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RETAIL FACE OFF: Drug Wars

Retail Traffic, Aug 1, 2003



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Insurance providers are cutting prescription drug benefits, triggering a slowdown in retail pharmacy sales. So chains have to boost front-end sales of consumables and beauty goods and extend hours to generate more business. Walgreens has expanded its 24-hour business by 23.5 percent to 1,049 stores. CVS has 276 24-hour stores; Eckerd has 33. All three chains are still expanding, confident that new drug approvals will stimulate sales. Until then, here's how three stack up:

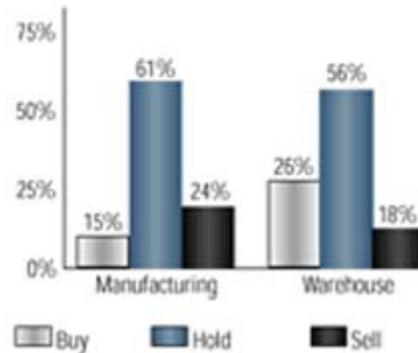
Woonsocket, R.I.-based CVS is adding 100 to 125 new stores this year, for a total of 4 percent more new space. Prescription counts in comp stores grew 3.1 percent in the past two years, compared to Walgreens' 12.8 percent. But new AC Nielsen data shows CVS gaining market share in its core categories: health, beauty, private label, consumables and generic merchandise.

The Prognosis: "Additions to management, productivity gains from new technologies, a very successful loyalty-card program, and a focus on execution gives us greater confidence that CVS can grow in new markets," says Lisa Cartwright, a Citigroup Smith Barney analyst.

STORES: 4,653
AVG. SIZE: 10,100 SQ. FT.
COMP. SALES GROWTH Q1: 3.9%
TOTAL SALES Q1: \$6.31 BILLION (5.7%)
SALES PER SQ. FT.: \$698

To maintain its strong and steady comp sales growth, Walgreens is reining in expansion plans for this year and next by 20 to 365 new stores. The retailer is also slowing store development lead times to 24 months from 18. President Jeff Reins says dollar stores are front-end rivals; Walgreens is shying away from items over \$20 and even introducing \$1 items. It's testing FedEx and bank kiosks, as well as fresh foods. And it has the leading market share growth in the lucrative senior-heavy

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Florida market.



The Prognosis: **"We expect continued strong results at Walgreens, as the company continues to ramp up promotions. Its superior position in front-end and prescription categories will likely result in further share gains from Eckerd and Longs," says JP Morgan analyst Stephen Chick.**

STORES: 4,182
AVG. SIZE: 11,000 SQ. FT.
COMP. SALES GROWTH Q1: 8.2%
TOTAL SALES Q1: \$8.328 BILLION (12.6%)
SALES PER SQ. FT.: \$645

Dallas-based Eckerd's, a division of JC Penney, can't catch a break. It renovated 65 percent of its stores and plans to open 250 new stores, but hasn't been able to stop hemorrhaging front-end business and pharmacy sales. Prescription counts in comp stores have declined 40 percent or more in the past year, largely due to bad press concerning alleged overcharging, poor in-store service and more competition from CVS, Walgreens and Rite Aid.

The Prognosis: **The company needs to address problems through price reductions and store-level labor investments, says John Heinbockel, a Goldman Sachs analyst. "The current strategy, to grow out of these problems via an accelerated expansion program, may only increase longer-term profit pressure and further complicate the turnaround," he says.**

STORES: 2,686
AVG. SIZE: 10,238 SQ. FT.
COMP. SALES GROWTH Q1: -1.1%
TOTAL SALES Q1: \$3.77 BILLION (1.3%)
SALES PER SQ. FT.: \$535

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