 28.1	\$ 10.6	\$ 234.5	\$ 102.7	3.4%	1.3%	3.5	4.5%	2.3	10.3%	
1972	\$ 863.3	\$ 29.5	\$ 11.4	\$ 256.3	\$ 108.6	3.4%	1.3%	3.4	4.4%	2.4	10.5%	
1973	\$ 930.9	\$ 34.6	\$ 13.7	\$ 262.2	\$ 117.0	3.7%	1.5%	3.6	5.2%	2.2	11.7%	
1974	\$ 996.6	\$ 23.1	\$ 7.6	\$ 283.1	\$ 118.8	2.3%	0.8%	3.5	2.7%	2.4	6.4%	
1975	\$ 1,079.1	\$ 24.4	\$ 9.8	\$ 292.5	\$ 122.4	2.3%	0.9%	3.7	3.4%	2.4	8.0%	
1976	\$ 1,169.8	\$ 35.9	\$ 14.8	\$ 310.8	\$ 130.5	3.1%	1.3%	3.8	4.8%	2.4	11.3%	
1977	\$ 1,223.2	\$ 42.4	\$ 15.6	\$ 331.4	\$ 138.9	3.5%	1.3%	3.7	4.7%	2.4	11.2%	
1978	\$ 1,192.9	\$ 56.9	\$ 24.0	\$ 359.7	\$ 153.5	4.8%	2.0%	3.3	6.7%	2.3	15.6%	
1979	\$ 1,344.5	\$ 63.7	\$ 30.3	\$ 402.4	\$ 175.2	4.7%	2.3%	3.3	7.5%	2.3	17.3%	
1980	\$ 1,530.7	\$ 68.4	\$ 34.8	\$ 448.6	\$ 207.4	4.5%	2.3%	3.4	7.8%	2.2	16.8%	
1981	\$ 1,743.5	\$ 75.6	\$ 42.1	\$ 521.0	\$ 250.5	4.3%	2.4%	3.3	8.1%	2.1	16.8%	
1982	\$ 2,039.5	\$ 108.3	\$ 56.1	\$ 616.4	\$ 299.2	5.3%	2.8%	3.3	9.1%	2.1	18.8%	
1983	\$ 2,360.6	\$ 147.0	\$ 69.8	\$ 718.0	\$ 351.7	6.2%	3.0%	3.3	9.7%	2.0	19.8%	
1984	\$ 2,744.6	\$ 181.4	\$ 85.4	\$ 840.1	\$ 414.6	6.6%	3.1%	3.3	10.2%	2.0	20.6%	
1985	\$ 3,161.9	\$ 212.2	\$ 94.2	\$ 961.9	\$ 481.0	6.7%	3.0%	3.3	9.8%	2.0	19.6%	
1986	\$ 3,660.6	\$ 240.3	\$ 103.1	\$ 1,197.1	\$ 553.6	6.6%	2.8%	3.1	8.6%	2.2	18.6%	
1987	\$ 4,281.6	\$ 264.5	\$ 103.5	\$ 1,361.9	\$ 622.3	6.2%	2.4%	3.1	7.6%	2.2	16.6%	
1988	\$ 4,883.5	\$ 283.6	\$ 129.1	\$ 1,511.9	\$ 712.6	5.8%	2.6%	3.2	8.5%	2.1	18.1%	
1989	\$ 5,380.1	\$ 317.2	\$ 154.2	\$ 1,681.1	\$ 823.4	5.9%	2.9%	3.2	9.2%	2.0	18.7%	

TABLE 3					
SIGNIFICANT ACQUISITIONS BY MAJOR DRUGSTORE CHAINS					
WALGREENS	CVS	RITE-AID	ECKERD / JC PENNEY	REVCO	JEAN COUTU (US)
Medic Drug 1985	(Part of Melville Corp)	Daw's 1969	Thrift 1968	Standard 1961	Adams 1986
Ribordy 1985	Crank's 1983	Gray 1987	Treasury 1990	Cole 1972	Brooks 1994
MediMart 1986	Katz's 1983	Lane 1989	Crown 1993	White Cross 1972	City Drug 1999
Happy Harry's 2006	Austin 1990	Welby 1992	Kerr 1995	Jacobs 1974	Osco (New England) 2004
Snyder 2010	Freddy's 1990	Perry 1995	Fay's 1996	Sav-Rite 1980	Eckerd (north) 2004
Duane Reade 2011	Standard Drug 1990	Thrifty PayLess 1998	Eckerd 1996	Skillern 1980	SOLD TO RITE-AID 2007 (1,854 drugstores)
drugstore.com 2011	Peoples 1990	Keltsch 1998	Genovese 1998	Hook's 1994	
	Payless 1997	Eckerd (north) 2007	SOLD TO CVS/BROOKS 2004 (2,800 drugstores)	Reed 1996	
	Revco 1997			Big B 1997	
	Arbor 1998			SOLD TO CVS 1997 (2,500 drugstores)	
	Eckerd (south) 2004				
	Skaggs 2006				
	Sav-On 2006				
	Osco 2006				
	Long's 2008				
Source: Compiled by author from company websites					
and http://en.wikipedia.org/wiki/List_of_defunct_retailers_of_the_United_States#Drug_stores					

Table 4																
Walgreens Financial and Productivity Performance 1990-2005																
Fiscal Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Locations	1,564	1,646	1,736	1,836	1,968	2,085	2,193	2,358	2,549	2,821	3,165	3,520	3,883	4,227	4,582	4,953
Employees (FTE, 000s)	41.2	43.4	45.5	49.0	52.6	58.5	65.5	72.3	76.5	91.0	98.6	109.7	119.9	130.9	138.6	152.2
Space (Sq Ft, mm)	15	16	17	18	19	21	22	24	26	29	34	38	43	47	51	55
Net Sales	6,048	6,733	7,475	8,295	9,236	10,395	11,778	13,363	15,307	17,839	21,207	24,623	28,681	32,505	37,508	42,202
Cost of sales	4,356	4,829	5,378	5,959	6,614	7,482	8,515	9,682	11,139	12,979	15,465	18,049	21,076	23,706	27,310	30,414
Gross Profit	1,691	1,904	2,097	2,336	2,621	2,913	3,264	3,681	4,167	4,860	5,742	6,574	7,605	8,799	10,198	11,788
Oper Expenses	1,407	1,583	1,739	1,930	2,165	2,393	2,660	2,973	3,332	3,845	4,517	5,176	5,993	6,938	8,055	9,364
Operating Profit	284	321	358	406	456	520	604	709	835	1,015	1,225	1,398	1,613	1,861	2,142	2,424
Net Earnings	175	195	221	222	282	317	368	432	505	615	875	886	1,008	1,165	1,350	1,560
Inventories	828	912	994	1,094	1,263	1,454	1,632	1,733	2,027	2,463	2,831	3,482	3,645	4,203	4,739	5,593
Total Assets	1,896	2,074	2,347	2,506	2,873	3,253	3,634	4,207	4,902	5,907	7,104	8,834	10,117	11,657	13,342	14,609
Debt	147	123	19	6	2	2	3	3	14	18	18	21	11	9	12	12
Equity	947	1,081	1,233	1,379	1,574	1,793	2,043	2,373	2,849	3,484	4,234	5,207	6,163	7,118	8,140	8,890
CF from Operations	239	212	338	307	355	345	411	650	597	652	972	719	1,474	1,503	1,644	1,371
Cap'l Expenditures	192	202	145	185	290	310	364	485	641	696	1,119	1,237	934	795	940	1,238
Dividends	47	55	62	71	81	93	105	116	123	129	135	141	147	152	177	215
Share Repurchases	0	0	5	15	0	2	20	0	0	0	0	0	0	149	299	782
GP%	28.0%	28.3%	28.1%	28.2%	28.4%	28.0%	27.7%	27.5%	27.2%	27.2%	27.1%	26.7%	26.5%	27.1%	27.2%	27.9%
CODB%	23.3%	23.5%	23.3%	23.3%	23.4%	23.0%	22.6%	22.2%	21.8%	21.6%	21.3%	21.0%	20.9%	21.3%	21.5%	22.2%
Oper Profit %	4.7%	4.8%	4.8%	4.9%	4.9%	5.0%	5.1%	5.3%	5.5%	5.7%	5.8%	5.7%	5.6%	5.7%	5.7%	5.7%
ROS	2.9%	2.9%	3.0%	2.7%	3.1%	3.1%	3.1%	3.2%	3.3%	3.4%	4.1%	3.6%	3.5%	3.6%	3.6%	3.7%
ATO	3.2	3.2	3.2	3.3	3.2	3.2	3.2	3.2	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.9
ROA	9.2%	9.4%	9.4%	8.9%	9.8%	9.7%	10.1%	10.3%	10.3%	10.4%	12.3%	10.0%	10.0%	10.0%	10.1%	10.7%
LEV	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6
ROE	18.4%	18.0%	17.9%	16.1%	17.9%	17.7%	18.0%	18.2%	17.7%	17.7%	20.7%	17.0%	16.4%	16.4%	16.6%	17.5%
GP%	28.0%	28.3%	28.1%	28.2%	28.4%	28.0%	27.7%	27.5%	27.2%	27.2%	27.1%	26.7%	26.5%	27.1%	27.2%	27.9%
Sales per Sq Ft	\$ 403	\$ 426	\$ 450	\$ 461	\$ 479	\$ 502	\$ 533	\$ 559	\$ 589	\$ 611	\$ 629	\$ 645	\$ 672	\$ 696	\$ 737	\$ 762
Merch Intensity	\$ 55.20	\$ 57.72	\$ 59.88	\$ 60.78	\$ 65.44	\$ 70.24	\$ 73.85	\$ 72.51	\$ 77.96	\$ 84.35	\$ 84.01	\$ 91.15	\$ 85.36	\$ 90.00	\$ 93.10	\$ 100.96
Service Intensity	364	364	365	367	367	354	338	331	340	321	342	348	356	357	367	364
Sales: Stock	7.3	7.4	7.5	7.6	7.3	7.1	7.2	7.7	7.6	7.2	7.5	7.1	7.9	7.7	7.9	7.5
Sales:FTE	\$146,695	\$155,317	\$164,376	\$169,126	\$175,535	\$177,755	\$179,960	\$184,955	\$200,086	\$196,139	\$215,080	\$224,560	\$239,308	\$248,322	\$270,720	\$277,368
GMROF	\$ 113	\$ 120	\$ 126	\$ 130	\$ 136	\$ 141	\$ 148	\$ 154	\$ 160	\$ 166	\$ 170	\$ 172	\$ 178	\$ 188	\$ 200	\$ 213
GMROI	\$ 2.04	\$ 2.09	\$ 2.11	\$ 2.14	\$ 2.08	\$ 2.00	\$ 2.00	\$ 2.12	\$ 2.06	\$ 1.97	\$ 2.03	\$ 1.89	\$ 2.09	\$ 2.09	\$ 2.15	\$ 2.11
GMROL	\$ 41,021	\$ 43,917	\$ 46,120	\$ 47,626	\$ 49,822	\$ 49,808	\$ 49,862	\$ 50,951	\$ 54,473	\$ 53,438	\$ 58,234	\$ 59,955	\$ 63,454	\$ 67,221	\$ 73,604	\$ 77,475
OEOF	\$ 101	\$ 108	\$ 113	\$ 117	\$ 121	\$ 125	\$ 131	\$ 136	\$ 141	\$ 145	\$ 144	\$ 149	\$ 154	\$ 163	\$ 174	\$ 185
OEOI	\$ 1.83	\$ 1.87	\$ 1.89	\$ 1.93	\$ 1.85	\$ 1.79	\$ 1.77	\$ 1.87	\$ 1.81	\$ 1.72	\$ 1.72	\$ 1.63	\$ 1.81	\$ 1.82	\$ 1.87	\$ 1.83
OEOL	\$ 36,786	\$ 39,419	\$ 41,260	\$ 43,099	\$ 44,463	\$ 44,386	\$ 44,244	\$ 44,970	\$ 47,873	\$ 46,675	\$ 49,362	\$ 51,879	\$ 55,043	\$ 58,320	\$ 63,861	\$ 67,225
NMROF	\$ 11.64	\$ 12.34	\$ 13.31	\$ 12.33	\$ 14.61	\$ 15.32	\$ 16.64	\$ 18.08	\$ 19.42	\$ 21.07	\$ 25.96	\$ 23.18	\$ 23.61	\$ 24.95	\$ 26.52	\$ 28.15
NMROI	\$ 0.21	\$ 0.21	\$ 0.22	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.23	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.31	\$ 0.25	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28
NMROL	\$ 4,235	\$ 4,498	\$ 4,860	\$ 4,526	\$ 5,360	\$ 5,422	\$ 5,618	\$ 5,981	\$ 6,600	\$ 6,763	\$ 8,872	\$ 8,077	\$ 8,411	\$ 8,901	\$ 9,742	\$ 10,250

TABLE 5
WALGREENS SHARE PRICE PERFORMANCE, 1990-2005



TABLE 6				
COMPARATIVE PERFORMANCE DRUGSTORE CHAINS, 2003				
	Walgreens	CVS	Eckerd	Rite Aid
Stores	4227	4179	2640	3404
Sales (\$ billions)	32.5	26.6	14.6	16.6
GM%	27.1%	25.8%	24.9%	24.3%
GM\$ (billions)	8.81	6.86	3.64	4.03
SSF (millions)	44.7	32.05	27.5	37.8
Inventory (\$ billions)	3.92	4.02	NA	2.2
Employees (FTE esti	123,500	96,500	NA	54,000
Net Income (\$ millior	1175.7	847.3	247.2	58.5
Sales/sq ft	727	830	531	439
Inventory/ sq ft	88	125	NA	58
Sales/stock	8.28	6.62	NA	7.56
GMROI	2.24	1.71	NA	1.84
GMROL (thou)	71.3	71.1	NA	74.7
GMROF	197	214	132	107
OEOF	171	188	123	105
NMROF	26	26	9	2

TABLE 7				
COMPARATIVE PERFORMANCE DRUGSTORE CHAINS, 2003-2004				
(post-Eckerd Acquisition)				
	Walgreens 2003	Walgreens 2004	CVS 2003	CVS 2004
Stores	4227	4582	4179	5375
Sales (\$ billions)	\$32.50	\$37.50	\$26.60	\$30.60
GM%	27.10%	27.20%	25.80%	26.30%
GM\$ (billions)	\$8.81	\$10.20	\$6.86	\$8.03
SSF (millions)	44.7	50.9	32.1	43.5
Inventory (\$ billions)	\$3.92	\$4.74	\$4.02	\$5.45
Employees (FTE estim)	123,500	140,000	96,500	111,650
Net Income (\$ millions)	\$1,176	\$1,350	\$847	\$919
Sales/sq ft	\$727	\$737	\$830	\$703
Inventory/ sq ft	\$88	\$93	\$125	\$125
Sales/stock	8.28	7.92	6.62	5.61
GMROI	\$2.24	\$2.15	\$1.71	\$1.47
GMROL (thou)	\$71.30	\$72.80	\$71.10	\$71.90
GMROF	\$197	\$200	\$214	\$185
OEOF	\$171	\$173	\$188	\$164
NMROF	\$26	\$27	\$26	\$21

Table 8						
Walgreens Financial and Productivity Performance 2006-2011						
Fiscal Year	2006	2007	2008	2009	2010	2011
Locations	5,461	5,997	6,934	7,496	8,046	8,210
Employees (FTE, 000s)	165.8	192.1	201.5	202.3	207.4	210.0
Space (Sq Ft, mm)	61	66	73	79	84	86
Net Sales	47,409	53,762	59,034	63,335	67,420	72,184
Cost of sales	34,240	38,518	42,391	45,722	48,444	51,692
Gross Profit	13,169	15,244	16,643	17,613	18,976	20,492
Oper Expenses	10,467	12,093	13,202	14,366	15,518	16,561
Operating Profit	2,702	3,151	3,441	3,247	3,458	3,931
Net Earnings	1,751	2,041	2,157	2,006	2,091	2,714
Inventories	6,050	6,791	7,249	6,789	7,378	8044
Total Assets	17,131	19,314	22,410	25,142	26,275	27454
Debt	3	22	1,337	2,336	2,389	2396
Equity	10,116	11,104	12,869	14,376	14,400	14847
CF from Operations	2,440	2,357	3,039	4,111	3,744	3643
Cap'l Expenditures	1,338	1,786	2,225	1,927	1,014	1213
Dividends	263	310	376	446	541	647
Share Repurchases	669	1,064	294	279	1,756	2,028
GP%	27.8%	28.4%	28.2%	27.8%	28.1%	28.4%
CODB%	22.1%	22.5%	22.4%	22.7%	23.0%	22.9%
Oper Profit %	5.7%	5.9%	5.8%	5.1%	5.1%	5.4%
ROS	3.7%	3.8%	3.7%	3.2%	3.1%	3.8%
ATO	2.8	2.8	2.6	2.5	2.6	2.6
ROA	10.2%	10.6%	9.6%	8.0%	8.0%	9.9%
LEV	1.7	1.7	1.7	1.7	1.8	1.8
ROE	17.3%	18.4%	16.8%	14.0%	14.5%	18.3%
GP%	27.8%	28.4%	28.2%	27.8%	28.1%	28.4%
Sales per Sq Ft	\$ 782	\$ 812	\$ 809	\$ 802	\$ 803	\$ 839
Merch Intensity	\$ 99.83	\$ 102.58	\$ 99.30	\$ 85.94	\$ 87.83	\$ 93.53
Service Intensity	366	345	362	391	405	410
Sales: Stock	7.8	7.9	8.1	9.3	9.1	9.0
Sales:FTE	\$286,027	\$279,865	\$293,045	\$313,075	\$325,072	\$343,815
GMROF	\$ 217	\$ 230	\$ 228	\$ 223	\$ 226	\$ 238
GMROI	\$ 2.18	\$ 2.24	\$ 2.30	\$ 2.59	\$ 2.57	\$ 2.55
GMROL	\$ 79,451	\$ 79,355	\$ 82,616	\$ 87,064	\$ 91,495	\$ 97,604
OEOF	\$ 188	\$ 199	\$ 198	\$ 198	\$ 201	\$ 207
OEOI	\$ 1.89	\$ 1.94	\$ 2.00	\$ 2.30	\$ 2.29	\$ 2.21
OEOL	\$ 68,887	\$ 68,730	\$ 71,909	\$ 77,148	\$ 81,413	\$ 84,677
NMROF	\$ 28.89	\$ 30.83	\$ 29.55	\$ 25.39	\$ 24.89	\$ 31.56
NMROI	\$ 0.29	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.28	\$ 0.34
NMROL	\$ 10,564	\$ 10,625	\$ 10,707	\$ 9,916	\$ 10,082	\$ 12,927
Source: Company financial reports and author calculations.						

TABLE 9 WALGREENS SHARE PRICE PERFORMANCE, 2006-2012



TABLE 10
WALGREENS CCR STORE FORMAT, 2010



TABLE 10 (continued)
WALGREENS CCR STORE FORMAT, 2010



TABLE 11					
MAJOR DRUGSTORE/PHARMACY CHAINS IN UNITED STATES, 2011					
RANK	COMPANY	TYPE	Rx SALES (mm)	TOTAL STORES WITH PHARMACY	%SALES FROM Rx
1	Walgreens	Drugstore	\$ 46,700	7,770	65%
2	CVS Caremark	Drugstore	\$ 40,700	7,271	68%
3	Rite Aid	Drugstore	\$ 17,800	4,667	68%
4	Walmart	Discount Dept Store	\$ 15,900	3,750	6%
5	Cardinal	Franchise/Wholesale member	\$ 13,700	6,380	86%
6	Kroger	Supermarket	\$ 7,200	1,955	8%
7	Good Neighbor Pharmacy	Franchise/Wholesale member	\$ 7,200	3,667	88%
8	Health Mart	Franchise/Wholesale member	\$ 5,900	2,900	81%
9	Safeway	Supermarket	\$ 3,900	1,310	9%
10	American Assoc. Pharmacies	Franchise/Wholesale member	\$ 3,500	2,087	90%
11	Target	Discount Dept Store	\$ 3,400	1,612	5%
12	Kmart	Discount Dept Store	\$ 2,300	944	15%
13	Supervalu	Supermarket	\$ 2,200	797	8%
14	Ahold	Supermarket	\$ 2,000	565	8%
15	Publix	Supermarket	\$ 1,600	864	6%
16	Costco	Warehouse Club	\$ 1,540	864	3%
17	Sam's Club	Warehouse Club	\$ 1,450	540	3%
18	Medicine Shoppe	Franchise/Wholesale member	\$ 1,220	622	95%
19	H-E-B	Supermarket	\$ 1,200	210	7%
20	Giant Eagle	Supermarket	\$ 1,200	213	13%
Note: Total US pharmacy Rx market approximately \$218 billion; top 20 above represent 83% of total.					
Source: http://www.drugstorenews.com/powerx-players-dsns-top-50-scorers-%E2%80%94-annual-report-2012					

TABLE 12			
MAJOR US DRUGSTORE CHAINS, 2011			
(\$ billions)			
	Walgreens	CVS Caremark	Rite-Aid
Locations	7715	7226	4714
Sales	\$71.1	\$98.5	\$25.2
Net Income	\$2.4	\$3.4	(\$0.6)
Debt	\$2.4	\$9.8	\$6.2
Market capitalization	\$39.1	\$51.1	\$1.1
Share Price July 2011	\$43.15	\$37.80	\$1.10
Note: CVS Caremark financials include Caremark PBM business.			

TABLE 13				
COMPARING MAJOR DRUGSTORE CHAINS WITH INDEPENDENT FRANCHISEES, 2010				
	WALGREENS	CVS	GOOD NEIGHBOR PHARMACY	CARDINAL
Locations	7,715	7,226	3,700	4,300
Average Store Size	14,700	8,000-25,000	3,100	2,600
Sales/store (mm)	\$8.9	\$8.0	\$3.1	\$2.4
% Rx Sales	65%	64%	90%	87%
Source: Power 50, drugstorenews.com, May 2011.				