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# TOTAL STORE EXPO

## NACDS TSE DAYS 1 & 2 TAKEAWAYS

- The annual National Association of Chain Drug Store (NACDS) Total Store Expo (TSE) brings together retailers and suppliers for four days of interactive discussions, presentations and exhibits. Billed as the industry's largest gathering, TSE attracts more than 5,600 retailers, suppliers and attendees.
- During the first two days of the event, the Fung Global Retail & Technology team attended sessions with Walgreens, CVS, Jet.com, Meijer, Shopko among others.
- We identified eight major themes in the chain drug store space including personalization, loyalty programs, omni-channel, a focus on health, beauty, digital marketing, marketplaces and improving the in-store experience.

Fung Global Retail & Technology is attending the National Association of Chain Drug Store (NACDS) Total Store Expo (TSE) in Boston. The expo began on Saturday, August 6, and runs through Tuesday, August 9. The annual trade show brings together retailers and suppliers for four days of interactive discussions, presentations and exhibits. Billed as the industry's largest gathering, TSE attracts more than 5,600 retailers, suppliers and attendees. The event also connects a wide-range of retailers, not only drug store retailers. During the first two days of the event, we attended sessions with Walgreens, CVS, Jet.com, Meijer, Shopko among others.

Over the course of the two days, we identified eight major themes in the chain drug store space. Below we outline these themes and provide details from the show.

### 1) Personalization: CVS Focused on Personalizing the Customer Experience

Personalization has always been important in retail, but for drug stores and pharmacies it is particularly relevant because they must constantly and consistently address individual needs, more so than in other areas of retail. CVS and Walgreens have mobile apps that provide personalization to the consumer at all times. In fact, CVS has one of the most advanced personalization engines and puts a lot of emphasis on the personalized experience. For drug stores, personalization extends beyond retail; it impacts health outcomes.

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The three most common issues with prescription medications are overuse, underuse and misuse, explained Kerri Petrin, Senior Account Director of RxAnte. Pharmacies often do not have the bandwidth to reach the entire customer base, so they rely on RxAnte’s predictive models to determine the population that will require intervention. With RxAnte, pharmacies can reach out in various ways depending on the type of care, urgency, and receptivity of the client. Although the focus is on adherence to the medication plan, this method allows pharmacies to provide the customer with a more intimate experience and breeds customer loyalty. Even though predictive analytics is geared towards medication, we believe it can also be used to deliver more personalized marketing to customers and ultimately drive more traffic into the stores.

*Because customers often return to the same pharmacies to fill their prescriptions, drug stores are in a unique position to capture customer loyalty.*

## 2) Loyalty Programs: Drug Stores Uniquely Positioned

Because customers often return to the same pharmacies to fill their prescriptions, drug stores are in a unique position to capture customer loyalty. Walgreens, at the forefront of customer loyalty, is the first drug store to introduce digital coupons that can be clipped and redeemed in the store or digitally. The company introduced a “three ways to save” initiative which includes a simple labeling system that allows customer to easily see the ways they can save. The program includes new lower prices, great sale prices with the loyalty card, and points-based rewards.



Source: Meijer

Meijer’s loyalty program, mPerks, allows personalization along with other features to deepen customer engagement. There are currently 4 million customers enrolled in mPerks. Through the program, Meijer designs different offers and discounts on certain brands and products based on the customer. It also serves as a digital wallet that allows customers to see how much they spent and saved. For Meijer, the pharmacy is top growth business; pharmacy customers spend three times as much as other customers. As a result, the company plans to focus on increasing retention and generation of pharmacy customers. Since customer churn in pharmacy can be high, we believe pharmacies will continue to invest heavily in loyalty programs to improve customer retention.

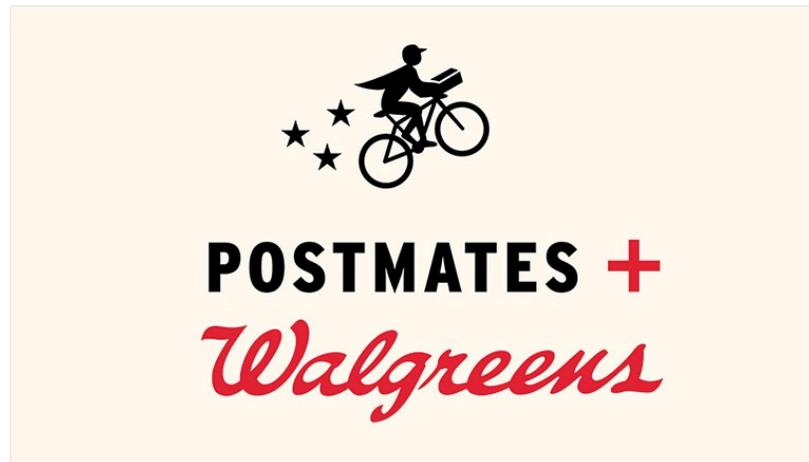
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### 3) Omni-channel: a Seamless Customer Experience

The key to omni-channel sales is convenience for the customer. Walgreens has a strong omni-channel presence between its mobile app and telehealth options. The app allows customers to refill prescriptions and Walgreens has partners with WebMD to help the shopper make decisions. Omni-channel extends well beyond mobile apps.

Bridging online and in-store shopping, Walgreens plans to launch a ship-to-store feature that will allow customers to ship products to any store, for free. The company has also partnered with Postmates which allows customers who order through the Postmates app to receive delivery within 30 minutes.

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Source: Money.Cnn

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Omni-channel has been a focus for retailers for years, however, we believe only now are retailers starting to leverage the true nature of their digital and brick and mortar infrastructures to drive growth and improve customer experience.

### 4) Focus on Health: Significant Opportunity as US Population Increasingly Focused on Health and Wellness

Drug store retailers are focusing on health and wellness and the active lifestyle. For Shopko, this represents 50% of total revenue. The drug store company claims its success here is due to the aging American population. Around 10,000 Americans turn 65 every day, the cost of diabetes is a \$32 billion prescription category and 12,000 people become eligible for Medicare every day.

CVS is trying to empower customers to live a healthier life by making the right decisions about the products they buy and provide expert customer assistance.

To give the best care at home, Meijer is working with hospital outpatient pharmacies to help ensure patients continue to prioritize their health. One in five patients are re-hospitalized after 30 days of leaving the hospital due to not following their prescription plan. We believe the focus

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on health will continue because the Silvers economy is growing, and Millennials and Gen Z are more health conscious and looking for healthier options.

## 5) Beauty: A Key Component of the Drug Store Experience

Drug stores are racing to become leading health and beauty destinations. Beauty is an important aspect of drug stores and many drug stores are growing this segment by incorporating it into their loyalty programs and private labels. Personalization and the in-store experience are key aspects of selling beauty products in drug stores.

Walgreens introduced new products, updated the beauty areas in its stores and created a new customer care model, which includes outfitting beauty sales representatives with tablets. Its beauty club—coming soon—will offer additional benefits and exclusive perks to members. There is also a big push for healthy, more natural beauty products to be available in drug stores.

## 6) In-store Experience: Technology to Drive Changes in Stores

Despite pushing digital integrations, drug store companies want the physical store to serve as the hub. As such, stores are integrating personalization; in-store personalized recommendations, omni-channel; buy-online, pick-up in-store and mobile apps.

Meijer is working on improving the customer experience by speeding up the checkout process by integrating mobile apps and mobile payment. Meijer has a group of engineers whose job is to measure every detail of the checkout process and improve it, even by a few seconds.

Shopko's stores operate as a "destination" and offer comprehensive products and services covering all major categories of goods. Walgreens foresees high-tech innovations, such as beacons and digital displays, will reinvent the store experience. We believe retailers will continue to focus on improving the in-store experience to not only simplify and enhance the customer journey in the store, but also to create differentiation from online retailers.

*Personalization and the in-store experience are key aspects of selling beauty products in drug stores.*

*Despite pushing digital integrations, drug store companies want the physical store to serve as the hub.*



Source: Somerville Inc

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## 7) Digital Marketing: Projected To Be Half of Advertising Spending by 2020

In the “Winning With Digital Insight” session, Wayne Duan, Director of Digital Commerce at Walgreens, and Soyoung Kwon and Todd Huseby, Partners at A.T. Kearney, dove into the key challenges of digital marketing. With \$100 billion projected to be spent on advertising by 2020—50% of which will be spent on digital—retailers must determine how digital marketing fits into their strategies and how they can measure the true impact.

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Pharmacy products are frequently researched online but picked up in the store and this is a difficult process to measure. These questions are not stopping retailers from spending big on digital marketing, however. We believe that Jet.com’s marketing budget in 2016 was more than \$300 million. Walgreens, however, has a less aggressive outlook and said it is important to focus digital marketing rather than trying to tackle every platform.

## 8) Marketplaces: Increased Transparency To Drive Increased Visibility for Consumers

Marketplaces are the fastest growing channel (CAGR 21% over 10% for other e-commerce) and the preferred channel for consumers; 64% initiate their search from a market place, 48% direct from the merchant, and only 40% from search engines

*We believe the concept of Marketplaces will continue to grow as consumers adopt them as their go-to place to begin their online shopping.*

One example of a very successful new marketplace is Jet.com. The company boasts \$1 billion in GMV, 11 million products on its site, 3.5 million unique shoppers, and over 2,400 integrated partners.

We believe the concept of Marketplaces will continue to grow as consumers adopt them as their go-to place to begin their online shopping. In addition, we believe Marketplaces will become more transparent and offer customers visibility into the supply chain cost structure.

We would not be surprised to see other drugstores consider moving to a marketplace model.



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