Strategic Management Project: Module 1

A. Nonymous

1. Give a short account of the history of the company, and trace the evolution of its strategy. Try to determine whether the strategic evolution of your company is the product of intended strategies, emergent strategies, or some combination of the two.

Walgreens has a long history spanning over a century. Charles Walgreen founded his first store in 1901. His first store was in Barrett's Hotel in Chicago's south side. The early stores experimented with many entrepreneurial ideas. The Walgreens.com web site, under the Our Past section, states, "Walgreens continued to come up with new, important ways to service customers and - just as importantly - employ thousands of people during this period of extreme economic distress"(5). Walgreens had flourished during very hard economic times, and had 500 stores by the 1930s. Early Walgreens stores used soda fountains to increase revenue.

Walgreens became a publicly traded company in 1927. They started radio advertising in 1931. Charles Walgreen died in 1939 at the age of 66. Walgreens is growing faster now than ever before. The Walgreens.com web site, under the Our Past section, explains, "Today, with 500 new stores opening each year and 7,000 planned by 2010, Walgreens continues to innovate"(7).

Walgreens has always maintained a simple strategy. Although the strategy changed over the years to mention newer innovations, the basic principles of the strategy have remained similar. The Walgreens.com web site explains, "It's not particularly fancy, but it's a rock solid approach: enter new markets, 'dense up' existing markets, relocate, remodel, invest heavily in high tech store and distribution systems which drive service up and costs down, and offer an on-line drugstore web site totally integrated with our retail stores"(Company Overview 2). Walgreens corner stores focus on convenience. The textbook, written by Hill and Jones, defines strategy as,"...an action that managers take to attain one or more of the organization's goals"(3). The first Walgreens, classified as a mom and pop store, focused on quality service. How did Charles Walgreen transform his management ability over one store into a capability to manage many? Each new store presented unique opportunities. The basic strategy of this manager was to gain profitability, one of the organization's goals, by
providing a competitive cost structure and friendly service. This strategy has worked for Walgreens, and it reached sales of $28.7 billion in 2002. Walgreen’s strategy is a foundation for the industry. Many drug retailers try to copy its success.

What is strategic evolution? Strategy is the way managers attain one or more corporate goals. Evolution is a directional change. Strategic Evolution is the way managers attain one or more corporate goals through a directional change. Why did Walgreens first succeed, while many other drug competitors existed back in 1901? The Walgreens.com web site, under the Our Past section, explains, "New bright lights were installed...each customer was personally greeted...aisles were widened...and the selection of merchandise was improved..."(2). Apparently, these were not standard practices of the time. Walgreens focused on superior customer service, his directional change, and expanded his market share.

Were Walgreens strategies intended, emergent, or both? Walgreens strategic evolution consists of various intended and emergent strategies. Any successful business must use both intended and emergent strategies. Did Walgreens, in the early days, intend to be a soda fountain? The answer is no. While intended strategies are planned, emergent strategies occur, in Mintzberg’s view, due to ‘unforeseen circumstances’. A new change in the product environment allowed Walgreens to capitalize on unrealized revenue. Coulson released a product with two cookies. Coulson’s product took off, and Walgreens made more money due to this newer circumstance. Did Walgreens have several intended strategies. Walgreens had a very early strategy of cutting cost structure. Walgreens.com’s web site, under Our Past, states, "By making certain drug items himself, Mr. Walgreen was able to ensure their high quality, yet offer them at lower prices than comparable merchandise..."(2). Walgreen intended to maintain a lower cost structure during his company's evolution. Could Walgreens have foreseen the Internet, satellites, and automated routing systems? No, he could not, but the Walgreens Co. has capitalized on using these technologies to improve their cost structure. Walgreens used intended strategies, and as circumstances created other opportunity, they adapted with emergent tactics.

2. Identify the mission and major goals of the company.
What is Walgreens mission statement? Walgreens.com's website, under the Most Common Questions Archive, states, "Walgreens mission is to offer customers the best drugstore service in America. We are guided by a century old tradition of fairness, trust and honesty as we continue to expand our store base and offer career opportunities to a fast growing and diverse group of men and women. Our goal is to develop people who treat customers - and each other - with respect and dignity. We will support these efforts with the most innovative retail thinking, services, and technology. The success we achieve will allow us to reinvest in our future and build long term financial security for our employees and our shareholders." (1). Walgreens formed its mission on a solid customer-friendly foundation. This mission describes key values of the company. Managers may form their goals with the mission statement in mind.

What are Walgreen's goals. The textbook, written by Hill and Jones, describes a goal as, "a desired future state or objective that a company attempts to realize" (14). Goals should be precise, measurable, critical, challenging, realistic, and time specific. Although I found many directional statements made by the company, I found no solid strategic goals that met all the above criteria. I found no evidence of precise, measurable, and time specific corporate goals. I did find many statements referring to critical, challenging, and realistic goals. Although specific objectives were not mentioned, the company's website did have some information on their attitudes toward customer service, plans for the general future, and estimates of growth. They believe in their ability to render customer satisfaction. They declare their belief in courtesy, kindness, and etc. They plan to have 7,000 stores by 2010. They predict another stock split within two years. The Walgreens.com website also states, "The company plans to invest $1.0 billion in fiscal 2003 in new and relocated stores, distribution centers and systems development" (Financial and Other Numbers 2). This objective mentions a measurable performance of investment, but there is no mention of the distribution or the project outcome of the money.

3. Do a preliminary analysis of the internal strengths and weaknesses of the company and the opportunities and threats that it faces in its environment. On the basis of this analysis, identify the strategies that you think the company should pursue. (You will need to perform a much more detailed analysis later in the book.)
Walgreens has specific strengths and weaknesses. The textbook, written by Hill and Jones, states, "Internal analysis, the third component of the strategic management process, serves to pinpoint the strengths and weaknesses of the organization"(16). Walgreens enjoys many strengths. Walgreens is the leader in its industry because it has annual sales of $32.5 billion, has 4,227 stores, ranks number 1 among food and drugstores, is forty-fourth in sales on Forbes 500, conducts business in 44 states, has 141,000 employees, filled 361 million prescriptions in 2002, and serves 3.4 million customers per day. Walgreens has more resources than its competitors, ships a greater quantity of products, and maintains a very efficient shipping system. What are some of Walgreen's weaknesses? Walgreens has several aging stores, has many stores inadequately staffed, the internal structure of the corporation is very tall, and geographically divergent locations are becoming logistic issues.

The company should adopt a few progressive strategies to combat these weaknesses, and maximize the advantages of its strengths. Walgreens should implement a functional strategy directed at using even more technology to improve their shipping and logistics. Drug stores, with an increasing demand, need to have more materials on hand, and so Walgreens needs to focus on getting more material (drugs) to each store faster. Walgreens needs to upgrade many of its older stores to meet ever increasing demand, and increase recruiting to appropriately staff all of its facilities. Walgreens has many strengths on which it can increase its revenue. Business levels strategies consist of positioning a company in a market. Walgreens is already established as a low cost leader, and differentiates itself as the customer friendly drug store. Walgreens should further develop the pharmacy linking systems to increase customer ease when ordering products. What other competitive advantage can Walgreens gain? They are already a leader in cost, maintain a high efficiency of distribution, and provide customer friendly service. Walgreens is working hard to establish their web site as a dominate leader in drug-retailers. It provides information, ordering capability, and much more. Walgreens should increase their product margin so growth can continue at an ever higher rate.

4. Who is the CEO of the company? Evaluate the CEO's leadership capabilities.
The CEO of Walgreens is David W. Bernauer. He is the Chairman and Chief Executive Officer of Walgreens Co., and got the job on January 8, 2003. The Walgreens web site, states, "Bernauer, 58, started with the company as a pharmacist in 1966 after graduating from North Dakota State University" (Press Release Walgreens Co. Names CEO...1). Bernauer moved slowly through the ranks. He was named district manager in 1979, and regional vice president in 1987. He became vice president and treasurer in 1990. He then became VP of merchandising and purchasing in 1992. Walgreens promoted him to CIO in 1994. He soon rose to Senior VP in 1996. David W. Bernauer was elected Chief Operating Officer in 1999. He continue to perform, and his star rose through the ranks of management. The former CEO had a 39 year career with Walgreens, and Bernauer now enters his thirty-seventh year of employment.

What capabilities does Bernauer have? The textbook, written by Hill and Jones, states, "Capabilities refer to a company's skills at coordinating its resources and putting them to productive use" (78). What skills did Bernauer utilize productively? He earned a degree at North Dakota State University, and soon went to work for Walgreens. He started as an intern, and quickly used his education to become a pharmacist. He worked at the store level until 1979. After working in a store for over 13 years, he utilized his knowledge of store operations to become a district manager. He worked as district manager, and used his skills to become a regional vice president in 1987. He continued to coordinate all his knowledge about the drug store industry to gain higher positions in the company. He know manages the largest drug retail company in the industry. He put his knowledge, skills, and experience to good use.
Works Cited Module 1


1. Apply the five forces model to the industry in which your company is based. What does this model tell you about the nature of competition in the industry?

The five forces model, as described by Michael E. Porter, consists of five competitive forces which help managers identify a company's opportunities and threats. Charles W. L. Hill and Gareth R. Jones, state, "His [Porter's] model...focuses on five forces that shape competition within an industry: (1) the risk of entry by potential competitors, (2) the intensity of rivalry among established companies within an industry, (3) the bargaining power of buyers, (4) the bargaining power of suppliers, and (5) the closeness of substitutes to an industry's products"(40). The five forces model will be applied to the drug retail industry.

The five forces model shows the nature of competition in the retail drug industry. The first competitive force is barriers to entry. Hill and Jones explain barriers to entry as, "factors that make it costly for companies to enter an industry"(41). Some industries have many barriers to entry which discourage potential entrants. Barriers to entry are brand loyalty, absolute cost advantages, economies of scale, customer switching costs, and government regulations.

The retail drug industry enjoys four of the five barriers to entry. The industry has many solid brand names. According to the Walgreens.com web site, under the subsection of Our Past within the Our Company section, it states, "Walgreens new computer system for filling prescriptions, Intercom Plus, links all stores into a single network and represents how advanced technology serves customers' needs better than any other pharmacy resource"(1). The retail drug industry enjoys cost advantages due to many computerized logistics networks. The Walgreens.com web site states, "Largest drugstore chains based on previous 12-month sales (through August 31,2003); 1. Walgreens - $32.5 billion, 2. CVS - $25.3 billion, 3. Rite Aid - $16.1 billion, and 4. Eckerd - $15.0 billion" (Walgreens Rankings and Ratings 1). The industry enjoys economies of scale because it has several large chains, and a very broad purchasing volume. In the drug industry there are little switching costs. Most
potential entrants use web-based shopping options, and there is very little time spent switching over. The only switching costs are the time it takes to drive to a foreign country, or to update your personal information into the computer. Switching costs are minimal. The government regulates the sale of pharmaceuticals, and entrants must go through a lengthy procedure to acquire licenses. The government regulates the sale of all drugs, so this would be a high barrier to entry.

The second, of the five forces, is the intensity of existing rivals within the industry. The retail drug industry contains many companies, but the most notable are Walgreens, CVS, Rite Aid, and Eckerd. Other competitors include supermarket and superstore based drug stores. These businesses include Costco, Savons, Walmart, and more. Pharmaceuticals are a lucrative industry, with fairly high margins. The margins are decreasing, and competition constantly adapts to changing approaches. The textbook, written by Hill and Jones, states, "Rivalry refers to the competitive struggle between companies in an industry to gain market share from each other" (43). Three main factors contribute to rivalry within an industry. The textbook states, "...rivalry among established companies within an industry is largely a function of three factors: (1) industry competitive structure, (2) demand conditions, and (3) the height of exit barriers in the industry" (Hill and Jones 43). The retail drug industry is a fragmented industry due to the four large companies and the various competing superstores. The retail drug industry enjoys many new customers. The baby-boomers are increasing the age demographic, and they need drugs. Demand constantly increases due to the ballooning of this demographic, so many competitors enjoy growth without losing market share. The size of the market increases and so everybody's piece of the pie grows in proportion. The largest barrier to exiting the drug retail industry is the brick and mortar store. These stores and locations are fixed assets which become hard to liquidate. Many competitors now choose to handle customer interaction on the web. However, you can't get drugs immediately from a web site. Who wants to wait for shipping when you need medication immediately? The brick and mortar store acts as an extension to any on-line operation.

The third, of the five forces, is the bargaining power of buyers. The textbook states, "The bargaining power of buyers refers to the ability of buyers to bargain down prices charged by companies in the industry or to raise the costs of companies in the industry by demanding better product quality and service" (Hill and Jones 48).
Walgreens customer base extends to millions of consumers, which can choose from any of its 4,227 stores. Walgreens fails to dominate the market. Buyers have many options to choose from and require better interaction between their doctors and pharmacies. Customers require service, demand lowering prices, and often look for the availability of drugs on their formulae. The retail drug industry must continue to innovate its guest service and drug availability to keep consumers happy. However, in this industry, there are many consumers. The stores sell to some of the market, and therefore the individual buyer has a lower bargaining power. There are millions of individuals who will buy their products, and customers can’t demand a lower price directly from any one company. The industry lowers prices due to demographic demand and consumer response. Individual consumers do not have bargaining power, but as a collective can decide the health of any industry. They decide where to shop with the all-mighty dollar.

The fourth, of the five forces, is the bargaining power of suppliers. The textbook, written by Hill and Jones, states, "The bargaining power of suppliers refers to the ability of suppliers to raise input prices, or raise the costs of the industry in other ways—for example, by providing poor quality inputs or poor service" (49). A few major drug companies determine prices and availability for prescription drugs. The bargaining power of these suppliers is greatly higher than the bargaining power of the generic market. The four major players and the superstores deal both in generic drugs and prescription drugs. How do these two market segments differ? The bargaining power of some of the larger pharmaceutical companies is great. If that company has the only drug that works for certain ailments, then each competitor must deal with them. Any of the large drug retailers, in that kind of scenario, would have little power to bargain. The retail drug industry, in the generic market, has a lot more bargaining power. If a generic manufacturer decides not to sell to a particular retailer, then the stores could easily pick another generic supplier. Generic drugs have less exclusivity than prescriptions, so suppliers must give-in to the chains’ demands.

The final force is the threat of substitutes. The textbook explains, "The final force in Porter's model is the threat of substitute products: the products of different businesses or industries that can satisfy similar customer needs" (Hill and Jones 49). What is a potential substitute for a Walgreens, a CVS, or a Rite Aid? The direct substitutes are the distribution channels for which they compete. On-line drug retailers, and foreign country
pharmaceuticals become a real threat to substitution. Why would someone, who lives in San Diego, want to purchase drugs in the US? They could easily go across the border and pick-up the same drugs for half the cost. Why would someone want to buy a bottle of pills when they can have eight bottles of the generic pills shipped directly to their house? On-line drug retailers use shipping companies for their distribution systems. Now the retail drug industry must compete in distribution with UPS, FedEx, and Airborne Express. What about Walmart? Walmart now has pharmacies at their stores, and their retail distribution system is legendary. Walmart is a threat because it is not a corner market. The threat of substitutes is very high, and only the government can keep any regulation on the number of drug retailers. The retail drug industry must compete against many substitutes, and the number is increasing over time.

What does Porters five forces model reveal about the drug retail industry? The risk of entry by potential customers is moderate because barriers to entry are moderately established. These barriers consist of brand loyalty, absolute cost advantages, economies of scale, customer switching costs, and government regulations. The intensity of rivalry within the industry is moderate. The bargaining power of buyers is low per customer, but the greater demographic has a large influence on the power of buying. The bargaining power of suppliers is high in the prescription market, and low in the generic market. The threat of substitutes is very high, and continues to grow even though the government has the power of regulation. Margins are still high, so there must still be more room for other competitors.

2. Are any changes taking place in the macro environment that might have an impact, positive or negative, on the industry in which your company is based? If so, what are these changes, and how might they affect the industry?

There are some changes taking place in the macro environment which have significant impacts on the retail drug industry. The textbook states, "...the wider macro environment, that is, the broader economic, technological, demographic, social, and political context in which companies and industries are embedded." (Hill and Jones 60). One must examine all five macro environment factors for individual changes to the
industry. In the past 20 years, significant changes occurred in the retail drug industry, which have caused positive and negative affects.

The economic forces consist of the growth rate, interest rate, currency exchange rate, and inflation. All of these affect the retail drug industry. The textbook states, "Economic forces affect the general health and well-being of a nation or a regional economy of an organization, which in turn affect companions' and industries' ability to earn and adequate rate of return" (Hill and Jones 60). The first force is the economic growth rate. Economic growth, which stays fairly steady in the United States, has slightly lessened over the last few years during a time of economic recession. Economic growth eases competitive pressures, and as the growth rate declines these pressures increase competition. This decline affects the retail drug industry because it can cause price wars. When demand grows faster than supply, then an economic decline may not directly affect an industry. The Walgreens.com web site states, "As fast as we're adding stores, the demand for prescriptions is growing faster"(Press Release 2). Although the drug industry is increasing, economic recession makes some companies fight harder for a similar piece of the pie.

Interest Rates affect the purchasing power of consumers. As interest rates lower, consumers typically spend more resources on financing long term debts. The increase in financing activities typically leads to a decrease in consumables. While most prescription drugs may not see a decline. The interest rates are at historical lows, and so many people are refinancing homes. Although drug sales may only decline marginally, sales of extra items may decrease unproportionately. People are less likely to buy that soda, tic-tacs, or bag of chips at the local Walgreens.

Currency Exchange deals with how the currency of one country buys or sells against the currency of another country. The textbook states, "Currency exchange rates define the value of different national currencies against each other"(Hill and Jones 61). When the United States dollar is low, the retail drug industry's domestic suppliers can provide drugs cheaper than countries with a higher exchange rate. For example, The United Kingdom shares a historically high rate of exchange with the United States. The British pound usually buys somewhere between 1.5 and 2.5 American dollars. British drugs, are therefore, more expensive to manufacturer
than American drugs. Europe established the Euro. The Euro is at a higher exchange rate than the dollar, so manufacturing can be more expensive. The retail drug industry can provide cheaper drugs than the European counterparts, but not as cheap as Canada and Mexico. Exchange rates are constantly changing, and so does there positive and negative impact on the industry.

The last economic factor, inflation, also affects the retail drug industry. Inflation, or deflation can cause drastic changes in the overall economic environment. Inflation tends to lead to uncertainty about the future, while deflation raises the cost of any 'fixed payment system'. During deflation, the money you spent on something yesterday, doesn't buy as much the next day. While deflation and inflation in the US market are controlled to a large degree, other markets can suffer either. The possibility of expansion into other markets becomes more apparent depending on their levels of inflation or deflation. The more balanced you are between either factor, the more stable your economy becomes for potential investors. Drug retailers may want to concentrate domestically if economic uncertainty exists in other places.

How has technology affected the drug industry? The American population has seen a huge technological increase over the last 20 years. Computers now dominate many daily operations, and many logistical systems are handled by advanced computer networks. For example, Walgreens.com web site under the Company Overview mentions, "Intercom Plus...allows pharmacists to spend more time counseling patients by assigning administrative tasks to pharmacy technicians"(1). Also, on Walgreens.com under Our Past section, the site explains, "And now, with the ability to fill prescriptions quickly and economically at Walgreens.com, the latest piece of Walgreens advanced technology is in place"(1). Technology has affected every aspect of American culture. Drugs are made, shipped, and sold faster than ever before. The technology has increased to meet with the ever increasing demand. Technology has positively affected the drug industry, but will the Internet start to shake the very foundations of the brick and mortar stores?

The baby-boomer generation, the largest portion of the American population, is getting older. This demographic has a positive change on the retail drug industry. The textbook, written by Hill and Jones, explains, "Demographic forces are outcomes of changes in the characteristics of a population, such as age,
gender, ethnic origin, race, sexual orientation, and social class”(63). This generational boom, increases the
demand for drugs. The Walgreens.com web site quotes Walgreens CEO David Bernauer with this statement on
its Press Release page, "The number of people age 65 and older will double - to 70 million - by 2030”(2). This
portion of the population also plans on spending a large percentage of their income on drugs for healthier
living. Is the boom positive? What happens when the baby-boomer generation dies off. Although this
generation represents a significant bulge in the demographic distribution, population increases will create more
demand over time. The time will come when this generation fades. The next generations will consume greater
quantities of drugs from retail stores.

Social forces always play a role in societal development, but how do they play a role in the business
environment. The textbook, written by Hill and Jones, explains social forces as, "..the way in which changing
social mores and values affect an industry”(63). Does society see retail drug stores as the way to buy
pharmaceuticals. People tend to take more drugs as they age, and the older you get the more you need. This
older generation sees drug stores as a necessity. People want the convenience of the corner store, and they don't
perceive drug stores like the old alchemists of the medieval era. Drugs are now a science, and society usually
holds a high respect for science. Pharmaceuticals serve the common good, while drugs are bad. People live
healthier lives, and they are living longer. Do people want to get their drugs more conveniently? The younger
generation buys a lot on the Internet. In 40 years, the average person may buy their drugs on the Internet.
Societies' views change and the convenience of the corner is no longer convenient. Social forces play both a
positive and negative part in the retail drug industry.

What do drugs have to do with Politics? Politics is shaped by the funding of governments. Can you name one
political system that has survived that didn't understand the economics of business? Economics is how a society
distributes its resources amongst the people, and a political system is how a population chooses to manage the
regulation of those resources. The United States goes through periods of leaving big business alone, and
episodes of extreme industrial controls. The retail drug industry suffers from stiff regulations. Walgreens, for
example, must sell drugs only approved by the Food and Drug Administration, and they run the risk of losing
their license if they sell none approved drugs. What are drug stores allowed to sell? Regulations affect the
operations of a business. The retail drug industry enjoys high margins. Government regulations don't hinder these businesses, but what happens when a new political trend comes down the pipeline? Will there ever be restrictions on the number of generic drugs they can sell? Political forces must be cared for, like any other force in a competitive environment.

All these forces affect the changing macro environment of the retail drug industry. The economic forces of growth rate, interest rate, currency exchange rate, and inflation all affect how the retail drug industry conducts its business. The Internet affects marketing and distribution. Baby-boomers are changing drug demands. Social forces, such as the values of how drugs stores are perceived, affect the legitimacy of businesses. The government regulates the drug market, although the retail industry has flourished under the current regulations. All these forces, affect the outcome and health of the retail drug industry.

3. Identify any strategic groups that might exist in the industry. how does the intensity of competition differ across these strategic groups?

Strategic Groups refer to different market positioning segments. The textbook, by Hill and Jones, states clearly, "Companies in an industry often differ significantly from each other with respect to the way they strategically position their products in the market in terms of such factors as the distribution channels they use, the market segments they serve, the quality of their products, technological leadership, customer service, pricing policy, advertising policy, and promotions" (50). The retail drug industry has two market segments, but several strategic groups. These strategic groups can be broken-down into three distinct groupings. All the strategic groups sell both market segments, which are prescriptions and generics. The retail drug industry consists of the strategic groups of brick/mortar corner stores, pharmacies in superstores, and on-line retailers. Each of these strategic groups differ in their approach to distribution, market segments, quality of products, technology, service, price, and marketing.
The brick and mortar corner stores such as Walgreens, CVS, Rite Aid, and Eckerd deliver a convenient product in a feasible location. These locations are geographically located, easily accessible, affordable, and available. These retail drug, corner stores fight competitively against each other, but spend more time fighting against the progression of the other strategic groups. These corner stores distribute drugs through their stores, and address the convenience of location that most consumers prefer. These stores provide a quality product produced by both generic and prescription manufacturers. Walgreens has a distribution network in place to increase the efficiency of supply to all its stores. Each of Walgreens competitors has similar systems, which deal in low volume to each store. These small brick and mortar stores, which replaced the old mom and pop pharmacies, provide exceptional service records. They price the drugs competitively against other segment competitors, and market their products to the on-the-go consumer. The products are easy to pick up, and conveniently located for accessibility. Why not stop by the local corner store to get your drugs? Part of Walgreens strategy, as stated on the Company Overview on Walgreens.com is, "it's a rock solid approach...relocate, remodel, invest heavily in high tech stores and distribution systems which drive service up and costs down..."(2). This brick and mortar retail industry constantly changes its cost structure to compete with the other increasing strategic groups.

The next segment of the market is Pharmacies in Superstores. Walmart, Savons, and Costco deal with a consumer who happens to be in their stores. Would you go to one of these pharmacies if you weren't already in the store? You probably wouldn't, but they have a huge customer base. They are succeeding in the drug retail market. They distribute their product in bulk, so they gain economies of scale by dealing in very large volume. They focus on both the market segments of generics and prescriptions. They don't have as much service as your corner store, but how many corner stores can claim they have a doctor who knows everything? They provide a lot of product because they have advanced shipping capability. It is unknown how well pharmacies in these stores interact with their sister stores. They provide nominal service, a lowered price, and only sell to those individuals already in the store. Occasionally you will see a company, like Walmart, advertise on television that they have a pharmacy.

On-line drug retailers advanced on the industry like there was no tomorrow, but there was a tomorrow. Many of the drug information web sites took a heavy hit during the dot.com bubble burst, but they continued-on, and
now provide drug ordering systems. They have no stores, and no real physical distribution systems. The drugs come right to your house, and you can get them within 2 days. They can market to everyone, but you must have access to a computer. One can browse the products on a web site and find the exact drugs you want. Their service is web based, and they even have hot-line numbers. Would you ask health questions to a computer technician? Do they actually have doctors at the keyboards? The Internet drug retailers are at the forefront. They use this tremendous resource to cut down on large amounts of inventory and overhead expenses. These companies out source their shipping, sometimes directly to UPS or FedEx. The prices are lower than those of brick and mortar stores, and the Internet market is increasing.

All three of these strategic groups acts differently against their own competitors. Brick and mortar stores differentiate their service versus their competitors. Walgreens, Rite Aid, CVS, and try to maintain that they have the friendliest service. Walmart and Costco don't trifle with such distinctions. They advertise that they have the lowest priced volume drugs. Can you really steal a volume shopper away from Costco over to Walmart? The Internet drug retailers place ads on other web sites, and advertising is an increasing challenge on a resource that suffers from information overload. Corner stores, bargain warehouses, and Internet retailers all serve a different customer base. While corner markets fight hard to get you to come to their stores, bargain warehouses are less likely to sway you on location.

4. How dynamic is the industry in which your company is based? Is there any evidence that innovation is reshaping competition or has done so in the recent past?

The modern retail drug industry emerged over a century ago, and continues to undergo change. How does one classify a dynamic industry? The textbook, written by Hill and Jones classifies it this way, "A dynamic industry environment is one that is changing rapidly"(99). Is the retail drug industry changing rapidly? The textbook, also states, "the most dynamic industries tend to be those with a very high rate of production innovation..."(Hill and Jones 100). The retail drug industry changes focus based on newer drugs, evolving technology, and shifting demographics. The retail drug industry constantly changes under the pressure of newer and better drugs.
Walgreens Co., filed a form 10-K with the United States Securities and Exchange Commission on August 31, 2002, and this document stated, "Prescription sales continue to become a larger portion of the company's business...prescriptions accounted for 59.8% of sales compared to 57.5% last year"(2). Drug companies have used advanced technology to link their stores. The web site, Walgreens.com states, "Walgreens is the largest private user of satellite technology (second only to the United States government)"(Our Past 1). The shifting demographics, mainly the aging baby-boomers, provides for complex approach to newer marketing. The three elements change very rapidly. This dynamic industry has made several advancements through competition, and the population is now living longer. These changes prove that innovation is changing competition, and the impact is greater now than ever before. The industry enjoys rapid growth, constant change, and a very high rate of product innovation. The corner stores are quickly overcoming the gas station as the premier intersection corner.

5. In what stage of its life cycle is the industry in which your company is based? What are the implications of this for the intensity of competition both now and in the future?

The retail drug industry is in the growth phase of the Industry Life Cycle. The textbook, written by Hill and Jones, easily explains the importance of the Life Cycle, "A useful tool for analyzing the affects of industry evolution on competitive forces is the industry life cycle model, which identifies five sequential stages in the evolution of an industry that lead to give distinct kinds of industry environments: embryonic, growth, shakeout, mature, and decline..."(54). Before one looks at why the retail drug industry fits in the growth phase, one should look at why it doesn't fit in the others. Embryonic industries are ones that just began. A shakeout industry is where the rate of growth slows dramatically, almost to stagnant demand levels. One classifies a mature industry as one where demand is all replacement and new demand is zero. The textbook states, "Eventually, most industries enter a decline stage: growth becomes negative for a variety of reasons..."(Hill and Jones 57). The retail drug industry fails classification in any of these phases, for the following reasons: it is not a new market; the growth rate has not slowed and demand level are increasing; there is some replacement demand, but new demand is still created on a daily basis; and the growth rate is not in decline.
The retail drug industry is in the growth phase because first-time demand is still expanding, customers learn about new products all the time, prices are falling due to economies of scale, and many companies are expanding without acquiring competitions market share. Drug retail companies are still expanding. Walgreens.com's web site demonstrates the advancement of the retail drug industry, "When our fiscal year ends, we'll open about 120 new stores - nearly three per day" (Press Release 2). This industry leader is adding stores at an ever increasing rate. Kids age into adults, and these first time consumers demand drugs. Commercials increase the awareness of consumers about each new product, and customers purchase newer drugs. Drug prices are always falling as prescriptions become generic, and companies gain a volume advantage in purchasing. Walgreens.com's web site also lists an adequate indication of how the company is doing, and states, "Walgreens Co. today announced record sales and earnings for the third quarter and first nine months of fiscal 2003" (Press Release 1). Lastly, many of the current industry giants continue to expand without any significant gains in market share over their competitors.

What competitive implications can be made from this classification? The retail drug industry is evolving, and its growth rate will not last forever. Growth rate eventually slows, and the retail drug industry will enter the shakeout phase. Each phase of the industry life cycle model has different competitive implications. When demand expansion reaches zero, competitors must concentrate on acquiring greater market share by stealing others. Walgreens and its competitors may keep their precious market share and still increase sales while demand continues to rise. This industry can maintain a very high margin for their products. Demand will eventually decrease and margins will fall as the industry becomes more competitive. Every growth industry enjoys higher margins than those in the shakeout phase. When the retail drug industry reaches the decline phase, creating newer market share will be impossible. Competition is greatly affected by the life cycle model, and the retail drug distributors can sit pretty until the inevitable shakeout.

6. Is your company based in an industry that is becoming more global? If so, what are the implications of this change for competitive intensity?
Walgreens is based in an industry that is becoming more global. The textbook states, “The globalization of production has been increasing as companies take advantage of lower barriers to cross-border trade and investment to disperse important parts of their production process around the globe” (Hills and Jones 65). The drug industry is becoming a global power house. Walgreens already operates some stores in Puerto Rico, even though it is considered part of the United States. The drug retail industry is slowly expanding into other countries. Western medicine is slowly gaining prominence in the under-developed parts of the world, and retail drug stores are starting to expand into other markets. Walmart has already expanded its stores into Britain, under a different name. These stores have pharmacies. Even Walgreens indicates that global markets are becoming more competitive as foreign currencies strengthen against the dollar.

Globalization will change competitive intensity in several ways. While most of the drug retailers have focused on domestic marketing, globalization will stretch resources. Companies must now worry about many different issues when it comes to globalization, such as: foreign competitors, international law, foreign government regulations, different societal values and norms, exchange rates, cultural barriers, differentiated marketing, specified manufacturing, and physical distribution. All these elements affect an industry’s competitive intensity. McDonalds won the fast food race when it decided to expand, and it now dominates the foreign markets. How did this size advantage affect the industry? McDonalds gained an economy of scale that none of its other competitors could possibly match. The rest of that industry now plays catch up. Which company will become the world leader in drug retail? Will Walgreens, CVS, Costco, or an Internet site become the dominant world drug seller? Industries change with globalization, and now the uncertainty of foreign markets plays a large hand in the development of the drug retail industry.

7. Analyze the impact of national context as it pertains to the industry in which your company is based. Does NC help or hinder your company in achieving a competitive advantage in the global marketplace?
The drug retail industry, with some prime competitors located in the United States, contains some of the four attributes of a nation or country specific environment. These four attributes consist of: factor endowments; demand conditions; relating and supporting industries; & firm strategy, structure, and rivalry. The drug industry enjoys factor endowments, because it has skilled labor to provide adequate information about their products. The demand conditions in the United States are such that there is a lot of elderly people who have a solid income to spend on life-sustaining drugs. The younger generations also believe in sustaining a healthy lifestyle, and spend billions on preservative drugs. The shipping industry in the US allows drug companies to distribute their products. The United States openly promotes competition. The drug retail industry thrives on competition, but the US government has been very careful to regulate the rules of the game. All of these factors allow the drug retail industry to flourish under competitive forces. Would that be true in other countries, and in the global marketplace?

National context does hinder the drug retail industries ability to achieve a competitive advantage in the global market place. Not every country has the capacity for educated work forces. Providing quality service in some countries would be hard if there was a lack of qualified pharmacists. Many countries have high demand, but foreign currencies don't always appear profitable to companies. What would you do if you could sell a bottle of aspirin for $8.00 US dollars, but the average Laosian earns an equivalent of $14 a year? The US economy has both the educated population that demands products, and a market that can spend billions in access income to buy those products. Many countries do not have the infrastructure or distribution network necessary to handle drug logistics. Some countries do not allow for privately owned companies. Some countries, China for example, promote their own government owned companies. Competition does not flourish in the rest of the world. Nothing stops other governments from stealing your stores, drugs, and so forth whenever they feel like it. The United States enjoys democracy, which isn't true for a good portion of the planet. All of these would hinder a drug retail industry from maintaining a global competitive advantage.
Works Cited Module 2


1. Identify whether your company has a competitive advantage or disadvantage in its primary industry. (Its primary industry is the one in which it has the most sales.)

Walgreens Co.'s primary industry is the retail sale of prescription drugs. Walgreens Co. filed a 10-K with the SEC on August 31, 2003, which stated, "Prescription drugs 60%, non prescription drugs 11%, and general merchandise 29%...total sales..."(3). The 10-K filing, also mentioned, "The company's primary business is the operation of retail drugstores"(3). Does Walgreens Co. have a competitive advantage? The textbook, written by Hills and Jones, describe how to tell if a company has an edge, and it states, "A company has a competitive advantage over its rivals when its profitability is greater than the average profitability for all companies in its industry" (76). The web site, Walgreens.com indicates, under its Financial and Other Numbers page, "Fiscal year ended Aug. 2002 Sales in billions of 28.7, and earnings in millions $1,019..."(1). Walgreens Co. enjoys a higher earnings to sales ratio than its competitors. The textbook, written by Hill and Jones, states, "The primary objective of strategy is to achieve a competitive advantage because then superior profitability will follow" (76). Walgreens, a company now over 100 years old, and still maintains a higher profitability. The company must maintain a competitive advantage over its competitors, otherwise their profitability would be marginalized.

2. Evaluate your company against the four generic building blocks of competitive advantage: efficiency, quality, innovation, and responsiveness to customers. How does this exercise help you understand the performance of your company relative to its competitors?

Walgreens maintains an advantage over its competitors, because: it maintains a better level of efficiency, they have a higher perceived quality of service, they engage in continuous innovation, and are very responsive to customers. The textbook explains the first building block like this, "The simplest measure of efficiency is the quantity of inputs that it takes to produce a given output" (Hill and Jones 87). Employee and capital
productivity play an important role in efficiency. Walgreens uses their capital to produce more lucrative results than their competitors. Walgreens has 103 stores more than CVS, 841 stores more than Rite Aid, and 1,517 stores more than Eckerd. One can look at the number of stores to sales ratio and see which store maintains a higher level of sales. Walgreens' average store has sales of 7.7 million dollars annually. CVS' average store has sales of 6.1 million dollars annually. Rite Aid's average store has sales of 4.8 million dollars annually. Eckerd's average store has sales of 5.5 million dollars annually. Which one do you think is more efficient with their capital and employee resources? Walgreens utilizes their capital to the highest levels in the industry, which might explain why it is a Fortune 500 company.

Walgreens service has the best quality record in the industry. One can't easily measure actual quality, but in service one must measure the perceived quality. Since the retail drug stores all sell pretty much the same drugs, the quality of service is the measurable attribute. Does Walgreens have a differentiated service level, which is reliable and is perceived by customers to have a greater value? Walgreens services 3.4 million customers a day. Walgreens has an advance satellite network to link their stores together. Most Walgreens stores are open 24 hours a day. They have the best availability of stores in the industry. They provide the same product as the competition, but there are several differences in their level of service. They provide a service with greater connectivity between stores, with better locations, more personnel, and continual hours of operation.

Walgreens continues to innovate by establishing more stores every day, continually linking supply and demand through a complex logistics network, and linking their stores together with a state-of-the-art satellite communication system. They are opening a new store about every three days. They link their distribution network with an automated tracking system to keep supply at efficient levels. Walgreens uses their satellite network to link pharmacy computers together throughout the entire operation. Walgreens also continues to retool their employee compensation package, as observed through the 10-K filing. This better serves their employees' needs.

Walgreens is very responsive to customers. They link computes together to collect information about patient profiles. These profiles help pharmacists determine drug incompatibilities and provide alternatives to the
consumers. Their web site responded to an e-mail request within 12 hours of it being sent. Their response had the correct information, and was delivered in a timely manner.

3. What are the distinctive competencies of your company?

Walgreens has many distinctive competencies. The textbook describes that term in this way, "Distinctive competencies are firm-specific strengths that allow a company to differentiate its product and or achieve substantially lower costs than its rivals and thus gain a competitive advantage" (Hill and Jones 77). Walgreens strengths, like most companies, stem from their resources and capabilities. The textbook, written by Hill and Jones, defines resources as, "as the capital or financial, physical, social or human, technological, and organization factor endowments that allow a company to create value for its customers" (77). Walgreens has strengths in its use of capital, technology and organization. It maintains a very high profitability when you examine the ratio of sales to earnings, so it makes more per dollar than its competitors. Walgreens has more technology than any other competitor, and utilizes that competency to create higher profitability. Walgreens also has a lower cost structure, which also increases profitability and earnings per share. Walgreens has many tangible resources, like its plants, facilities, drug inventories, and capital. Walgreens also uses many intangible resources such as company reputation, employee skill levels, and its intellectual properties.

Walgreens has many distinctive competencies, some of which stem from capabilities. What capabilities does Walgreens have? The textbook, written by Hill and Jones, states, "Capabilities refer to a company's skills at coordinating its resources and putting them to productive use" (78). Walgreens has many resources at its disposal. Walgreens has a very structured corporate leadership, and some of the upper management have worked for them for over 30 years. These managers maintain a very structured and ordered company. The processes of a company can play a vital role in its capability. How many other pharmacies have their stores networked by satellites? Some have linked them using the Internet, while others have gone a different route. They maintain very distinctive competencies and uses them to keep a competitive advantage.
4. What role have prior strategies played in shaping the distinctive competencies of your company? What has been the role of luck?

Walgreens didn't reach the hundred year mark by sheer luck. They also didn't reach that mark without luck. Every company needs great managers and a little bit of luck. Unfortunately, managers come and go. How does a company that spans over a hundred years, maintain a consistent strategy after countless CEOs. Charles Walgreen founded a decent company, with a few core values at its heart. The company has modified some of those values, but still maintains the core of a solid corporate culture. The employees made the company what it is today, and managers guided this business through all the possible pitfalls along the way. How has prior management strategies shaped the company's distinct competencies. Can a company gain distinctive competencies if the company continually loses money? Many managers have led Walgreens to its corporate success, and that current success has occurred over the last 29 quarters. The company obviously had a hard time some ten years ago. Walgreens has always maintained a lowering of cost structure to provide superior products and service at affordable levels. Are today's Walgreens actual soda fountains? No, but they once were. How did this play a role in the stores development. Walgreens sell sodas in bottles now, and not through a fountain. Many managers, some old and new, made product choices, which led the company to where it is today. Product choices, logistics decisions, marketing tactics, all play an important role in a company's overall development. While some hazards came along, like the great depression, Walgreens was able to grow and flourish. Their decisions enabled them to make a revolutionary logistics system, to buy a satellite communications network, and establish low cost leadership. How much of this was luck?

Some would say that managers are skilled professionals, while others say they succeed and fail on dumb luck. Both are true. Even a successful manager can't keep a company from going bankrupt during economically hard times. So, what is luck? The textbook, written by Hills and Jones, borrows a quote from an early industrial giant, "J.P. Morgan, once said, 'The harder I work, the luckier I seem to get'..."(104). His statement suggests that luck has a great deal to do with work. I once heard luck described like this, 'Luck is the meeting of a capability at the right moment of circumstance.' If a person does not have the capability, could they take
advantage of the circumstance? The answer is probably no. Walgreens took advantage of the cookie, introduced by Coulson, and ran with the soda fountains. Divergent times call for unique performances. Walgreens started as a drug retailer, and evolved over time to become the drug retail chain it is today. Walgreen's managers were lucky enough to have the right capabilities when circumstances came their way. Luck is a matter of occurrence, and Walgreens has utilized a number of opportunities to its benefit.

5. Do the strategies your company is pursuing now build on its distinctive competencies? Are they an attempt to build new competencies?

Walgreens pursues several strategies that build on its distinctive competencies. Walgreens strengths include its superior use of its capital, technological, and organizational resources. Walgreens other strengths include its utilization of its corporate structure, productivity, efficiency, and process capabilities. Its current strategies, as described on Walgreens.com, are, "Enter new markets, 'dense up' existing markets, relocate, remodel, invest heavily in high tech store and distribution systems which drive service up and costs down, and offer an on-line drugstore web site totally integrated with our retail stores" (Company Overview 2). Walgreens wants to enter other markets, and so far it has been very successful at opening new stores. However, foreign market expansion is difficult. Walgreens might be trying to build a new competency through expansion into foreign markets. Densing up existing markets should be fairly easy for a company that already enjoys the highest revenue per store ratio. They are very efficient at operations, and their distribution system will become better utilized as capacity increases. The average Walgreens store is 6 years old, and they continue to relocate unproductive stores and remodel old ones. Their capital structure allows for continuous renovation, and their profit margins are still the highest in the industry. They already have a huge competency in technology, but everyone knows that a company must continue to reinvest. Technology is a dead horse that rots away if left alone. They are spending more and more money just to maintain this competency. Their web site expansion is a divergent technology that isn't their best competency. Is the web site even a competency? The web site allows them to slowly transition away from the need of so many brick and mortar stores. They are still a fledgling in the web
game. Walgreen has strengths that allow it to gamble with some ventures more than other companies. They will have first mover rights to any new technology that allows them to lower costs and increase margins.

6. What are the barriers to imitating the distinctive competencies of your company?

Can you steal a company's competencies. The answer is yes, but only if you can take them. There are barriers to imitating distinctive competencies, and those barriers stem from the nature of the competency one is trying to steal. The textbook easily encapsulates barriers as, "...factors that make it difficult for a competitor to copy a company's distinctive competencies; the greater the barriers to imitation, the more sustainable are a company's competitive advantage" (Hills and Jones 97). Companies can easily imitate possession, because it is the easiest to see. CVS, for example, could easily decide to mimic Walgreen's store locations, network distribution system, satellite linking ability, and human resources. Could CVS just adjust copied balance sheets to reflect the same strategy as Walgreens? What would stop them from doing this? Possessions are easy to take, and so Walgreens protects them. Walgreens has a very beneficial employee package. Walgreens picks priority locations with little room for a competitor's corner plot. Walgreens maintains secrecy of its computer network linking system. They try to maintain barriers to keep their possession safe. Okay, so resources can be stolen, but not at an alarming rate. Can capabilities be stolen? They can, but are much more difficult to steal. Hills and Jones explain why, "...because capabilities are based on the way in which decisions are made and processes managed deep within a company" (98). But wait, can't you get the outcomes and numbers from stock holder reports? One can easily discover the expenditures because of the finite way accountants take records, but managers make far less notes of artfully done management decisions. Unrecorded decisions are not easily copied. A company would need to steal an employee or even a manager to gain such insights. Walgreen's management seems to be very loyal, some even lasting 20 years or more. Most companies try to keep from loosing decision making knowledge by spreading the decisions out among various individuals. Walgreens has thousands of store managers, and around a hundred thousand employees. They have some very high barriers to imitation, and yet other chains still copy some of their ideas.
7. Is there any evidence that your company finds it difficult to adapt to changing industry conditions? If so, why do you think this is the case?

I found no evidence that Walgreens finds it difficult to adapt to currently changing industry conditions. They lasted over a hundred years, and rolled with the punches. They maintained profitability even during the depression. They have successfully maintained increased earnings for the last 29 quarters, but that indicates that some previous quarters had issues. Any issues from over 10 years ago have long since been discarded from any reference from Walgreens itself. Historical patterns seem to indicate that the industry, as a whole, wasn’t doing fantastically over 10 years ago. I could not find a record of how long the previous slump had been, but Walgreens has emerged as an adaptive leader in an industry dominated by technology. Most computers were still running on DOS or a primitive version of the Windows operating system. Computers revolutionized the drug retail industry, and now connect people with automated prescription filling. The industry continues to change. What changes has Walgreens adapted too? They suffered a depression, double digit inflation during the Carter administration, corporate scandals during the Bush Jr. administration, the invention of the Internet, the first satellite in space back in 1960, the invention of the graphical user interface, the mass marketing of home computers, the invention of countless drugs, the almost complete eradication of certain world diseases, and many other trends. Walgreens sits high on a corporate culture that learns to adapt as it goes along with emergent strategies and unique capabilities.
Works Cited Module 3


