

Chain Drug Review

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CDR names Wasson, Pessina Retailers of the Year

NEW YORK — When the editors of *Chain Drug Review* looked back at 2012 with an eye toward identifying the executives who had the biggest impact on the industry, one event and the people behind it clearly stood out: the unprecedented partnership Walgreen Co. and Alliance Boots, two of the world's premier retail and health care companies, have forged.

The deal, under which Walgreens has assumed a 45% ownership position in Alliance Boots

with the intention of acquiring the balance in two and a half years, is transformative for the industry as well as the companies directly involved. Going

Chain Drug Review has named Greg Wasson of Walgreens and Stefano Pessina of Alliance Boots — along with the management teams they lead

Retailer of the Year

forward, pharmacy operators and drug distributors will have to think internationally if they want to keep pace with the latest developments in the delivery and business of health care.

— as its 2012 Retailers of the Year for triggering that shift in perspective. If all goes according to plan, the executives will construct a company that is the

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Greg Wasson



Stefano Pessina



Robert Thompson

Rite Aid's Thompson tabbed top Rx exec

CAMP HILL, Pa. — Pharmacists at Rite Aid Corp. are making a bigger commitment to health care.

Embracing a broader role, the drug chain's pharmacy team is on a mission to not just provide vital medications but also help the people and the communities they serve improve their overall health and wellness. The result has been a resur-

gent pharmacy business.

For his leadership in marshaling his team and executing a well-thought-out pharmacy

Year by *Chain Drug Review*.

"We have been highly focused on a multiyear strategy to improve the level of service

tomor service, not only in the pharmacy but in the front end as well," says Thompson, who joined Rite Aid in July 2004 and has served in his current post since September 2009.

"The second piece was to position our pharmacists to deliver more clinically oriented services, because we believe that's the way of the future for

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Pharmacy Executive of the Year

plan, Rite Aid executive vice president of pharmacy Robert Thompson has been named Pharmacy Executive of the

delivery by our pharmacists and pharmacy teams. It began several years ago with an intense focus on improving cus-

Thrifty White lauded for pharmacy innovation

PLYMOUTH, Minn. — Thrifty White Pharmacy is reinventing the essential component of chain drug retailing.

The retailer's actions are recasting pharmacists as patient counselors and practitioners of medication therapy management. For seeking to end the long-standing limitations on pharmacists from the rote demands of dispensing prescrip-

tions, Thrifty White has been recognized as *Chain Drug Review's* Pharmacy Innovator of the Year for 2012.

The initiatives recognize that boosting adherence and managing medication therapy will make pharmacists central to

to cost the system as much as \$290 billion annually.

Thrifty White has transferred about two-thirds of its maintenance prescription dispensing from its 89 stores to state-of-the-art, robotically dependent central-fill facilities in Fargo, N.D. Scripts are filled faster and more economically than at store level, with no dimin-

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Robert Narveson

Pharmacy Innovator of the Year

Programs rolled out by Thrifty White over the past two years give pharmacists responsibilities befitting their education.

efforts to improve patient outcomes and revamp the entire health care system for the better. Nonadherence is estimated

New CEO takes helm at CACDS

TORONTO — Denise Carpenter has been named president and chief executive officer of the Canadian Association of Chain Drug Stores.

Before joining CACDS, she served as president and CEO of the Canadian Nuclear Association (CNA) from 2009 to 2012. In that capacity Carpenter led the development and implementation of a multiyear strategic plan to support a renewed vision of growth for the country's nuclear industry.

To realize this vision for an expanded industry, CNA enhanced its government and regulatory affairs programs and policy priorities as well as

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Big stride made in turnaround at Rite Aid

CAMP HILL, Pa. — Rite Aid Corp. reported its first quarterly profit since May 2007, thanks largely to generic drug sales that bolstered gross margin as well as improved front-end sales. The results were a pleasant surprise to Wall Street, and management raised its guidance on net results for fiscal 2013 (see story on page 9).

The bottom line for the 13

weeks that ended December 1 swung to a net profit of \$61.9 million, or 7 cents per share, from a net loss of \$54.5 million, or 6 cents per share, in the prior-year period. Analysts polled by FactSet had expected a loss of 3 cents per share, on average.

Revenues, however, edged downward 1.2% to \$6.24 billion from \$6.31 billion in the fiscal

2012 quarter. The decline in revenues reflects 10 fewer stores in operation year-over-year as well as a 1.5% drop in same-store sales.

Although front-end comparable-store results grew 1.1%, that improvement was overwhelmed by a 2.7% drop in pharmacy sales, which lost about 924 basis points from new generic drug introductions. The number of prescriptions filled in comparable stores rose 3.6%, reflecting a benefit from the dispute between Walgreen Co. and Express Scripts Inc. (ESI), which has since been resolved. The pharmacy generated 67.8% of total drug store sales, while third-party prescriptions drove 96.5% of the pharmacy's top line.

During a conference call chief

financial officer and chief administrative officer Frank Vitrano noted that Rite Aid's retention of business from the Walgreens-ESI impasse remains strong. "New incremental ESI script benefit in the quarter is estimated to be \$18 million to \$22 million," he told analysts. "We continue to believe we received our fair share of new ESI scripts through September 15 and are now retaining the lion's share of those new patients, even after Walgreens reentered the ESI network. December month-to-date same-store scripts remain strong due to continued high ESI retention and an increase in flu-related prescriptions."

In addition to the improved gross margin, bottom line re-

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RETAIL
FORECAST '13

Chain Drug Execs Look Ahead

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PHARMACY
OUTLOOK '13

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CDR RETAILERS
OF THE YEAR

2012 — Greg Wasson
President, CEO
Walgreen Co.

— **Stefano Pessina,**
Executive Chairman
Alliance Boots

2011 — Walgreen Co.
employees

2010 — Joe Magnacca
President,
Duane Reade

— **John Spina**
VP of Retail Integration and
New Format Development
Walgreen Co.

— **Bob Zimmerman**
VP of Corporate Development,
Walgreen Co.

2009 — Greg Wasson
President, CEO
Walgreen Co.

2008 — Larry Merlo
President
CVS/pharmacy

2007 — Tom Ryan
Chairman, President, CEO
CVS Caremark Corp.

— **Chris Bodine**
President, CVS Caremark
Health Care Services

— **Larry Merlo**
President
CVS/pharmacy

— **Howard McLure**
President
Caremark Pharmacy Services

2006 — Tony Civallo
Chairman, President, CEO
Kerr Drug

2005 — Walgreen Co.

2004 — CVS management team

2003 — NACDS

2002 — Wayne Harris
Chairman, CEO
Eckerd Corp.

— **Eckerd associates**
Eckerd Corp.

2001 — Mary Sammons
President, COO
Rite Aid Corp.

2000 — Tom Ryan
Chairman, President, CEO
CVS

1999 — Alan Levin
Chairman, CEO, Happy Harry's

1998 — David Bloom
Chairman, CEO
Shoppers Drug Mart Corp.

1997 — Martin Grass
Chairman, CEO, Rite Aid Corp.

— **Stanley Goldstein**
Chairman, CEO, CVS Corp.

— **Tom Ryan**
President, CEO, CVS/pharmacy

1996 — Walgreen Co. employees

1995 — Bob Hannan
President, CEO, Thrift Drug

1994 — Dave Maher
Senior Executive VP, COO
American Drug Stores

1993 — D. Dwayne Hoven
Chairman, CEO, Revco D.S.

1992 — Alex Grass
Chairman, CEO, Rite Aid Corp.

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Dream is well on the way to becoming reality

NEW YORK — The first contact between Walgreen Co. and Alliance Boots was made in 2009 when Greg Wasson, Walgreens' president and chief executive officer, stopped in London with his senior management team, on the tail end of a round-the-world trip to examine and evaluate the best of global retailing, a trek that began in the Far East and ended in Europe.

A few months later, Stefano Pessina, executive chairman of Alliance Boots, and Wasson met in person at the year-end meetings of the National Association of Chain Drug Stores in New York City. By then the two executives had begun to develop a personal rapport, an ease with each other, and an understanding of the objectives, ambitions and priorities of their respective organizations.

Wasson's interest in Alliance Boots had begun to focus on the international company's house brands as well as its extensive drug store presence and pharmaceutical wholesaling operations, each of which were developed in many countries across Europe, Asia, the Middle East and Africa.

For Pessina, well-known and lauded for his global vision, perspective and ambitions — a view that had already transformed Alliance Boots from a small drug wholesaler into a leading global organization — the object was to gain a significant presence in the United States, the one remaining major market without a significant Alliance Boots presence. This meeting led to an agreement to continue talking — and begin swapping ideas and information.

By the time the two executives next met, in 2010 in Chicago,

Pessina's focus was clearly centered on the massive value that could be generated by combining the scale and dimension of the two companies in procurement. The idea of selling the Boots brands in Walgreens stores came much later.

For his part, Wasson was equally enthusiastic about the overall concept.

Shortly after this prospect had emerged, Wasson, to hear him tell it, awoke at 3 a.m. with an epiphany: "I realized we could

and well-being enterprise. Under the terms of the agreement, Walgreens will acquire 45% of Alliance Boots, with a commitment to possibly gain the other 55% over the next three years. As a result, Alliance Santé Participations (of which Pessina is a director) will become the largest Walgreens shareholder with a stake that it intends to hold for the long term.

For this visionary, game-changing acquisition, what it means and what it promises,

variety of benefits, both apparent and subtle, for both companies. Decisions have been made, teams formed, steps taken with the objective of transforming both organizations by bringing the strengths of each to the other.

Among the most visible changes to date: Walgreens introduced the Boots No7 beauty brand at the opening of its 8,000th drug store, at Sunset & Vine, in Hollywood last month.

The serious work of integrating the two organizations will begin with the new year. But the steps already taken have been considerable.

The two companies even now think about themselves and each other differently. Comfort levels at all touch points at the two organizations have reached levels that analysts could not have envisioned six months ago.

Pessina and Wasson speak several times a week and meet frequently, either in Europe or in the United States. Pessina is a member of Walgreens' board of directors, while Wasson works frequently and easily with the senior executives at Alliance Boots.

Indeed, so confident is Pessina about the acquisition and its unfolding progress that, characteristically, he is already exploring other priorities, other possibilities, other alliances.

"This acquisition is unfolding exactly as I expected it to," he said on a recent trip to New York City. "I have found just what I expected to find. I expect the next year will begin to deliver the synergies both companies expect."

For his part, Wasson is im-

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Alliance Boots' Stefano Pessina and Walgreens' Greg Wasson.

do more together — possibly much more."

Next morning he mentioned this promising vision to Walgreens chief financial officer Wade Miquelon. To Wasson's surprise and delight, Miquelon said that he had had the same revelation.

So began an 18-month process that ended with the announcement, last June, that Walgreens and Alliance Boots had reached an agreement to form a strategic partnership to create the world's first global pharmacy-led health

and for the many ways it will almost certainly transform the global drug store landscape before this decade is out, the editors of *Chain Drug Review* have named Wasson and Pessina, along with their respective senior management teams, who understood and supported this acquisition, the publication's 2012 Retailers of the Year.

Today, six months after the deal was announced, Pessina and Wasson have become equal partners in forging an alliance that has already produced a

CDR names Wasson, Pessina Retailers of Year

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worldwide leader in community pharmacy and "well-being retailing," with more than 11,000 stores in 12 countries; the No. 1 pharmaceutical wholesaler in terms of items handled, with more than 370 distribution centers in 21 countries; and the biggest purchaser of prescription medications and many other health care products.

Wasson, who during his almost four years as Walgreens' president and chief executive officer has presided over the company's emergence as a destination for health and daily living needs, characterizes the partnership with Alliance Boots as an opportunity to accelerate implementation of Walgreens' core strategies, which, in addition to creating a new Well Experience in its stores, include advancing the role of community pharmacy and establishing an efficient global platform.

Walgreens' decision to em-

brace international operations is particularly noteworthy. Even in an era of rapid globalization, U.S. drug chains have, until now, been notably gun-shy about moving into other countries.

A multinational perspective is nothing new for Pessina, Alliance Boots executive chairman. He has built a small family busi-

ness in his native Italy into a world leader in the distribution and retail sectors, one with a presence that extends from Alliance Boots' offices in London to more than 25 countries in Europe, the Middle East and Asia. The partnership with Walgreens achieves Pessina's long-standing objective of giving Alliance Boots entree to the U.S. market. More important, he says, the

deal melds two powerful players with a strong heritage in health care and retailing in a manner by which each of them will benefit from synergies and joint expertise across a broad spectrum of business disciplines.

Expectations for the combined company are high. Revenue is projected at \$130 billion in fiscal 2016, with LIFO earnings before interest and taxes estimated to come in at between \$8.5 billion and \$9 billion. One billion dollars in synergy savings, mostly from the purchasing of prescription medications, are anticipated.

The numbers are striking. More impressive still is the opportunities the new entity has to, in the words of Wasson, "find different and better ways to

work together [with suppliers] for the good of pharmacy patients and front-end customers."

Walgreens and Alliance Boots, each of which has a strong track record of innovation, are already hard at work to capitalize on the potential created by the melding of the iconic brands. The goal is to deliver more benefits to consumers by providing access to new brands and products; roll out best practices from each company to enhance the customer experience; make health care more affordable; deploy new concepts and capabilities in such areas as store formats, loyalty programs, personalized offers and e-commerce; and leverage Alliance Boots' service efficiencies in drug distribution.

On the following pages *Chain Drug Review* profiles its Retailers of the Year for 2012, and charts the progress Walgreens and Alliance Boots have begun toward realizing Wasson and Pessina's vision.

One goal is to find better ways to work together for the good of customers.

News/Retailer of the Year

Similar cultures offer solid foundation for partnership

DEERFIELD, Ill. — Although the companies were started and rose to prominence on different continents, operating in different cultures and facing different regulatory environments, Walgreens and Alliance Boots share common values and priorities, based on long histories dedicated to serving their customers' health care needs.

The merger of the two firms was conceived by Walgreens president and chief executive officer Greg Wasson and Alliance Boots executive chairman Stefano Pessina after a number of meetings between members of their executive teams, who then collaborated on a series of projects. That allowed executives from the two companies to work together and get to know one another, and they quickly realized how much they had in common.

"We quickly began to see a good cultural fit," Wasson recalled recently. "Many of us were trained as pharmacists and have the same orientation. There was a meeting early on when we had teams from each company working together on some things and I leaned over to Stefano and said, 'Except for the accents, you really can't tell who belongs on which team.'"

Walgreens and Alliance Boots both have long and storied histories that have put the companies on parallel tracks, while leaving each with unique strengths that are expected to make the combined entity even stronger.

The companies that would become Alliance Boots had their starts first. John Boot opened the first Boots store in Nottingham, England, in 1849, selling herbal remedies. About two years later the first part of what would later become the pharmaceutical wholesale side of Alliance Boots had its start when Maison Thomas was founded in Agen, France.

It was John Boot's son, Jesse, who directed the first real expansion of the drug chain that would become known as Boots the Chemist. He moved the original business to larger

premises, and then oversaw the opening of additional stores in Nottingham in 1881, and the first stores outside that city in 1884 (the year the company recruited its first pharmacist).

By 1914 Boots had more than 550 stores across the United Kingdom. The outlets sold a range of products well beyond those typically stocked by chemists. At the same time Boots began making its own products, supported by the company's research on new pharmaceuticals.

In 1901, meanwhile, Charles R. Walgreen Sr. bought the drug store where he had been working as a pharmacist. The second Walgreens store opened in 1909 and the chain grew steadily after that. Nine stores were incorporated as Walgreen Co. in 1916, and in 1926 the chain's 100th store opened in Chicago.

Walgreens' early history was marked by innovation and expansion. The company invented the malted milkshake in 1922. In 1933, helping to celebrate Chicago's World's Fair, the company opened four stores on the Century of Progress fairgrounds. Those stores experimented with new lighting techniques and fixture designs that



Walgreens, like Alliance Boots, has its roots in health care.

would influence modern drug store design.

In 1950 Walgreens began to build self-service drug stores, instead of the clerk-service stores that had been the norm for the industry. By 1953 Walgreens was the largest self-service retailer in the country.

Boots, too, was innovating and expanding. The company opened its 1,000th store in 1933. On the product development front, Boots launched its No7 cosmetics line in 1935 and its Soltan sun care line in 1939. In 1969 Boots introduced the pain reliever ibuprofen, which was developed in the compa-

ny's own labs as well.

In 1977, while the Boots and Walgreens chains were continuing to grow, Stefano Pessina founded the pharmaceutical wholesale company Alleanza Farmaceutica in Italy.

What followed was a series of mergers over the next two decades that created a pharmaceutical wholesale powerhouse in Europe. In 1991 Alliance Santé was formed by the merger between Alleanza Salute Italia, and ERPI and IFP, France. Alliance Santé merged with UniChem of Portugal to form Alliance UniChem in 1997. More acquisitions followed, including

a pharmacy chain in Norway and companies in Spain and the Netherlands.

Then, in 2006, Alliance UniChem PLC merged with Boots Group PLC to form Alliance Boots PLC, a company that now has more than 3,330 health and beauty retail stores (3,200 of them with a pharmacy) and a drug wholesale operation that delivers to more than 170,000 pharmacies, doctors, health centers and hospitals. It has a presence in 25 countries.

Walgreens, meanwhile, now operates more than 8,000 drug stores in all 50 U.S. states, as well as in the District of Columbia and Puerto Rico.

Walgreens finalized its initial investment in Alliance Boots in early August, buying a 45% equity stake for \$6.7 billion in cash and stock. What's next is that Walgreens has a six-month period, starting two and a half years after the closing of that initial investment, to decide whether it wants to proceed with the purchase of the remaining 55% of Alliance Boots for \$9.5 billion in cash and stock.

According to executives, the two companies have complementary assets and capabilities, and significant potential for global growth.

Dream on way to becoming reality

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pressed with the similarity of the two cultures as well as with the companies' complementary strengths. "We've been particularly impressed with range and quality of the Boots private label brands as well as the scope and impact of the company's wholesale operations (Alliance Healthcare)," he says. "We've also been pleased, and somewhat surprised, by the success the company has had in organizing Europe's independent drug stores under the Alphega Pharmacy banner. And we're intrigued with the generic drug program Alliance Boots has developed.

"For their part, the Alliance

Boots people have told us that there's much that they can learn from our pharmacy systems and programs."

As well, both executives are confident that the exchange of ideas and programs will come quickly and easily. "We each understand our strengths, and we're prepared to take advantage of what each company is known for," says Pessina. "I've long admired Walgreens. I believe that the Walgreens drug stores are among the most exciting I've seen anywhere in the world. And I have to believe the Walgreens people are impressed with Alliance Boots. Its international dimension, great teams, track record and financial performance."

So confident are the two executives about the future of the partnership that they no longer couch the ultimate outcome in terms of "if," but rather in terms of "when." The period of getting to know each other, initially expected to take a year, has apparently, and successfully, come to a close, and both companies are moving quickly to streamline their operations, create and expand cross-functional teams, and begin to adopt and utilize each other's strengths.

The talk at Walgreens' Deerfield, Ill., offices and throughout the Alliance Boots empire is about the next step in the transaction, one that will increasingly

blur the lines that separate the two organizations. And the day when Walgreens-Alliance-Boots becomes a truly global organization is approaching more rapidly than either party could have envisioned as recently as this past June.

The credit for all that has happened and all that almost certainly will happen over the next 18 months goes to two singularly impressive executives. They jointly dared to dream of a strategic partnership that, as recently as a year ago, would have been unthinkable even as a dream.

More impressively, they are rapidly transforming that dream into a breathtaking reality that promises to change forever the way drug stores and drug wholesaling look, act and behave, and the impact that transformative behavior will come to exert on the global retail community.

Chain Drug Review, in its 35-year history, has recognized many deserving drug chain executives as Retailers of the Year. Both Greg Wasson and Stefano Pessina have been previously given that recognition by this publication. The belief here, however, is that this award has never been presented to two people who have more richly deserved it — for a work in progress that is unprecedented in the annals of chain drug retailing.

CDR RETAILERS OF THE YEAR

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1991 — Stewart Turley
Chairman, President
Jack Eckerd

1990 — Jerry Heller
President, CEO, May's Drug

1989 — Harvey Rosenthal
President, CVS Corp.

1988 — Richard Eils
President, Thrifty Corp. 1987

— Stewart Turley
Chairman, President, Jack Eckerd

1986 — Jim Armor
President, Thrift Drug

1985 — Sheldon (Bud) Fantle
Chairman, President, CEO
Peoples Drug Stores

1984 — Charles R. Walgreen III
Chairman, CEO, Walgreen Co.

— Fred Canning
President, Walgreen Co.

1983 — Henry Panasci
Chairman, CEO, Fay's Inc.

1982 — Sid Dworkin
President, CEO, Revco D.S.

1981 — Alex Grass
President, CEO, Rite Aid Corp.

1980 — Sheldon (Bud) Fantle
President, CEO
Peoples Drug Stores

1979 — Robert Bolger
President, NACDS

1978 — Stewart Turley
Chairman, President, Jack Eckerd



Boots is the dominant force in the U.K. drug store market.