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How CVS Health Creates Competitive Advantage through Global Supply Chains

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Abstract

This research article is about how CVS Health operates and sustains its existence in the healthcare market. It also illustrates what makes CVS Health stand out from their competitors, and its position in the S&P sector. CVS Health started as a Consumers Value Store where all types of miscellaneous products were sold. Later CVS evolved, became a pharmaceutical company, and began to see more profit; eventually, they changed their company name to CVS Pharmacy to focus more on the healthcare aspect because it brought in more revenue. Expanding their healthcare services also helped expand the company's market presence. Currently, the store is recognized as CVS Health in the S&P 500 sector. This research explores and identifies CVS Health's success, especially in creating a competitive advantage through global supply chains.

Keywords: CVS Pharmacy, S&P sector, global supply chains, middlemen

Introduction

By 1988 CVS Pharmacy had around 750 stores, with 1.6 billion dollars in sales. CVS began incorporating more healthcare services like PharmaCare, which provided a wide range of services to employers and insurers (Our history, 2022). In 1995 they began offering CarePatterns, a disease management program, and by 1996 they were a standalone company trading on the NYSE. By 2005 we continued to see CVS Health expand and open MinuteClinics, which provides affordable retail clinic services. CVS Health built on convenience to consumers, and the company is constantly improving and modernizing to adjust to consumer needs. This research explains why CVS Health is dominant in retail pharmacy and provides a better understanding as to why it is a leader within the healthcare market.

Business Model and Supply Chain

As a retail pharmacy company, the company's business model is Pharmacy Benefits Management (PBM), which gives them the ability to control pricing. A PBM works to negotiate and lower prescription drug costs for consumers and companies that hire them (Teagarden, 1998). They are shifting to a click-and-mortar business model because the market is pushing for digital services. This business model means that CVS Health offers both online and in-person shops and services to customers (Teagarden, 1998). PBMs oversee negotiating rebates from

drug manufacturers and discounts for drugstores. Then the drugs are shipped, sold, and made available for prescription order either online or in-store at affordable prices for consumers. This is how CVS can sell their pharmaceuticals at a competitive price compared to other drug stores (with and without insurance). “Pharmacy benefit managers (PBMs) use techniques and capabilities to affect the use of these drugs to improve overall medical care and to capture financial opportunities” (Teagarden, 1998, p. 375). Regarding participants in the drug supply chain, a manufacturer produces the drug and applies to the Food and Drug Administration for approval to sell it in the market; then, a wholesale distributor sells the drugs to “persons other than a consumer or patient.” Next, pharmaceuticals repackage and place drugs in a new container and sell to distributors or dispensers, in this case, CVS Health Works, with two of the largest primary wholesale distributors, McKesson and Cardinal Health. At times, a third-party logistics provider may take temporary possession of the drug during transportation or under a contract with a manufacturer, distributor, or dispenser but does not claim ownership. A dispenser (CVS Health) provides drugs to consumers and patients (Thaul, 2013). In Figure 1, you can see a depiction of the PBMs’ role and how their function benefits manufacturers, consumers, and pharmacies. In Figure 2, we can see CVS’s supply chain alignment compared to its competitors like Walgreens and Rite Aid.

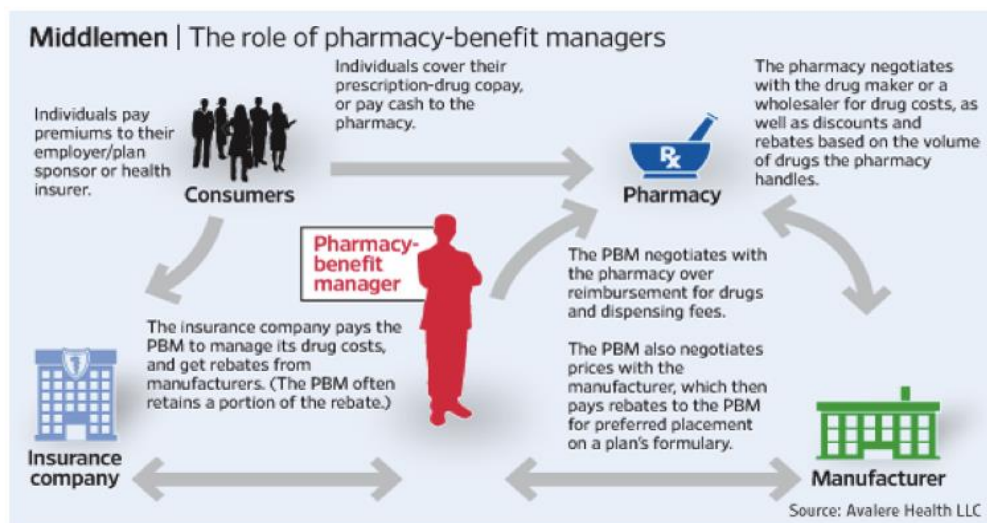
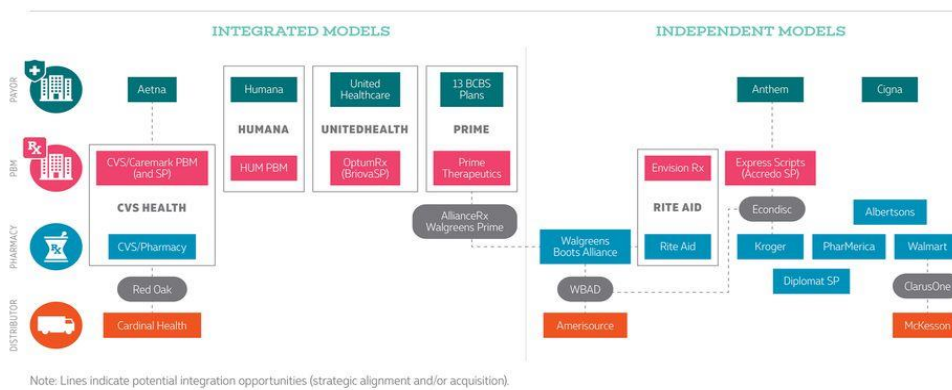


Figure 1. The Role of Pharmacy-benefit Managers

Source: Fas (2017)



Pharma Supply Chain Alignment: Independent



Ernest Mario School of Pharmacy

Source: Eric Percher

Figure 2. Pharmacy Supply Chain Alignment

Source: Percher (2019).

CVS Position in the S&P 500 Sectors and Industries Listing

In Figure 3 you can see that their price per stock on March 1st, 2022, was 102.12 USD. Compared to competitor Walgreens stock, CVS Health was worth \$55.5 more for one stock purchase. In 2019 CVS Health had the largest market share at 28.6% compared to Express Scripts with 23.0%. In 2018 CVS saw the largest estimated prescription revenue from specialty drugs at \$37.0 billion dollars, compared to Express Scripts with an estimated \$30.7 billion in revenues (Elliot & VanFleet, 2017).

CVS continues to have the highest market share since 2019, according to statistics. In 2017, CVS Health made \$210 billion in revenue and PBM services contributed 62%, and retail pharmacy contributed 38% of the revenue. Figure 4 shows the Top U.S pharmacies ranked from highest to lowest in prescription drugs market share

in 2020. As you can see, CVS Health was ranked #1 in the prescription drug market share in 2020.

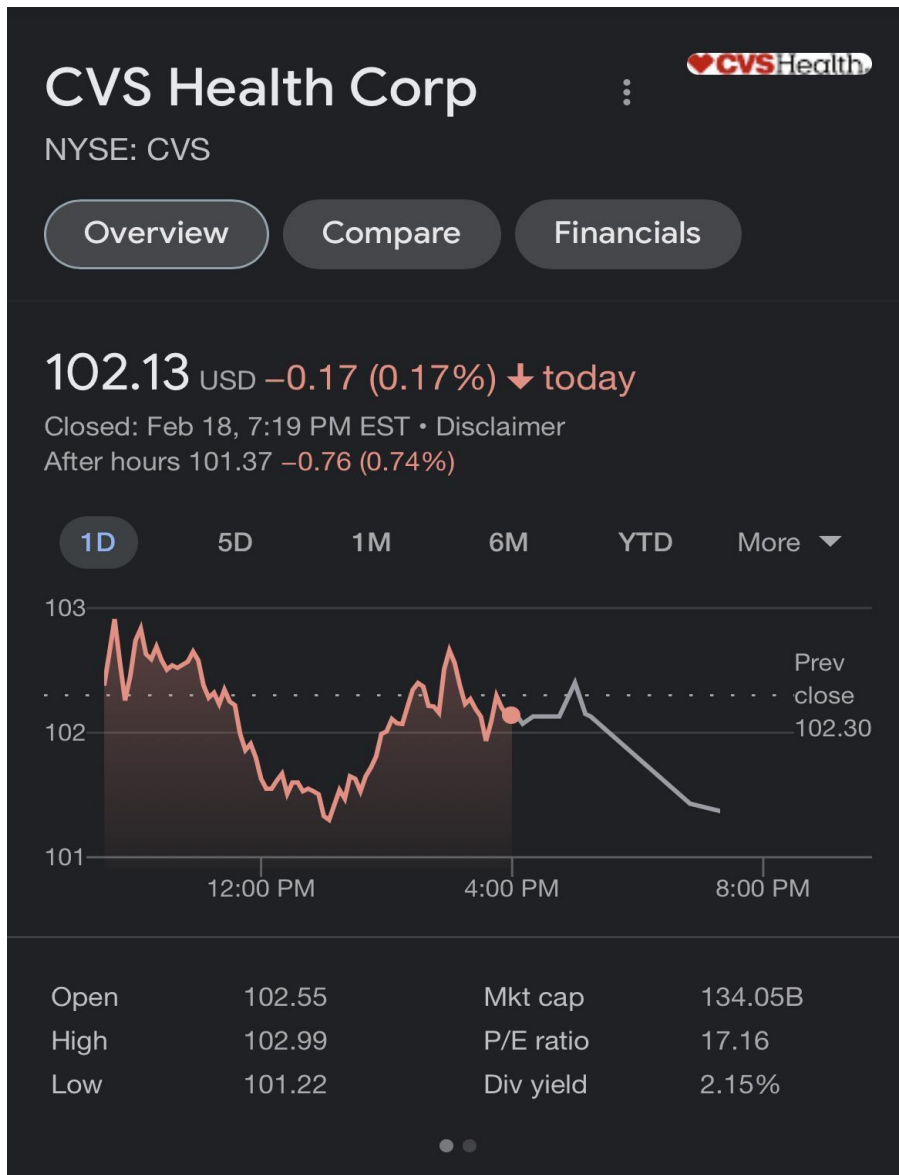


Figure 3. CVS Health S&P 500

Source: NYSE (2022, March 1)

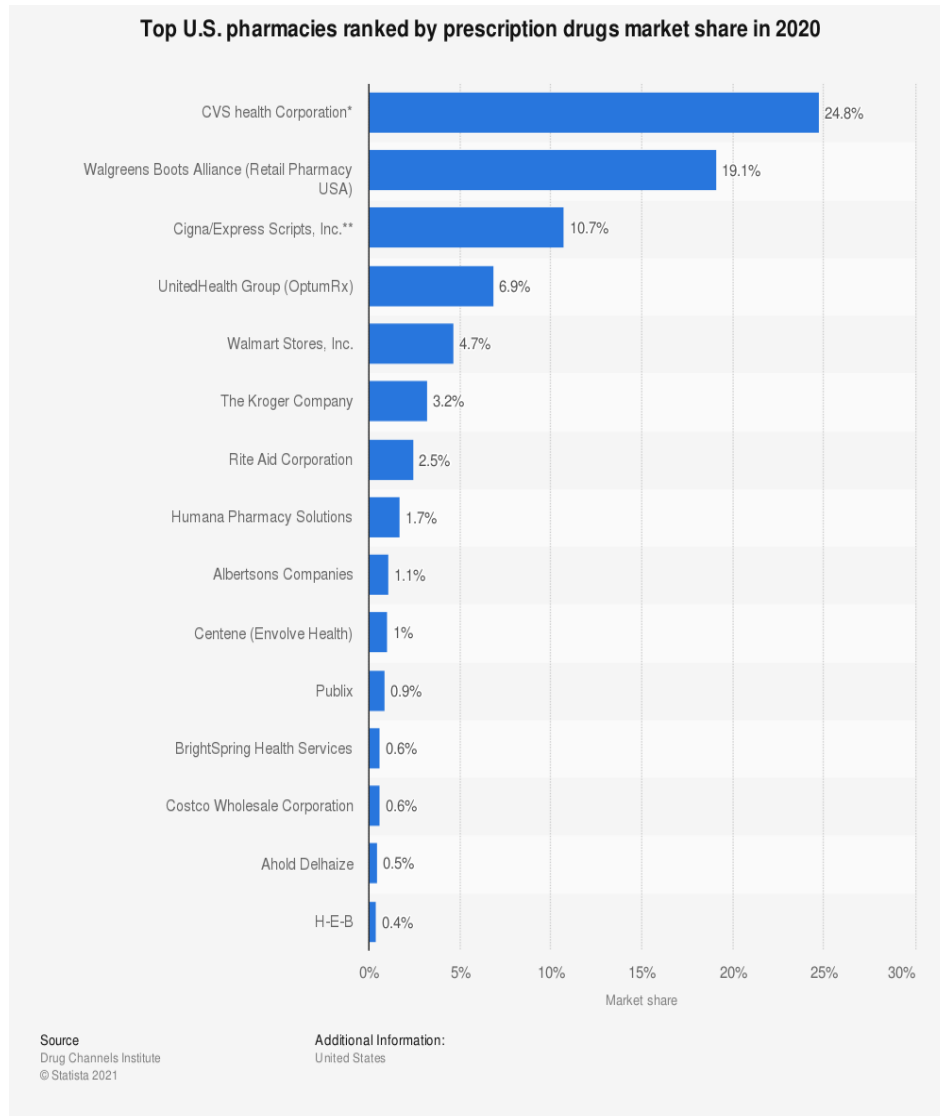


Figure 4. Top U.S. Pharmacies Ranked by Prescription Drug Market Share in 2020

Source: Drug Channels Institute, Statista (2021)

CVS's Value Supply Chain and Unique Branding in Value Chains

“CVS’s value chain utilizes the enterprise’s core competencies to efficiently create value for target customers, including organizations and individual consumers or patients. CVS’s Value chain is an example of how demand aggregation can lead to bargaining power to optimize prices for consumers. The company builds on aggregating consumer demand and expands its operations over time, to include acquisition of firms like Aetna in the U.S managed health care industry, and Drogaria Onofre in the Brazilian retail pharmacy market” (Newton, 2019). Four major products and services offered at CVS include (1) health & wellness services, (2) health plans, (3) pharmacy services, (4) prescription drug coverage, and (5) virtual care services. Regarding upstream and downstream components and value-creating activities (in the supply chain), “The upstream portion of the chain includes the journey of each active and inactive ingredient and their chemical components to the manufacturer that creates the finished drug product” (Dabrowska & Thaul, 2018, p. 18). “The downstream chain (in a pharmaceutical supply chain), which this report addresses, includes the repackages, wholesale distributors, associated storage and transport companies, and finally the dispenser” (Dabrowska & Thaul, 2018, p. 25). Pharmaceutical supply chains can be delicate if the chain is broken (York, Jarosz, & Toscani, 2021). If a supply chain is disrupted any pharmaceutical company may provide a counterfeit product with no active ingredients or may provide an expired medication that can harm patients, which emphasizes the importance of a monitored supply chain in any pharmaceutical industry (Thaul, 2013). One of the four major value chains within CVS Health is PBM Services (CVS Caremark), a subsidiary of the company that provides consumers and patients with easy/convenient access to retail and mail pharmaceuticals (Livongo, 2020). It also offers drug coverage depending on the patient’s eligibility, mostly used for patients with rare conditions that use specialty medications (ex., diabetic medication) (Stewart, 2018).

Below is a diagram that shows the PBM Service market share in 2018. Retail Medical Clinics (MinuteClinic) is an in-store clinic that offers clinic services at quality healthcare at 40% less the cost of any other clinic like urgent care. The minute clinic services and treatments are for minor illnesses, minor injuries, screenings and monitoring, skin conditions, travel health, vaccinations and injections, wellness physicals, and women’s health services as well. Managed Care & Health Insurance (Aetna): Aetna Better Health is Aetna’s Medicaid managed

care plan that is a part of the CVS Health family, according to the CVS Health website. They provide coverage to low-income adults, children, the elderly, pregnant women, and people with disabilities. CVS Specialty pharmacies: Most specialty pharmacies only offer delivery, but CVS specialty pharmacies offer different delivery methods, like in-store pickups at any CVS pharmacy. With CVS Specialty, a patient can manage their prescriptions and payments through the application as well. CVS Health stopped the sale of tobacco products from their stores in 2014. Even though the tobacco industry is a billion-dollar industry and brought profits, selling products that kill consumers goes against their health care focus. They differ from their competitors, Rite Aid and Walgreens, which continue the sale of tobacco products.

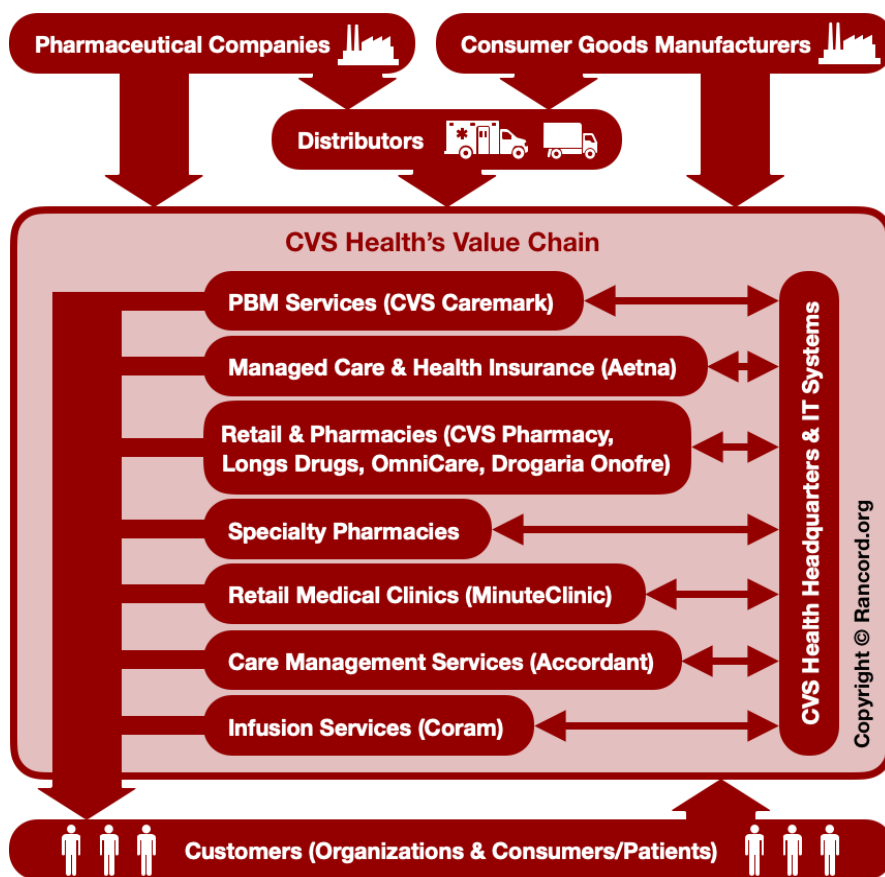


Figure 5. CVS Health's Value Chain

Source: A diagram reflecting a value chain analysis of CVS Health Corporation. The company's supply chain provides inputs for healthcare and retail pharmacy operations. Customers also provide informational inputs (healthcare data). Value-adding activities use core competencies based on the VRIO/VRIN analysis of CVS to satisfy customers and maintain competitive advantages. (Image: Copyright © Rancord.org) By Veronica Newton "CVS Value Chain Analysis & VIO/VRIN Analysis." Rancord Society.

CVS Holds the Largest Share Of The PBM Market

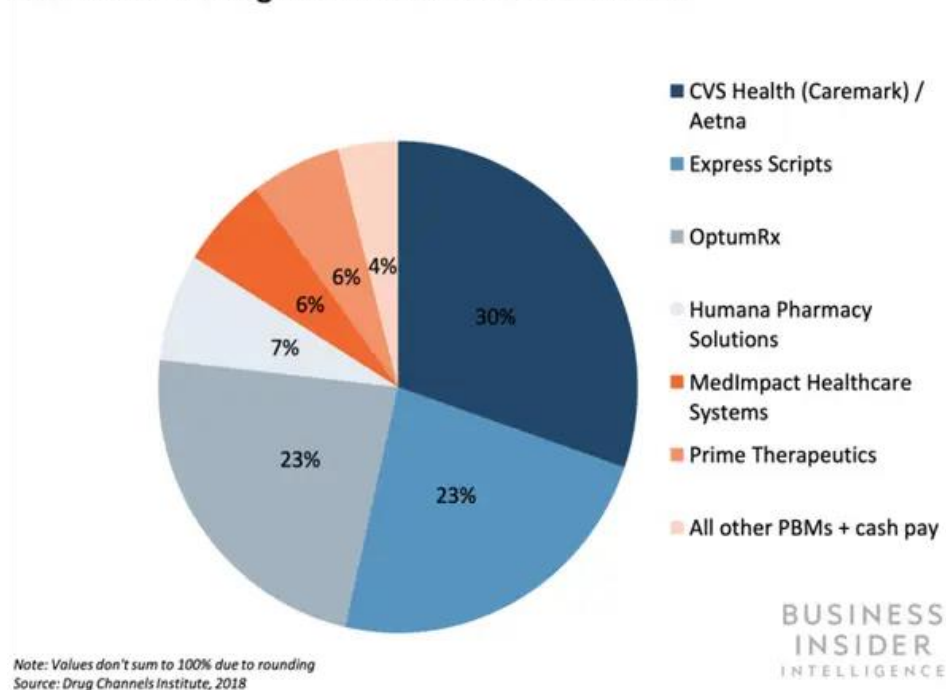


Figure 6. Shares of the PBM Market

Source: Drug Channels Institute (2018)

CVS's Challenges to their Business Model

"Noting that 83 percent of Americans are concerned about the rising cost of medications — and that 20 million adults say they do not take medications because of cost — CVS built the Pharmacy Savings Finder tool. The proprietary software lets pharmacists look for savings options: generic substitutions, a conversion to a 90-day prescription, even therapeutic options, all of which can save customers up

to \$75 per medication” (Stewart, 2018). CVS came out with a statement: “We are closely monitoring the global pharmaceutical manufacturing environment and collaborating with our suppliers to ensure we can continue filling prescriptions for our pharmacy patients and members at CVS Health. We are actively managing our supply to ensure our ability to continue to fill prescriptions in our retail, mail, and specialty pharmacies.” CVS Health commented during a covid-19 assess shortage that whenever faced with challenges, CVS Health finds a solution when it comes to their customer’s health (Ito. S., & Kono, H., 2009).

Conclusion

CVS Health compares to their competitors because their company emphasizes addressing racial health inequities in Black and Hispanic communities (Janes, 2009); they offer prices that allow consumers from all divergent backgrounds access to affordable healthcare. They have invested \$600 million over five years to advance employee, community, and public policy initiatives that address inequality faced by Black people and other disenfranchised communities. Another factor that differentiates them from their competitor is that the company connects the consumer goods and pharmaceutical global supply chains to customers and, in the process, fulfills the cost-saving value proposition (Newton, 2019). CVS was the first to take the initiative and halt the sale of tobacco products in their stores which is one reason they are a recognizable leader in the healthcare industry. CVS is a retail pharmacy that also offers modernized services to consumers; the company has evolved since the first store opened in 1963. They are an innovative company that is always looking for ways to improve their services and costs and is always the first company to take the initiative in accessible healthcare services for all.

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