**CVS Caremark Corporation – 2011**

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**A. Case Abstract**

CVS Caremark Corporation (CVS) is a comprehensive strategic management case that includes the company’s year-end 2010 financial statements, organizational chart, competitor information and more. The case time setting is the year 2011. Sufficient internal and external data are provided to enable students to evaluate current strategies and recommend a three-year strategic plan for the company. Headquartered in Woonsocket, Rhode Island, CVS’s common stock is publicly traded under the ticker symbol CVS.

Headquartered in Woonsocket, Rhode Island and founded in 1892, CVS is the largest (by revenues) pharmacy care provider in the United States. The nation's second-largest drugstore chain by # of stores, and a leading pharmacy benefits manager, CVS owns about 7,200 retail and specialty drugstores under the CVS and Longs Drug banners. CVS trails archrival Walgreen by about 300 stores. CVS has grown rapidly through a string of acquisitions that included the Eckerd and Longs Drug Stores chains. CVS purchased prescription benefits management (PBM) firm Caremark Rx for about $26.5 billion in 2007. Caremark was combined with CVS's PBM and specialty pharmacy unit PharmaCare Management Services to form Caremark Pharmacy Services, which filled or managed some 585 million prescriptions in 2010.

**B. Vision Statement** (actual)

We strive to improve the quality of human life.

**C. Mission Statement** (proposed)

At CVS we, continuously improve services and safe practices in an efficient way for every customer who resides within the U.S. and Puerto Rico (1,3). We continuously make innovative and high-quality pharmacy and health services (2) and constantly practice and further enhance the effective use of information technology (4). We are dedicated to always be the #1 pharmacy retailer in the U.S. by achieving our financial goals and by giving back to the communities we serve (5,7,8).We continuously serve a respectful and supportive work environment that recognizes and rewards contributions (9). We are committed to act with integrity and hold ourselves accountable for all aspects of our performance. These principles inspire us to go above and beyond for our customers, our clients, and our colleagues in everyday business (6).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

**D. External Audit**

**Opportunities**

1. Expected increase in Baby Boomer population by almost 2% over next 3 years.
2. Improved technology reduces risk for drug interactions.
3. Rising healthcare expenditures of around 3% in the US.
4. Patient Protection and Affordable Care Act is expected to increase Americans insured by 32 million.
5. Pharmacogenomics research.
6. Due to economy, increase in use of Minute Clinic vs. doctors office.
7. Prescription drug spending is expected to grow at an annual growth rate of 6.5%.
8. Increase in drug price inflation to 8.3% from 7.9% the year before.
9. Rise in American disposable income of 1.1%.
10. Fluctuations in interest rates may offer financing opportunities.

**Threats**

1. Competitors with higher financial and technological advantage.
2. Government funded reimbursement programs renegotiation of reimbursement rates.
3. Due to the economic recession people do not utilize pharmaceuticals.
4. The frequency rate and introduction of alternative generic drugs.
5. State regulations impact components of retail clinic operations.
6. Humana joined with Wal-Mart to offer a Medicare Part D prescription plan.
7. Increase in competitor expansion.
8. Fluctuations in interest rates may make future financing difficult.
9. FDA regulation affecting the PBM industry.
10. Unable to fill staffing requirements due to lack of qualified pharmacist and technicians.

**Competitive Profile Matrix**



**EFE Matrix**





**E. Internal Audit**

**Strengths**

1. Compound annual growth rate is 16% above industry average.
2. Proactive Pharmacy Care program.
3. CVS/Caremark Extra Care Card ranked #1 for retail loyalty programs.
4. CVS acquisition of Caremark generated more than $700 million in savings from economies of scale.
5. Recent collaborations and agreements.
6. Assisted inventory management system to link stores/distribution centers with suppliers and speed up activities across value chain.
7. CVS is #1 provider of prescriptions in the nation, providing over 1 billion prescriptions annually.
8. Leading retail clinic operator providing 560 Minute Clinics over 25 states.
9. Their ability to do genetic testing, or pharmacogenomics, to determine appropriate therapies that will match patients with the right drug plan.
10. Re-accreditation with Joint Commission's Gold Seal of Approval for their established portfolio of healthcare services.

**Weaknesses**

1. Only own 4.2% of their retail stores
2. High leasing costs for buildings not being utilized.
3. Pending lawsuits and government investigations.
4. According to JD Power & Associates rankings CVS pharmacists and technicians were ranked last on experience as compared to competitors.
5. $4 Billion loss in PBM sales to competitors
6. 11.9% below industry average for operating income
7. Lack of advertising and marketing promotions.
8. Lack of employee adherence to company standard rules and procedures
9. Company's unfavorable store locations through acquisitions and rental properties.
10. Lower percentage (by 4%) of general merchandise sold compared to competitors.

**Financial Ratio Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Growth Rate Percent** | **CVS** | **Industry** | **S&P 500** |
| Sales (Qtr vs year ago qtr) | 10.90 | 10.00 | 14.70 |
| Net Income (YTD vs YTD) | NA | NA | NA |
| Net Income (Qtr vs year ago qtr) | -0.60 | 28.10 | 82.00 |
| Sales (5-Year Annual Avg.) | 21.11 | 14.78 | 8.26 |
| Net Income (5-Year Annual Avg.) | 23.24 | 15.91 | 8.62 |
| Dividends (5-Year Annual Avg.) | 19.27 | 18.78 | 5.65 |
|  |  |  |  |
| **Profit Margin Percent** |  |  |  |
| Gross Margin | 20.1 | 22.6 | 39.5 |
| Pre-Tax Margin | 5.4 | 5.7 | 18.2 |
| Net Profit Margin | 3.3 | 3.6 | 13.2 |
| 5Yr Gross Margin (5-Year Avg.) | 21.5 | 21.8 | 39.5 |
|  |  |  |  |
| **Liquidity Ratios** |  |  |  |
| Debt/Equity Ratio | 0.29 | 0.27 | 0.97 |
| Current Ratio | 1.6 | 1.6 | 1.2 |
| Quick Ratio | 0.8 | 0.7 | 0.8 |
|  |  |  |  |
| **Profitability Ratios** |  |  |  |
| Return On Equity | 9.1 | 12.9 | 27.5 |
| Return On Assets | 5.3 | 7.1 | 8.7 |
| Return On Capital | 6.5 | 9.4 | 11.5 |
| Return On Equity (5-Year Avg.) | 10.8 | 12.5 | 23.8 |
| Return On Assets (5-Year Avg.) | 6.1 | 6.9 | 8.0 |
| Return On Capital (5-Year Avg.) | 7.8 | 9.4 | 10.7 |
|  |  |  |  |
| **Efficiency Ratios** |  |  |  |
| Revenue/Employee | 503,259 | 483,524 | 1 Mil |
| Receivable Turnover | 18.4 | 22.2 | 14.9 |
| Inventory Turnover | 7.9 | 7.2 | 12.3 |
| Asset Turnover | 1.6 | 2.0 | 0.8 |

**Net Worth Analysis** (in millions)



**IFE Matrix**





**F. SWOT**

**SO Strategies**

1. Expand Minute Clinic operations to more CVS Pharmacies (S8, O6).
2. Inform consumers about savings of genetic testing (S9, O2, O3).
3. Improved PBM sales through collaborations with Google (S5, O5).
4. Offer additional savings to Baby Boomers (S4, O1).

**WO Strategies**

1. Increase retail stores in Idaho, Wyoming, and North Dakota (W9, O10).
2. Advertise to increasing Baby Boomer population (W7, O1).
3. Advertise more to newly insured Americans (W7, O4).
4. Increase PBM sales by promoting CVS’s Pharmacogenomics testing (W5, O5).

**ST Strategies**

1. Strategy to combat large scale savings offered at Wal-Mart (S4, T6).
2. Promote the Proactive Pharmacy Care program within stores (S2, T3).
3. Promote re-accreditation in stores, on website, and advertisements (S10, T1).
4. Offer savings to patients who use CVS Minute Clinics (S8, T3).

**WT Strategies**

1. Implement mandatory training session twice yearly for all CVS Caremark employees (W8, T9).
2. Certification of employees in abiding by state regulations for all CVS Caremark Minute clinics (W8, T5).
3. Dedicate more financing to marketing promotions for retail segment (W10, T1).
4. Marketing and advertising promotions directed toward luring increasing competitor base to becoming CVS customers (W7, T7).

**G. SPACE Matrix**







**H. Grand Strategy Matrix**



**I. The Internal-External (IE) Matrix**



|  |  |
| --- | --- |
| **Division** | **Profits** |
| Pharmacy | 65% |
| Retail | 35% |

**J. QSPM**









**K. Recommendations**

1. Add 600 new stores over next 3 years. $1,500 M

2. Increase advertising over next 3 years. $900 M

**L. EPS/EBIT Analysis** (in millions)

Amount Needed: $2,400

Stock Price: $36

Shares Outstanding: 1,340

Interest Rate: 5%

Tax Rate: 39%





**M. Epilogue**

CVS/pharmacy in October 2011 began offering its Social Network Connectivity at all CVS/pharmacy Photo Centers with KODAK Picture Kiosks. CVS customers can now access and print their photos or access their friends' photos directly from FACEBOOK at the KODAK Picture Kiosk in all CVS/pharmacy outlets. This new feature allows CVS/pharmacy customers to print images directly from FACEBOOK without bringing a digital camera, USB drive or smartcard into the store. With almost 140 billion photos stored on FACEBOOK and nearly 200 million more uploaded every day, CVS/pharmacy customers now have another convenient, easy-to-use way to print images and create keepsakes.

[CVS](http://seekingalpha.com/symbol/cvs) will benefit greatly from the expiring patents of major drug companies within the next two years. CVS (and rival stores) pay 90 percent less for generic drugs than for branded drugs. Gross margins for drug stores average 48 percent for generics compared to only 8.9 percent for branded drugs. Prescription drugs account for 68 percent of CVS’s revenue and, in comparison, 63 percent of Walgreen’s revenue. The expiring patents of branded drugs could result in an increase in drug stores earnings of at least 20 percent through 2013. At least 10 major branded drugs have patents expiring in 2011 and 2012, including Lipitor, Zyprexa, Levaquin, Concerta, and Protonix in 2011, followed by Plavix, Seroquel, Singulair, Actos, and Enbrel in 2012. Since sales for nearly all of the listed drugs are in the billions, drug stores have a lot of potential for increased earnings.