CVS Health faces a new wave of disruption

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Abstract

Purpose – The purpose of this teaching case study is to change to examine how Amazon's threat may impact the pharmacy industry as a whole and whether traditional drugstore chains such as Consumer Value Stores (CVS) Health will need to re-think their business strategy, especially in the digital space, to account for potential disruption.

Design/methodology/approach – This paper presents a hypothetical case study used as a teaching exercise to guide the learner through a decision-making process. The case starts by presenting a disruption in the retail pharmacy business that the main character must navigate by using real-world data and insights, provided in the case, to formulate a recommendation.

Findings – In an extremely competitive and consolidated pharmacy market, Amazon has the potential to change the business entirely. CVS Health will potentially face strong headwinds from Amazon's PillPack and a downward trend in prescription sales. Regardless of the new competition, CVS Health continues to be innovative in the space. CVS has encompassed the mentality of becoming a one-stop-shop by expanding into areas such as specialty pharmacy, health clinics, pharmacy benefits management and innovative digital capabilities.

Originality/value – This paper provides the reader with existing and known information about the evolving retail pharmacy business and allows the reader to interpret the new information to make their own decision on how a digital business strategy team can account for potential disruption.

Keywords Amazon, Pharmacy, Digital health, Business case study, CVS Health, Pillpack

Paper type Case study

1. Introduction

Health care has experienced an extremely dynamic period over the past decade. In particular, the retail pharmacy business has progressed through a tremendous amount of disruptive change (Gratto and McConnell, 2016). Consumer Value Stores (CVS) Health remains the leader in the space with the largest footprint of pharmacy operating units, as

well as the ability to control pricing because of its pharmacy benefits management (PBM) business model and purchasing power (Fitzgerald, 2017; Anderson, 2019). Recently, however, digital business strategies have become an essential aspect of health care and a necessary driver for the optimization of the health-care experience. Consumers are shifting their preferences toward digital options, and therefore, the pressure lies on businesses to keep up. Digital is a crucial aspect of marketing and successfully engaging customers (Gratto and McConnell, 2016).

You are a newly promoted director of digital marketing at CVS Health. In reaction response to what is happening with Amazon, you and your team will need to make a presentation to CEO – Karen S. Lynch, CVS Health's chief executive, as the board is raising concerns. "How should CVS Health address this disruption?" The director must make a recommendation and build a business case argument (Appendix 1) whether CVS Health should:

- ignore the threat;
- combat Amazon's PillPack in the mail-order space (and how);
- modify its current digital business model and offerings;
- ignore any changes in digital, but determine ways to communicate its offerings; or
- focus on other sectors of its business, such as leveraging digital capabilities.

The purpose of this case is to establish a scenario that facilitates a discussion about strategic choices executives in incumbent enterprises need to make when a dynamic shock leads to a change in the competitive space. The case begins with an overview of the pharmacy business focusing specifically on retail pharmacy, mail-order pharmacy and retail health clinics. It then transitions into a discussion on the business model and key pillars of CVS Health, the leader in the pharmacy space. It ends with an overview of Amazon's business model, its entrance into the arena via the acquisition of PillPack, and potential implications for the future.

2. The pharmacy business
The US pharmacy industry includes five main sectors, namely, chain drug stores, independent pharmacies, supermarkets with pharmacies, mass merchants with pharmacies and mail-order/specialty pharmacies. Across these sectors, pharmacies dispense an estimated 4.5 bn prescriptions combined (Drug prescription volume US, 2019), making the prescription pharmacy business a $400 bn market. Most of the dispensing volume comes from the generic drug market, which makes up 89% of all prescriptions while accounting for only 26% of the revenue (Fein, 2019).

Over the past five years, the total number of dispensed prescriptions has remained relatively flat, and growth rates for prescription revenues peaked in the year 2014 at 16.6% (Fein, 2019). Since then, rates have fallen to a low of 0.3% in 2017 and have struggled to rebound (Fein, 2019). This situation is, in part, due to higher generic dispensing and deflation of generic drug prices, declining inflation in brand-name drug prices and a decrease in drug spending on therapeutic areas such as pain management and infectious disease (Fein, 2019). With declining growth rates and falling margins, the battle for market share and prescription volume is critical.

2.1 Retail pharmacy
To understand the pharmacy business, one needs to segment each sector separately, starting with the pharmacy retailers. Chain drug stores predominantly run this sector,

accounting for 32.2% of all prescription dispensing revenues (Table 1 and Figure 1) (Fein, 2019) and dispensing about 50% of the total 30-day equivalent medications dispensed in the US in 2018.

Independent pharmacies, alternately, accounted for 14% of revenues, while mass merchants/supermarkets with pharmacies and long-term care pharmacies split the remaining 19%. Revenues aside, chain drug stores are the busiest format in the pharmacy market when looking at the index of prescriptions dispensed per pharmacy location; however, growth in the number of new chain drug store locations has been flat over the past few years (Fein, 2019).

	Prescriptions (billions)		Share of revenues	
Dispensing format	2017	2018E	2017 (%)	2018E (%)
Chain drugstores	$133.8	$136.5	32.5	32.2
Independent pharmacies	$58.1	$58.4	14.1	13.8
Mass merchant pharmacies	$34.8	$35.5	8.4	8.4
Supermarket pharmacies	$31.9	$30.6	7.7	7.2
Mail pharmacies	$135.0	$144.2	32.8	34.0
Long-term care pharmacies	$18.0	$18.6	4.4	4.4
Total	$411.6	$423.7	100	100

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Table 1.
Prescription dispensing revenues by dispensing format, 2017 vs 2018
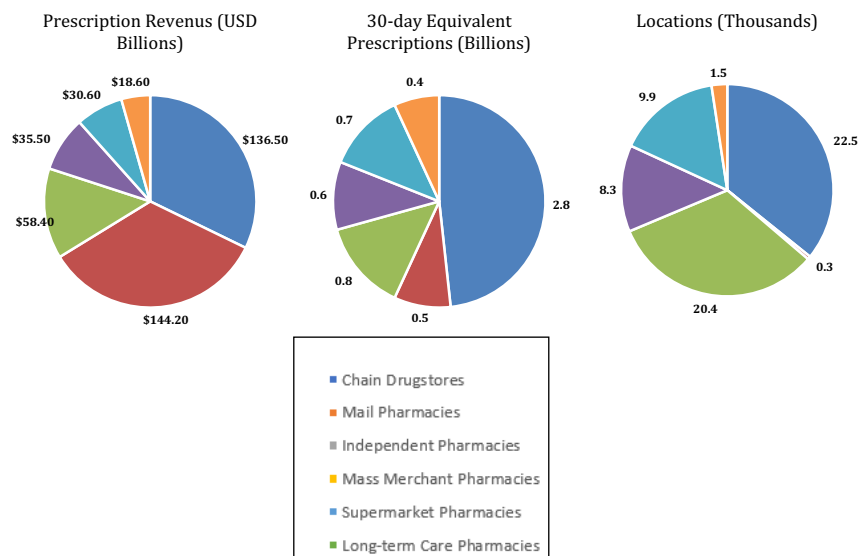
Figure 1.
Total US pharmacy industry prescription revenues, prescriptions and locations by dispensing format, 2018
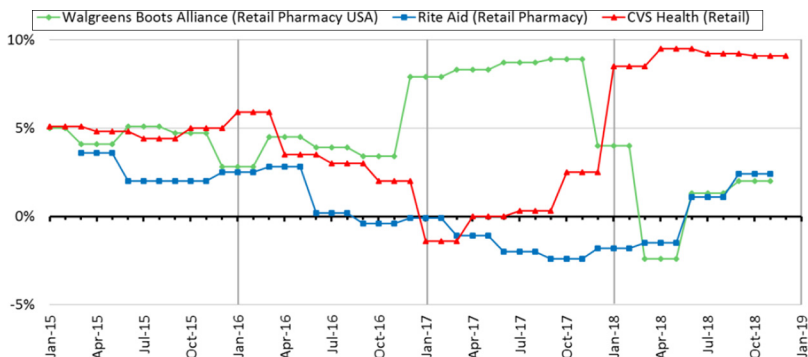
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In considering these segments, one needs to recognize that retail chains continue to dominate prescription activity (Table 2); however, over the past five years, they have faced pressure generating profits caused by flat revenue growth, regulatory challenges and external competition (Fein, 2019). Figure 2 highlights the year-over-year growth, from 2015 to 2018, of same-store prescription counts by chain pharmacies (Fein, 2019). In general, growth has remained flat with minor fluctuations between −3% and 10% across the three major retailers, CVS Health, Walgreens Boots Alliance and Rite Aid. As retail pharmacy chains struggle to return a profit by prescription volume alone, vertical and horizontal mergers and acquisitions have significantly reshaped the pharmacy and PBM relationship over the past decade. Traditional drugstores have become integrated pharmacy health-care companies that offer preventive care services such as immunizations, health screenings and monitoring for chronic health conditions. Among the 15 largest pharmacies ranked by total prescription dispensing revenues (Table 3), four are central-fill mail and specialty pharmacies operated by PBM groups, including Express Scripts, Caremark, UnitedHealth Group's OptumRx and Humana (Fein, 2019).

| | Prescriptions (mlns) | | Share of prescriptions | |
Dispensing format	2017	2018E	2017 (%)	2018E (%)
Chain drugstores	2,794	2,822	47.6	47.5
Independent pharmacies	848	849	14.5	14.3
Mass merchant pharmacies	625	631	10.7	10.6
Supermarket pharmacies	726	738	12.4	12.4
Mail pharmacies	474	504	8.1	8.5
Long-term care pharmacies	399	402	6.8	6.8
Total	5,866	5,945	100	100

Table 2.
Number of 30-day equivalent prescriptions, by dispensing format, 2017 vs 2018

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Figure 2.
Year-over-year change in same-store prescription count, by chain, 2013 to 2018

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| Pharmacy	Parent organization	Estimated prescription revenue from specialty drugs (2018, USD billions)	Change in revenue 2018 vs 2017 (%)	Share of prescription revenues from specialty drugs (%)
CVS Specialty/Aetna Specialty	CVS Health	$37.0	+6	25
Accredit/Freedom Fertility/Cigna Specialty	Cigna/Express Scripts	$30.7	+7	21
Alliance Rx Walgreens Prime/ Walgreens Stores	Walgreens Boots Alliance	$19.6	+23	13
BriovaRx	United Health Group	$16.8	+29	11
Diplomat Pharmacy	Diplomat Pharmacy	$4.8	+6	3
Humana Specialty	Humana	$3.2	+3	2
Kroger Specialty/ Kroger Stores	Kroger	$2.8	+24	2
Specialty Pharmacy Solutions	Mckesson	$1.6	+7	1
US Bioservices	AmerisourceBergen	$1.4	+23	1
Walmart Specialty	Walmart	$1.0	+4	1
All other	n/a	$27.4	n/a	20
Total		$146.2	+6	100

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Table 3.
Prescription revenues and market share from specialty pharmaceuticals, by company, 2018

2.2 Mail-order pharmacy

Another critical sector is the mail-order business. With many retailers integrating mail-order pharmacies into their business model, it is important to dive deeper into this sector. Despite not being one of the busier sectors and representing only 1% of the dispensing locations, mail pharmacies generate about 34.5% of the industry's total prescription revenues or around $144bn (Table 1 and Figure 1) (Fein, 2019). The impact of specialty drugs, which make up 70% of revenues from mail-order pharmacies, has been significant. The total dispensing revenues from specialty drugs at mail, chain, independent, long-term care and supermarket pharmacies reached $146.1bn in 2018, with $104.7bn coming from mail pharmacies (Figure 3) (Fein, 2019). Other drivers of growth in profits in mail-order include increased efficiency, decreased waste and improvements in delivery networks (Mail-Order Pharmacy Startups and Opening a Mail Order Pharmacy Business, 2020).

Generally, patients with chronic medical illnesses that require long term medications use mail-order pharmacy. They focus on patients' convenience, satisfaction and loyalty. Patients can request all their prescriptions online and have them delivered at any time without leaving home or waiting in long lines (Daily, 2019).

In contrast, other mail-order pharmacies specialize in niche disease areas where mitigation of challenging diseases and complex treatment regimens are fundamental. These specialty pharmacies focus on high cost, high touch, self-administered specialty pharmaceuticals for people with severe health conditions requiring complex therapies in disease states ranging from cancer, multiple sclerosis and rheumatoid arthritis to rare genetic conditions. They often provide additional services such as patient therapy
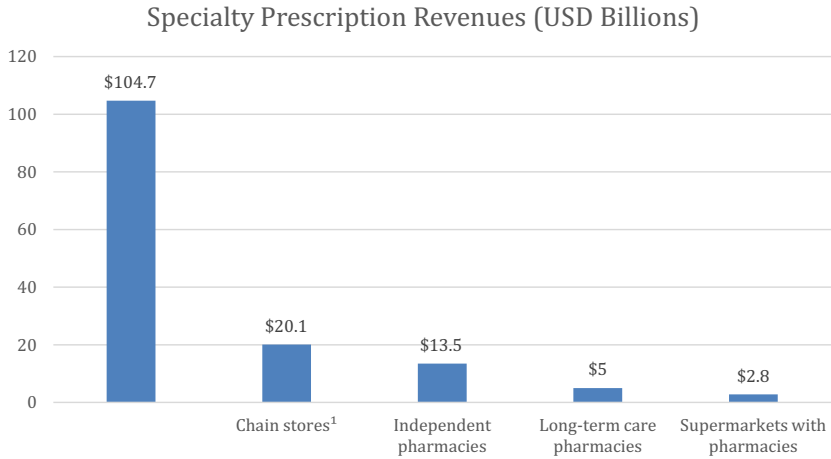
Specialty Prescription Revenues (USD Billions)

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management, disease state education and support services to enhance medication compliance (Specialty Pharmacy, 2017).

Despite the many advances in mail-order, it may not be the right option for many patients. This consideration is especially true for those patients who prefer the personal touch of a face-to-face consultation with the pharmacist. Retail pharmacies recognize this practice is one of their strongest assets, and continue to react and adapt their models to highlight the benefits of taking a trip to the pharmacy.

2.3 Retail health clinics

To supplement the prescription business and respond to increased demands for access by patients due to the Affordable Care Act, chain pharmacies such as CVS with its Minute Clinic®, are incorporating built-in retail health clinics. This movement offers a unique development of the current retailer landscape. Over the past 15 years, the retail health clinic sector grew from a few retail clinic operations to about 2,000 retail health clinic locations across the USA (Godman, 2016). Retail health clinics offer consumers the convenience of a one-stop-shop for treatment and prescriptions, lower cost for services and locally present treatment centers.

Traditionally, retail clinics provided a limited scope of services. These include seasonal health issues, minor illnesses and pregnancy testing. However, in the past year, companies such as CVS and Walgreens have begun to expand their focus into chronic disease management, novel technologies to incorporate video visits, health screenings and physicals (MinuteClinic® History, 2019). CVS owns and operates the majority (52%) of retail clinics, however, despite the vast amount of clinics that are still open to date, the clinical revenues generated through the operation of these clinics are only a small fraction of the retailer's prescription revenues (Fein, 2019).

3. Consumer value stores (CVS) Health

CVS Health's business model (Appendix 2 for an overview of business models) splits into two main operations, namely, the retail brick-and-mortar space and the managed services for the health-care space. CVS uses several strategies to drive growth in these models, including market penetration, supply chain management services, cost leadership generic strategies and, most recently, its digital strategy. In this section, the reader will learn more about the respective strategies and how CVS incorporates them into the pharmacy business.

3.1 History

CVS began in 1963 as a chain of health and beauty aid stores. The firm added pharmacies four years later in 1967 (Tabuchi, 2015). As retail health clinics took off in the twenty-first century, CVS partnered with MinuteClinic® to open its first CVS Pharmacy walk-in medical clinics in 2006 (MinuteClinic History, 2019). In 2007, the firm took on a new name, CVS Caremark Corporation, after merging with the PBM company Caremark Rx®. In 2014, the company renamed itself as CVS Health, following its decision to reflect broader health care commitment and remove tobacco products from store shelves (CVS Caremark announces a corporate name change to CVS Health to reflect broader health care commitment, 2014). In December 2017, CVS agreed to acquire Aetna, one of the largest insurance providers, for $69bn (CVS Health to Acquire Aetna; Combination to provide consumers with a better experience, reduced costs and improved access to health care experts in homes and communities across the country, 2017).

CVS Health's assets include CVS Pharmacy®, CVS Caremark®, CVS Specialty® and MinuteClinic®. This type of pipeline business model is part of the CVS strategy to transform inputs into outputs in a sequential manner with customers benefitting along the patient journey as they seek medicines, consumer goods and health-care services (Anderson, 2019).

3.2 Retail pharmacy

CVS Pharmacy is currently the most prominent drug store chain in the USA based on market share, generating about 24% of total prescription drug pharmacy revenues (Fein, 2019). One of its key growth strategies is market penetration, which aims to maximize the companies reach and customer access (Anderson, 2019). A clear reflection of this strategy is the 10,000 stores CVS built located across 49 states, the District of Columbia, Puerto Rico and Brazil (CVS Health at a Glance, 2019). In total, 82% of the population lives within 10 miles from a store and 71% live within 5 miles (Yanofsky and Zhou, 2017).

As part of its business strategy to retain current customers, CVS developed an ExtraCare® loyalty program. The program has over 70 million members who use the program regularly, making it the most extensive retail loyalty program in the country (Customers Are Seeing Double at CVS/pharmacy This Fall, With More Rewards for ExtraCare® Members, 2012). The loyalty program leverages customer data to personalize and create consumer-specific offers based on historical spending patterns, interests and recent searches. The firm prints customized offers on shopping receipts send them electronically and populate the CVS mobile app with these engagements (Customers Are Seeing Double at CVS/pharmacy This Fall, With More Rewards for ExtraCare Members, 2012).

CVS also offers a variety of personalized and convenient options for prescription pick up, including a drive-thru window, home delivery and 1-h curbside pick-up. Alongside its prescription delivery, customers can opt-in for the delivery of thousands of over the counter health products. Other significant customer service enhancements include those made to digital capabilities.

3.3 Digital prescription management and capabilities in retail pharmacy
As the company combined its traditional pharmacy stores and digital capabilities, its business model shifted to a more click-and-mortar approach. CVS Health's digital website and mobile application give patients and family members full control of their prescriptions at their fingertips. Digital capabilities involve multiple services. These include viewing and managing prescriptions, requesting prescription transfers, financial summary tracker, prescription scheduler, drug information center, pill identifier and alert management tools (Pharmacy: Manage, transfer and refill prescriptions online: CVS Pharmacy, 2019).

In 2016, CVS introduced an end-to-end mobile app and payment solution, CVS Pay®, to help streamline the in-store experience. The capability speeds up the traditional pick-up process by allowing customers to verify their identity, pick up prescriptions, pay and earn ExtraCare loyalty points through the mobile app (CVS Pharmacy Launches Breakthrough, end-to-end mobile payment experience, 2016). The next section discusses several important digital capabilities incorporated into the CVS business model.

3.4 MinuteClinic®
To further add to its pipeline of health-care assets and services, CVS Health expanded its business model to incorporate retail health clinics, CVS MinuteClinic®. These medical clinics operate inside about 13% of the US CVS Pharmacies, making them the largest retail clinic business in the US with over 1,000 locations and 52% of the market share of retail clinics (Yanofsky and Zhou, 2017; Fein, 2019). In 2018, this unit's estimated revenue accounted for less than 1% of CVS Health's total dispensing revenue; however, these clinics will play an instrumental role as CVS begins to implement its plans of converting CVS retail locations into health-care hubs (Fein, 2019). MinuteClinic® staffing includes a nurse practitioner and a physician's assistant. These practitioners provide multiple services, including health screenings, wellness services, physicals, vaccinations, skin screenings and diagnosis and treatment of minor health conditions that are cost-effective to patients (MinuteClinic® Services, 2018).

To further expand MinuteClinic® access and incorporate digital technologies, CVS Health partnered with three prominent telemedicine companies giving patients access to telehealth services in various regions of the country. The online telehealth visit offers comparable services to the in-person clinic all through a virtual video communication platform available 24 h a day, seven days a week (MinuteClinic® Video Visit, 2018).

3.5 CVS Specialty
Transitioning from CVS's retail pharmacies and medical clinics, this discussion segues into the specialty mail-order pillar of its business. CVS Specialty/Aetna Specialty Pharmacy, which falls under CVS Health, is the specialty pharmacy division that provides mail order pharmacy services for individuals with chronic or genetic diseases who require complicated and expensive drug therapies. CVS Health operates 25 retail specialty pharmacy stores and 11 specialty mail-order pharmacies, making them the largest specialty pharmacy in the USA.

In 2018, CVS Health's specialty division brought in an estimated $37bn in prescription revenues, which was a 25% share of prescription revenues (Fein, 2019). This growth was a 6% increase in specialty pharmaceutical revenues from 2017 (Table 3). CVS Health continues to expand its specialty business and, in 2018, made five new publicly announced specialty pharmacy acquisitions (Fein, 2019).

3.6 Prescription and vendor benefits management

The final pillar of CVS Health's business is CVS Caremark®, the PBM subsidiary. In 2017, CVS Health brought in $210bn in revenue, from which its PBM services contributed 62% and the retail pharmacy contributed 38%. The PBM pillar is part of the supply chain management, service strategy. This approach enables CVS to achieve a low-cost competitive advantage and operational effectiveness that benefits customers. The PBM administers prescription drug plans from various plans. These include commercial health plans, self-insured employer plans, union plans, Medicare Part D plans, the Federal Employees Health Benefits Program, state government employee plans, managed Medicaid plans, etc. Its vast PBM network covers over 75 million plan members and includes more than 68,000 retail pharmacies (both CVS and non-CVS pharmacies) (Fein, 2019). To drive its competitive low-cost advantage, the PBM aggregates the bargaining power of its entire network against pharmaceutical suppliers. In return, CVS generates profits by retaining a portion of the cost savings (Anderson, 2019).

In mid-2019, CVS Health introduced a new vendor benefit management (VBM) service to help PBM clients onboard and manage third-party health vendors that provide digital and non-digital health and wellness solutions. The goal of the open platform is to simplify the integration of third-party vendors into existing relationships with CVS Health, streamline contracting and billing, standardize member eligibility and collect and report usage and outcomes data. VBMs will make it possible to develop and implement disruptive novel tools and care models that supplement patient care and help manage insomnia, pain, smoking cessation, substance abuse support, medication adherence, fitness goals and more. In 2018, the typical employer offered 14 supplementary health-care solutions, with some larger employers offering even more ("VBM," no date). VBMs allows for the integration of many unique digital health apps and capabilities, which leads us into the next section.

3.7 Further expansion into digital health

With Aetna by their side, management expects CVS Health to spend about $350m on technology in 2019 to improve patient care and help transform its network of over 9,000 stores (Garrity, 2019). Aetna has several digital mediums that help patients take control of their health-care journey, including the iTriage® application, the Aetna Mobile app and the Attain® program. Aetna's iTriage® app assists patients with symptom navigation, health education, prescription management, video-based physician visits and drug pricing transparency (Comstock, 2015). The Aetna Health[SM] Mobile application allows members to manage and access benefits information, locate physicians and facilities, moderate work-life balance and track mood (Aetna Mobile, 2018). Finally, the Attain[SM] program also known as the Aetna Health® Mobile App), which recently partnered with Apple, is a personalized well-being app that provides members with personalized goals, daily activity trackers, tips for healthy lifestyle choices and reminders to get their annual check-ups and seasonal vaccinations (Attain[SM] Mobile, 2018). These tools, in combination with CVS Health's assets, can help unlock necessary data to deliver increased consumer engagement, enhance business benefits and drive innovative business ventures.

CVS Health's 2019 Investor Day presentation discusses the integration of machine learning and artificial intelligence as essential tools to drive consumer behavior change and improve health outcomes. Using all the data collected from its key business pillars, CVS Health is working to develop an intelligent engagement platform that will incorporate a consumer-focused approach to communication. The platform will integrate the consumer journey, create touchpoints and situational context and personalize content management. If successful, CVS Health will remain at the forefront of digital health's evolution. However,

if not careful, CVS may allow Amazon to catch up, whose reputation and reach quickly has allowed them to disrupt many sectors.

4. Amazon acquires PillPack

While CVS focused on its core businesses and competitive challenges with rival chain pharmacies and insurers, it failed to notice the emergence of a disruptive influence involving a startup called PillPack and Amazon's acquisition of this firm. Amazon, the world's largest e-retailer, offers a product portfolio ranging from home goods, services and health care. Its robust online business model allows it to rapidly expand into various industries, increase business efficiencies, decrease prices and provide excellent service for its customers.

4.1 Pillpack

PillPack, currently licensed nationwide in 49 states (excluding Hawaii), encompasses over 150 pharmacy distribution center licenses in 5 states. Since the beginning of 2019, PillPack had established pharmacy licenses allowing it to ship and operate its mail-order business in multiple states throughout the USA. The Utilization Review Accreditation Commission, a specialty pharmacy accreditation organization, also permitted PillPack to open a specialty pharmacy in the New Hampshire location (Fein, 2019).

Pill Pack's niche in the pharmacy service is its application of the multi-dose drug dispensing (MDD) system to patient homes. Inpatient facilities and long-term care pharmacies have used such a system for many years, while pharmacy retailers historically packaged each medication separately into clear amber vials. In 2006, a study by researchers from Walter Reed Army Medical Center found that placing medicine in blister packs increased compliance from 61% to 97% (Hedgecock, 2015). With these results in mind, PillPack developed its customized MDD box that contained a two-week supply of daily blister packs labeled with special instructions regarding the administration of each medicine. The service provided with no additional costs beyond the prescription price itself also gives customers access to a pharmacy staff they can contact online or by phone 24/7.

Another attractive aspect of Pill Pack's business is the digital mobile application and website, which focus on a better, more straightforward patient experience. PillPack believes that the best solution to adherence is simplicity. Users can import their medication lists using their name, date and social security number, according to Comstock (2015). Once the app has imported the medication list, it will auto-populate dose times and regimen. The app can also create time-based and location-based reminders, which use the phone's global positioning system (GPS) and can trigger an alert when the patient is in the desired location. The app records data about medication adherence and missed doses that users or caregivers can analyze and improve. The application is also available for the Apple Watch® (Comstock, 2015). An online pharmacy player with a strong focus on customer service, convenience and digital makes PillPack the perfect fit for a company such as Amazon, who is eager to disrupt health care.

4.2 The deal

Over the past several years, Amazon hinted at its entry into the health-care arena. The first subtle signal occurred in 2017 when Amazon acquired Whole Foods, obtaining over 470 storefronts worldwide with the majority in the US, giving it a physical footprint in 45 states (Nusca and Rapp, 2017). In the same year, Amazon received approval for wholesale pharmacy licenses in at least 12 states. Despite speculations that Whole Foods would be the jumping point, Amazon had a different plan. On June 28, 2018, Amazon announced that it would acquire PillPack, a high-growth mail-order pharmacy business with an 800-plus

person workforce, for $753m. Before the acquisition, the PillPack was on track to generate $299m in annual revenue (Farr, 2019). Management forecasted growth in 2019 to be $635m (Farr, 2019).

4.3 The Amazon effect
Amazon's hyper-focused approach to superior customer service and efficiency has created tremendous growth for the company across a variety of sectors. Independently, Amazon's network makes it one of the largest retailers worldwide, with over 310 mln active customers, 100 mln Prime Members and approximately 5 mln sellers. About 64% of households have subscribed to Amazon Prime and more than 45% of US households live within a few miles of an Amazon fulfillment center. By promoting the pharmacy service to a select group of Prime subscribers, Amazon can potentially provide even more growth to the PillPack network (Leadem, 2018). Amazon's business model focuses on three key areas making it one of the most desirable online retailers, namely, competitive pricing, efficiency and convenience.

Amazon has invested time and money toward creating the best delivery network and technology. Its current delivery capabilities allow customers to receive orders as soon as the same day in some states, within one business day for Prime members and within several business days for standard orders. The current pharmacy supply chain is highly intricate, with many intermediaries playing a role in the complex business model and skimming a piece of the profit. While PBMs strive to negotiate rebates from drug manufacturers, price inflation occurs at each stage of the supply chain process. By cutting out the middleman, Amazon can use its business framework and supply chain technology to streamline processes and drive lower drug costs. Another way Amazon can drive lower drug prices is through its vast purchasing power and ability to negotiate with health insurers and drug makers.

2018 Pharmacy Satisfaction Pulse Survey queried consumers with the following question: "if Amazon was to provide prescription drug filing services, how interested would you be in filing your prescription with them?" (Fein, 2019). Approximately 16% of consumers from various dispensing formats (e.g. chain drug stores, independent pharmacies, supermarket pharmacies, mass merchant pharmacies and mail pharmacies) indicated they would be very interested (Figure 4) (Fein, 2019). Over 50% of consumers combined reported they would be very interested or somewhat interested (Figure 4) (Fein, 2019).

Amazon's purchase of the online pharmacy PillPack created much uncertainty about its intentions and future health-care strategy. Although there is limited information around Amazon's next steps as it enters the pharmacy business, one thing this technology giant can guarantee. It will create significant disruption. The acquisition of an online pharmacy is likely just the beginning. It will be interesting to see if or how Amazon approaches the retail pharmacy, retail clinic, PBM/VBM, specialty and insurance aspects of this complex business.

5. Addressing management's request: analysis, recommendations and a business case
In an extremely competitive and consolidated pharmacy market, Amazon offers the potential to disrupt the pharmacy business entirely and even health-care delivery. CVS Health will potentially face strong challenges from Amazon's PillPack, in addition to the downward trend in prescription sales due to the evolving prescription marketplace driven by insurers. Regardless of this new competitor, CVS Health continues to be innovative in the space. Instead of being a singular-focused business, CVS has encompassed the mentality of becoming a one-stop-shop by expanding into areas such as specialty pharmacy, health
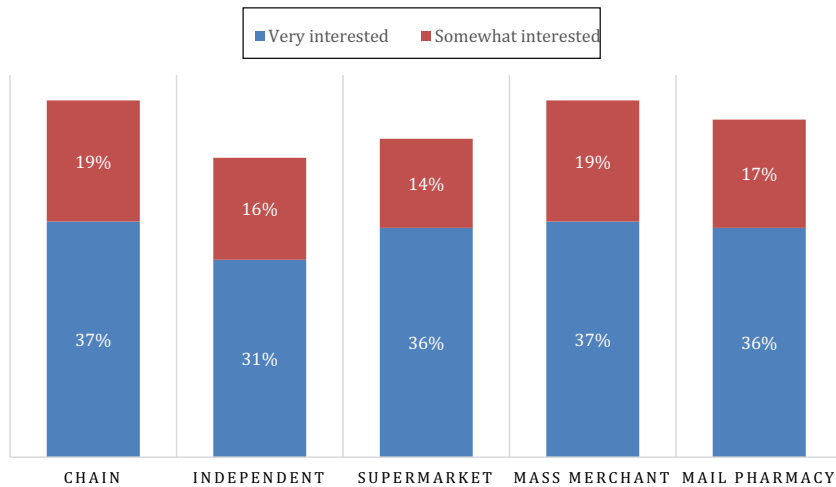
Source: Drug Channels Institute analysis of Boehringer Ingelheim Pharmacy
Satisfaction Pulse Survey, 2018. Data show consumer survey responses to the
question: "If Amazon were to provide prescription drug filling services, how interested
would you be in filling your prescription with them?"

clinics, PBM, and innovative digital capabilities. The firm will need to draw on its dynamic
capabilities (Appendix 3 for an overview on the concept of dynamic capabilities) to meet
current challenges existing in the marketplace and the future challenge of Amazon and
PillPack.

Whether Amazon's entrance into the pharmacy market will fundamentally affect
CVS Health's overall business, its ultimate competitive impact remains unknown. As
the director of digital marketing, it is your role to understand these implications,
provide guidance for the executive vice president of enterprise strategy and digital on
what approach is best for the leadership team, business and shareholders and advance
forward through the organization an appropriate strategy (Appendix 4 for information on
the intuiting, interpreting, integrating and institutionalizing framework and the "feed-
forward"/"feedback" process of organizational learning and strategic renewal).

Should CVS Health:

- Ignore the threat.
- Combat Amazon's PillPack in the mail-order space (and how).
- Modify its current digital business model and offerings.
- Ignore any changes in digital, but determine ways to communicate its offerings.
- Focus on other sectors of its business, such as leveraging digital capabilities.

The director has a week to research and build a case to recommend a strategy to the
executive vice president. In building a case, one needs to consider the strategic concepts of
business models, strategic renewal and dynamic capabilities. With the executive vice
president's feedback, the director will be presenting recommendations to CEO – Karen S.
Lynch, the chief executive and the CVS board. What will it entail? What evidence will it
require? What story will one need to share to make the case compelling?

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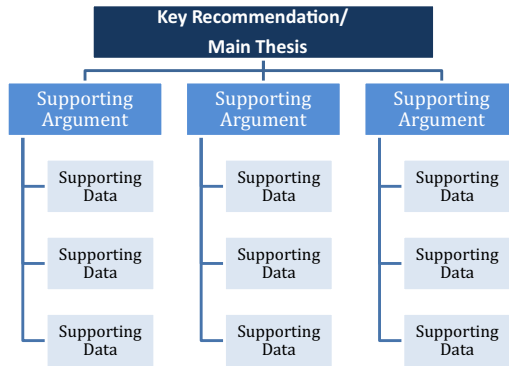
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Figure A1.
The pyramid
principle outlines a
cogent framework for
presenting
recommendations
with supportive
arguments and data
to advocate a
business case

Source: Adapted from Minto (2002)

The pyramid principle is a framework used to help structure reports and presentating make a decisive impact on your stakeholders. The hierarchical structure helps create a logical and data-driven storyline to communicate ideas clearly and succinctly (Minto, 2002).

The pyramid principle suggests starting the presentation with an introductory key message first, followed by three key supporting arguments. One can then break these arguments down further into three areas to offer supporting data subsequently, thereby strengthen the overall recommendations made.

The key message is to establish a set up for the presentation using four guiding segments that build the basis for sharing a compelling narrative or "story":

- *Situation*: Briefly describe the current situation of the market and company.
- *Complication*: What is the problem at hand for the company.
- *Question*: Define the overarching question to address.
- *Recommendation*: Put forth the core recommendation (along with the three high-level arguments to support the recommendation).

After the presenter provides the supporting arguments and back up data, he/she can connect the pieces in the wrap-up section. Elements within this section can include potential steps forward, risk and mitigation plan and finally, the conclusion or take-home point.

Appendix 2. Business models
A business model describes the design of the value creation, delivery and capture mechanisms that firms use (Teece, 2010). A business model defines how the enterprise delivers value to customers, entices customers to pay for value and converts those payments to profit. A strong business model is essential to the commercialization of technology. It can clearly define the resources needed to deliver the value proposition. Components of a business model include:

Customer Segments
Value Proposition
Customer Relationships
Channels

Desirability risk
Customers aren't interested
The risk is that the market a
business is targeting is too
small; that too few customers
want the value proposition; or
that the company can't reach,
acquire, and retain targeted
customers.

Viability risk
*We can't earn enough money*
The risk is that a business can't
generate successful revenue
streams, that customers are
unwilling to pay (enough), or
that the costs are too high to
make a sustainable profit.

Feasibility risk
We can't build and deliver
The risk is that a business can't
get access to key resources
(technology, IP, brand, etc.),
can't develop capabilities to
perform key activities, or can't
find key partners to build and
scale the value proposition.

Key Resources
Key Activities
Partners

Cost Structure vs.
Revenue Model

Feasibility Risk
Reflects the inability to
access essential resources
(people, physical, IP, capital),
Perform critical activities
(e.g., marketing, manufacturing,
engineering, R&D, platform
Management), or find key
partners to establish and
scale the venture.

PARTNER NETWORK | KEY ACTIVITIES | VALUE PROPOSITION | CUSTOMER RELATIONSHIP | CUSTOMER SEGMENTS

Value
Infrastructure

KEY RESOURCES

Value
Proposition

CHANNELS

COST STRUCTURE

Value
Formula

REVENUE STREAMS

Desirability Risk
Reflects customer interest,
too small of a target market,
missing of customer need with
The value proposition, or the
Inability of the firm to reach,
acquire, and maintain target
audience.

Viability Risk
Reflects the inability to
generate a successful revenue
stream due to revenue model,
or customers unwillingness to pay,
and costs outweighing revenues to
achieve sustainable profitability.

Figure A2.
Major Sectors of the
Business Model
Canvas

Source: Adapted from Bland and Osterwalder, 2020

Appendix 3. Dynamic capabilities

Dynamic capabilities include the sensing, seizing and transforming needed to design, implement, and refine a business model (Teece, 2018). A strong business model provides an organization with adequate profits to sustain and improve its capabilities and resources. Dynamic capabilities and strategy combine to create and refine a defensible business model, which guides organizational transformation. The framework below demonstrates the influence of dynamic capabilities and strategy on business model development. Firms can use this approach for effective decision-making as the firm senses, seizes and transforms opportunities:
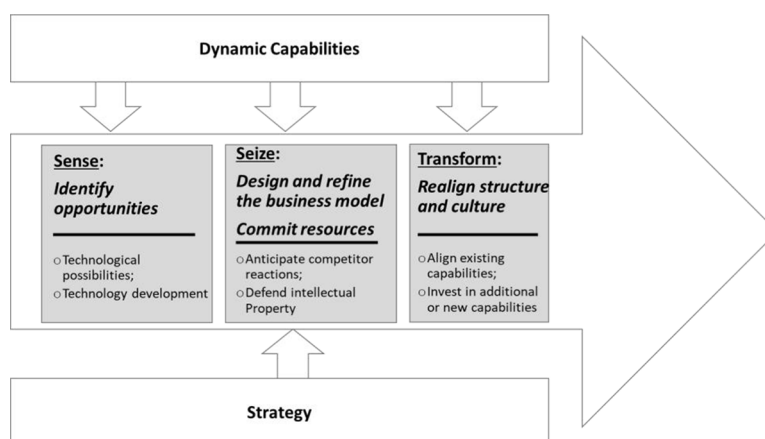
Figure A3.
Teece's Sense, Seize, Transform Depiction of How Firms Integrate Their Dynamic Capabilities and Strategy to Design, Implement, and Refine a Business Model. Adapted from Teece (2018)

Key questions:

- What technological possibilities or developments can CVS use now that PillPack is in the market? Is it worth it?
- If CVS adapts, what will PillPack do to react to this new digital strategy?
- Can CVS align its existing capabilities and/or obtain new capabilities?

Appendix 4. The intuiting, interpreting, integrating and institutionalizing framework for organizational learning and strategy renewal

The 4Is framework is an organizational learning concept that firms use to achieve strategic renewal. It involves the advancement of new knowledge, innovations and ideas as part of an exploratory process such that the firm ultimately "buys in" an embodies such as new routines, policies and practices to exploit (Crossan, 1999). The 4Is framework involves four essential processes, namely, intuiting, interpreting, integrating and institutionalizing (4I's). The 4I's link the individual, group and organizational levels, which define the structure through which learning takes place.

Four key premises underly the strategic renewal framework:

(1) *Premise 1*: Organizational learning involves a tension between assimilating new learning (exploration) and using what the firm has gained as new knowledge (exploitation).

(2) *Premise 2*: Organizational learning is multilevel: individual, group and organization.

(3) *Premise 3*: Social and psychological processes link the three levels of organizational learning: intuiting, interpreting, integrating and institutionalizing.

(4) *Premise 4*: Cognition affects the action.

Figure A4.
How the 4Is flow across the organization, engaging the "feed-forward" and "feedback" processes that enable new knowledge, ideas, innovations to advance through an organization and embed as set routines and practices to exploit
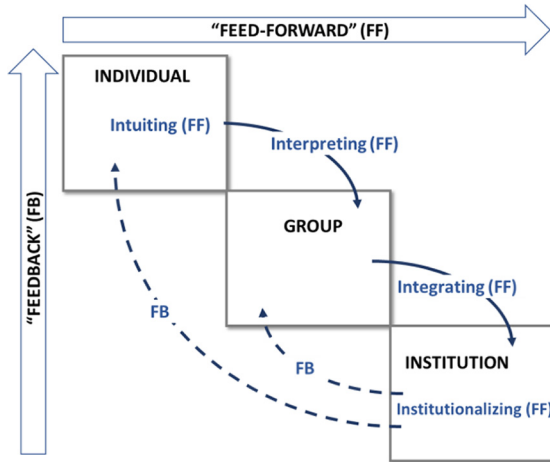
Source: Adapted from Crossan *et al*. (1999)

Level	Individual	Group		Organization
Process	Intuiting	Interpreting	Integrating	Institutionalizing
Inputs	Experiences	Language	Shared understandings	Routines
	Images	Cognitive maps	Mutual adjustment	Diagnostic systems
Outcomes	Metaphors	Conversation	Interactive systems	Rules and procedures
		Dialogue		

Table A1.

Source: Adapted from Crossan *et al.* (1999)

Key questions:

- Should CVS invest in a corporate renewal strategy to respond to PillPack?
- Should CVS strategically position itself as a one-stop-shop or a community prescription provider?
- How will CVS's assets facilitate its transformation?

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