

## Chain Drug Review

## Health Mart acts as catalyst in Rx market

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By Jeffrey Woldt

McKesson Corp.'s Health Mart division is approaching a major milestone. Within the next few months the company expects the chain of franchised drug stores to reach the 2,000-unit mark, capping an astonishing growth spurt triggered by the transformation of a ho-hum, decades-old program intended to support independent pharmacies into a multifaceted partnership with the nation's biggest pharmaceutical distributor.

Already the fourth-largest drug chain by store count in the United States, Health Mart is nearing that goal at a time of significant internal change. Stefan Linn, the chief architect of the banner's resurgence, stepped down last month as Health Mart president and senior vice president of marketing at McKesson to join TPG Capital, a private equity firm. A successor has not been named.

What impact Linn's departure ultimately has on Health Mart will hinge on how closely his replacement adheres to the principles that have guided the franchisor's rejuvenation. As Linn never tired of explaining, its mission is to provide independents with the resources they need to compete with chain pharmacies and deal effectively with such large entities as PBMs. With that backing,

independent pharmacists are free to focus on patient care.

Linn's former colleagues understand the importance of staying on message and building on the considerable momentum Health Mart possesses.

"What we're offering has really resonated with people in the independent pharmacy space," says Matt Lowe, vice president of retail marketing at McKesson. "The idea of having Health Mart provide the elements that enable independents to leverage their strengths — things like advertising, back-office capabilities and PBM contracting — puts them in a comfort zone. We brought all those things to the market at the same time independent pharmacies were coming together to try to find ways to continue to survive and flourish."

Health Mart is helping its members achieve critical mass in a variety of ways, perhaps none more important than developing a powerful brand. With stores in 49 states (Alaska is the sole exception), the chain has benefited from national and regional ad campaigns.

"Independent pharmacy is all about the connection to the patient," Lowe notes. "Our marketing efforts reinforce that idea. Health Mart gives our members a chance to refresh their position in the community and let people know that, as a result of their participation in

the program, they offer the latest and greatest."

Another example of Health Mart's strategy of promoting the brand through local involvement is a mobile wellness tour that recently visited community centers in the Wichita, Kan., and Madison, Wis., areas. The program, cosponsored by Procter & Gamble Co. (P&G), provided free blood pressure, cholesterol, bone density and diabetes tests in a specially outfitted recreational vehicle as a complement to in-store health screenings at more than 20 Health Mart outlets in each of those markets.

The chain's work with P&G is not an isolated case. The two companies are cooperating on initiatives to enable Health Mart franchisees to get the most out of their front-end business.

"We're getting advice from the people at P&G on our merchandising program," says Lowe. "They're experts on planograms and the way categories are connected. Our goal is to make sure that Health Mart stores are current on new items and that they present them in a compelling, modern setting."

"In addition to offering guidance on category management, we have interior decor specialists that work with franchisees on the look and feel of their stores."

Health Mart's primary focus is pharmacy, which accounts for 70% of total sales at drug chains

and an even higher percentage at independents.

"We've always felt that we need to leverage what really differentiates the pharmacist," Lowe comments. "Our focus is on clinical and cognitive services. That's the only way to guarantee that pharmacy reaches its full potential."

Health Mart is drawing on McKesson's health care delivery expertise and established relationships with pharmaceutical suppliers to foster the transition to a service-based model. The company has just launched the McKesson Patient Outreach Network, whose initial foray, in conjunction with Pfizer Inc., is to help people stop smoking by using the drug maker's Chantix.

"The program uses the expertise of our pharmacists to direct patients to the right kind of behavior," says Lowe. "It also does several other important things: It allows the manufacturer to harness the clinical power of the individual pharmacy, it creates a closer relationship between the patient and the pharmacist, and it provides the pharmacist with another revenue stream from the manufacturer. It's a win-win-win proposition."

If Health Mart makes the model work and it becomes an industry standard, its positive influence will extend beyond independent drug stores to all of community pharmacy.

## Top four chains confront tough challenges

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that brought these two components together has thus far been a brilliant stroke. More difficult to answer is the question of what the merger has meant — and will mean — for the CVS drug store.

There are those who believe that it has made the current CVS model a somewhat irrelevant appendage to Caremark. There are those, on the other hand, who believe the drug chain will emerge from the assimilation of the Caremark PBM as the strongest retail health care provider in the country. However, fully a year after the merger was completed, the future shape and role of the CVS drug store is still being developed — and debated.

Walgreens faces a different set of issues, one turning on how this uniquely successful drug chain has traditionally approached the market and, more to the point, whether that approach needs to be rethought and reworked. More specifically, Walgreens has worked so well for so long because of its operational excellence, its unexcelled ability to execute its programs at retail. There are those, however, who question whether that skill remains

enough to give Walgreens an edge in a retail world where the brand has replaced the store as paramount in the customer's mind, and the need for qualified merchants has largely replaced the importance of efficient operators. How Walgreens resolves this issue, and indeed how quickly and effectively the retailer can adjust to a changing marketplace, will largely determine the drug chain's future.

Wal-Mart's identity crisis turns on a different question — what it wants to be when it grows up. For most of its 46-year history the retailer operated on a simple premise: Always the low price. Always. Then marketing got in the way, conceiving and successfully floating the idea that price no longer need be the only attraction — and indeed that the company could broaden its appeal by de-emphasizing price. So the world's largest retailer set out to become different things to different customers — and lost its emphasis on basic item-and-price retailing.

Now the company is attempting to return to its roots, successfully thus far. But the larger question remains: Can Wal-Mart, or indeed any retailer, once again be what Wal-Mart once was, the unquestioned price leader

for those products consumers need and those they want? The answer will largely determine what Wal-Mart will mean to the new American consumer and, beyond that, what position it can rightly claim in the retailing community of the new century.

Finally, there's Target, arguably the most successful of the four major general merchandise retailers that rose to prominence in the last 25 years of the 20th century. Simply put, Target is in a state of transition. Bob Ulrich, the retailer's legendary chief executive, has retired, though he will stay on as chairman for another nine months. He has been succeeded by Greg Steinhafel, the retailer's president, an executive of unquestioned ability and experience.

The question, however, is not one of experience or ability, but one of marketing. Target rose to prominence under Bob Ulrich largely because of its unsurpassed excellence in developing and honing the Target brand and the value, excitement and serendipity of the shopping experience behind it. The question is whether Steinhafel, or indeed any executive, can or should perpetuate and build on the power and impact of the Target brand.

Or, to ask a larger question, are the best days of the Target brand, the most successful in retailing history, behind it? Has the brand gone as far as the most talented marketers in America can take it? If so, what will, or could, replace it in the heart and mind of the Target customer? The next year will go far toward answering those questions.

Against that backdrop of uncertainty and reexamination, the NACDS Annual Meeting is quietly unfolding. The business of doing business in the unsettled economy of 2008 is what has brought 2,000 industry people to Palm Beach. Beyond that, however, are the core issues: the direction and emphasis of health care in America going forward, the progress Rite Aid is making toward integrating its Brooks Eckerd acquisition, the future of those regional retailers who have thus far continued to carve out meaningful niches for themselves in an environment increasingly dominated by major retailers, the road supermarket retailers must take if they are to remain viable in the health care community.

Beyond these issues, but never far from the surface, is the question of the Big Four — and what will become of them.