

SOLUTIONS MANUAL

BABIN / HARRIS

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STUDENT EDITION

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ISBN-10 Supplement Retail Price

ISBN-10: 026-1-1114-2125-2

ISBN-13: 9-78-0261-111425

0261-1114-2125-2

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Chapter 2 Case

Headquartered in Woonsocket, Rhode Island, CVS Caremark is the number one provider of prescriptions in the United States with over 6,200 locations in forty-four states across America. CVS/pharmacy serves the health care needs of its customers by providing convenience and a high overall perceived value.¹⁵

Along with its pharmaceutical products, CVS “front store” retail sales include health and beauty products at affordable prices. CVS has a large selection of upscale cosmetics with the latest advances in skin care and has expert beauty consultants on staff.

In 2006, CVS launched their in-store Photo Centers, offering customers fast, convenient, and high-quality image processing. CVS/pharmacy now has the largest distributed photo printing network of any retailer in North America.

CASE

In 2001, CVS/pharmacy was financially strong, with number one market share positions in major drug store markets such as Boston (28.8%), Chicago (51%), and Houston (36.9%). Competition, however, was becoming increasingly fierce from rivals such as Walgreens, Osco, Rite Aid, Eckerd, and Kroger.¹⁶

Specifically, Walgreens posed a serious threat to CVS in 2001—aggressively expanding in key growth markets such as Houston and Chicago where CVS had enjoyed a leading market share.¹⁷

CVS’s loyal customers were now being tempted to switch to the competition by Walgreens’ low prices and 24-hour service. CVS needed to devise a new marketing strategy to retain its loyal customers.

CVS MAKES ITS MOVE

In February of 2001, CVS launched a new customer loyalty program called ExtraCare® in its 4,100 stores. Customers could sign up for a CVS ExtraCare card and receive 2% back on their purchases in the form of a coupon printed at the bottom of their receipt. It also rewards customers with \$1.00 to spend on front store merchandise for every two prescriptions filled.

ExtraCare customers may choose to disclose personal information, such as their home address and phone number, but it is not required. A customer may still receive in-store discounts even if they have only provided a name. Customers who do provide an address receive mailings with special offers and

coupons, and information about new products tailored to their shopping habits.

In August of 2001, year-to-date same store pharmacy sales increased by 14.7% and overall store sales increased 10.9%.¹⁸

SUMMARY AND CONCLUSIONS

In addition to the substantial investment in technology required by the ExtraCare program, CVS continues to invest in growth through acquisition. In 2005, CVS/pharmacy integrated 1,200 Eckerd drugstores in markets such as Texas and Florida. In 2007, CVS integrated 700 Sav-on and Osco drugstores in the California markets.

In 2008, ExtraCare has become a successful customer loyalty program, with more than 50 million cardholders in the United States. Through cardholder transactions, CVS has improved their ability to respond to customer needs, based on the information collected through card sales. The ExtraCare program also enabled CVS/pharmacy to maintain its market share, despite the discounting efforts and fierce rivalry of its competition.

Today, customer relationship management software and other improvements in information technology have enabled marketers to better understand the needs of customers on a one-to-one basis. Similar value card programs are evident in many different industries. Consumers receive rewards for purchasing virtually every type of product—from grocery stores to drive-through coffee retailers.

Questions

1. Visit the CVS/pharmacy website (<http://www.cvs.com>). What other benefits does CVS provide to ExtraCare customers? Provide examples of both utilitarian and hedonic value.
2. Suppose a major competitor launches its own customer value card program. How might CVS respond? What recommendations would you give CVS to improve the ExtraCare program?
3. What are the advantages and disadvantages of *not* requiring personal information from customers for participating in the ExtraCare program?
4. What ethical issues would CVS need to consider before changing their ExtraCare policy to require an address and phone number?