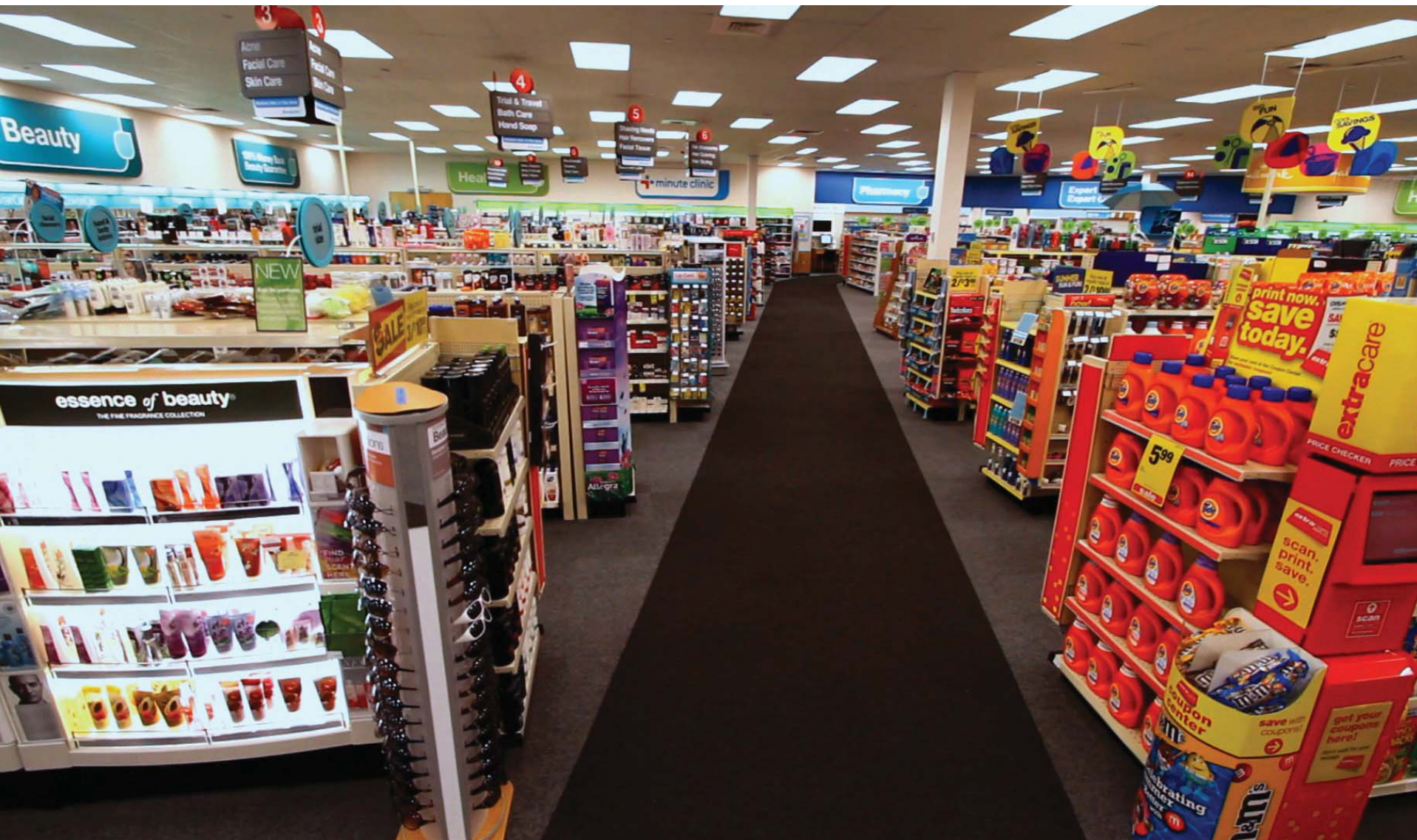


Cover Story CHAIN DRUGSTORE REPORT

BY JAMIE GRILL-GOODMAN



With sections for health and beauty, household goods, food, pharmacies, and even health clinics, today's largest drugstore chains such as CVS are doing more in their stores' private label programs than ever.

Destination Drugstore

PLBuyer takes a deeper look at the top three drugstore retailers in the U.S.

Drugstore retailers have come a long way. Today's drugstore is a total shopping destination that includes an array of private label products from premium food and beauty care to environmentally friendly merchandise and pharmacy services backed by OTC products.

The top three drugstores on *PLBuyer's* Top 35 list in 2012 were Walgreen Co. at No. 12, CVS Caremark Corp. at No. 16, and Rite Aid at No. 26. *PLB* takes a deeper

look into what these drugstores have been doing in recent years to stay ahead of the curve and remain three of the top retailers in the U.S.

CVS/Pharmacy

CVS/pharmacy, the retail division of CVS Caremark Corporation, has more than 7,400 CVS/pharmacy and Longs Drug stores. Full-year earnings for 2012 were up 23 percent from 2011, and CVS CEO Larry Merlo told analysts on a conference call that the second-



CVS/pharmacy has redesigned its Gold Emblem line, which was introduced in 1995.

largest drugstore chain in the U.S. saw front-store private label share rise 20 basis points to 18.1 percent in the quarter.

"I'm sure you're not surprised to hear that we saw particular strength in cough and cold, allergy, and flu-related sales," Merlo said, according to transcripts of the call from Seeking Alpha. "And we also continued to see solid sales and share growth in the beauty category, driven by skincare and cosmetics."

CVS Caremark's first international expansion took place this year, when the company bought Drograria Onofre, a retail drugstore chain in Sao Paolo, Brazil, which consists of 44 stores.

"We view Brazil as an attractive market given that healthcare and

pharmacy are expected to grow double digits for the next decade," CVS CEO Larry Merlo told Reuters. "It's still a highly fragmented market, so we see nice opportunity to grow the business over time."

Last year, CVS began to quietly roll out its Total Home line and redesigned Gold Emblem line, which, when introduced in 1995, was one of the first private label food lines created by a major drugstore chain. However, it wasn't until its analyst day conference last December that CVS unveiled plans to redefine its Gold Emblem consumable private brand and to consolidate household items into the Total Home private label line.

"Over the next several years, growing and enhancing our store

brand offerings continues to be a priority," Director of Public Relations Erin Pensa told *PLB*. "CVS/pharmacy offers consumers the convenience of a one-stop shopping destination to find all their health, beauty and household essentials. And the vast array of store brands and exclusive lines that we have developed offer customers an even greater selection of products to choose from, delivering additional value and innovation to meet customers' ever-evolving needs."

Pensa said that CVS worked on the packaging changes to all 260 SKUs in Gold Emblem and the reformulations of a quarter of those products for the past year.

"Updates include a contemporary identity and package re-design that embodies our commitment to meeting a very high taste standard for every item in the line, as well as a refined taste-test approval process used to evaluate every item that is branded with the Gold Emblem name," Pensa said.

The new Gold Emblem items are evaluated using an in-house taste panel and an external third-party panel of professional taste-testers to provide specific feedback on each item. The enhanced packaging incorporates key nutritional information on the front of each item. Among the more than 250 products included in the line are nuts, trail mixes, chips, pretzels, dried fruits, candies, cookies, spices, juices, condiments, baking essentials and breakfast bars.

The new Total Home line replaces the Round The House brand. Total Home products include cleaning supplies, storage products, and home upkeep items such as batteries and light bulbs.

"Every Total Home product is tested to ensure that it meets or exceeds the performance along the most important product attributes of the leading comparable national brands, at prices approximately 15 (percent) to 20 percent less than the alternatives – and backed by a full money-back guarantee," Pensa



CVS/pharmacy revamped its diapers last year with bright, playful packaging.

said. "By unifying all these products under the Total Home brand, and one easily recognizable logo and a consistent package design, we are making it easier for customers to recognize the line on shelf, and feel confident that all items in the line will meet their performance expectations."

Additionally in 2012, CVS gradually rolled out a package redesign of its Earth Essentials range of natural and environmentally friendly products.

The company also revamped its CVS brand of baby diapers. The redesigned orange packaging was improved to be more bright and playful, according to CVS, and carries a blue "new & improved" callout across all sizes. Improvements included enhanced



Last year, CVS/pharmacy began to quietly roll out its new Total Home line.

CVS/pharmacy

CVS Brands Include:

- Total Home
- CVS/Pharmacy
- Gold Emblem
- Essence of Beauty
- Earth Essentials
- Just the Basics
- Nuance
- Bioluxe
- Christophe Professional
- Skin Effects by Dr. Jeffery Dover
- Petcentral
- Blade

Cover Story CHAIN DRUGSTORE REPORT

leakage protection and a smart-fit size indicator on the diaper, which lets shoppers know when their baby is ready to move up a size. The diapers also are perfume and latex free, and offer a new contoured fit and softer, stretchable tabs.

In 2011, CVS introduced Just the Basics, a line of value-priced household essentials from a variety of categories throughout the store including household, beauty, baby and personal care. Just the Basics products offer the lowest prices when compared with private and national brand options with equivalent sizes and quantities.

The retailer also launched the Nuance Salma Hayek line that year. The complete beauty line ranges across skincare, cosmetics, hair care, and body care products.

The retailer's ExtraCare

loyalty card launched 15 years ago. Today, there are more than 70 million active ExtraCare members. From the opt-in programs such as ExtraCare Beauty Club and ExtraCare Advantage for Diabetes to the newest "Send to Card" digital savings options, shoppers have many options to receive savings and rewards. Coupons printed on receipts often offer savings on store brand products.

Walgreens Co.

As the nation's largest drugstore chain with fiscal 2012 sales of \$72 billion, Walgreens operates 8,067 drugstores in all 50 states, the District of Columbia and Puerto Rico.

In 2010 the drugstore retailer bought New York city drugstore chain Duane Reade and since



Walgreen Co.'s new Ology brand soothing baby shampoo and body wash contains no harmful chemicals and is endorsed by Healthy Child Healthy World.

In November, Walgreens Co. debuted its new bi-annual magazine "Happy And Healthy, Your Guide To Living Well With Walgreens," available in both English and Spanish.

has rolled out Good & Delish food items into Walgreens stores (formerly DR Delish brand).

In 2011, the company added its Nice! brand of grocery and household products at prices up to 30 percent below other national brands. It also introduced its Well Experience store format, and since has rolled out some rebranded OTC products as Well at Walgreens brand.

Walgreens was busy revamping its private label lines in 2012. At the beginning of the year, Walgreens debuted its new no-name economy brand with a sunny smile logo. It also redesigned its Studio 35 Beauty line and its Bioinfusion hair care line last year.

In September, Walgreens launched its customer loyalty program, Balance Rewards, and in October Walgreens announced its new company, Walgreens Boots Alliance Development GmbH, Bern, Switzerland. The new company is jointly owned with Alliance Boots, as part of their

strategic partnership's synergy program.

In November, Walgreens launched Ology, its new line of baby, personal care, and household products formulated to be free of harmful chemicals. Products include baby lotion, laundry detergent, glass cleaner, shampoo and conditioner, bath and facial tissue (100 percent tree-free), and compact fluorescent light bulbs.

Ology puts Walgreens ahead of the U.S. Senate's approved chemical reporting bill, "The Safe Chemicals Act." If the bill passes, it will be the first overhaul of the federal chemical law since 1976 and would require that ingredients be determined safe for human health before being used in everyday consumer products.

Walgreens also recently promoted its Walgreens "Up Market: Fresh" experience with a Los Angeles bus tour offering samples of Walgreens fresh food offerings, including juices, frozen yogurt, and coffee. The bus tour

Walgreens

Walgreens Co. brands include:

Nice!
 Bioinfusion
 Good & Delish
 Apt. 5
 Apt 5 Goes Green
 Prevail
 Look NY
 Studio 35
 Sunny Smile (no name brand)
 Pet Shoppe
 Ology
 Well at Walgreens
 Big Flats 1901
 Living Solutions

commemorated the grand opening of Walgreens' LA "flagship" store on Dec. 1, which was its 8,000th location.

On Nov. 4, Walgreens debuted its new bi-annual magazine, *Happy And Healthy, Your Guide To Living Well With Walgreens*. The 28-page magazine, available in both English and Spanish, provides "a unique way to highlight Walgreens innovative and leading private brands," according to a press release from the retailer.

This year, Walgreens launched Walgreens University, with a goal to lead its industry in classroom and online programming to "educate and develop team members for rewarding long-term careers." With the opening of Walgreens University, the company is doubling its annual investment in employee education and development, and plans to double the number of learning opportunities for team members through expanded online classes, regional training sessions and in Deerfield campus classrooms.

Rite Aid Corporation

Rite Aid's fiscal 2012 annual revenues were \$26.1 billion. The

drugstores can be found in more than 4,600 stores in 31 states and the District of Columbia.

In January, Rite Aid's same store sales increased 0.3 percent over the prior-year period. January front-end same store sales increased 4.2 percent, of which 2.4 percent was attributable to flu-related over-the-counter products. Total drugstore sales for the four-week period decreased 0.5 percent to \$1.914 billion compared to \$1.923 billion for the same period last year. Total year-over-year drugstore sales decreased 0.6 percent with sales of \$22.826 billion compared to \$22.953 billion for the same period last year.

In 2010 Rite Aid began restructuring its entire private label portfolio into Rite Aid pharmacy for health products; Renewal, a beauty care line; Pantry for food; Home for household goods; Simplify, its value brand; and Tugaboos, its baby care line.

Rite Aid launched its Wellness+ loyalty program in April 2010. The wellness+ customer rewards



Walgreens Co. offers upscale consumables such as its Good & Delish Dark & Twisted Premium Belgian Lemon & Black Pepper Dark Chocolate bar for \$1.69.



Rite Aid advertises ten percent off Rite Aid brands in the store sign seen on the right. Members of the retailer's Wellness+ loyalty program receive this discount for a year after reaching 250 points.

program provides members with 24/7 toll-free access to a pharmacist and 10 percent off Rite Aid brand products, as well as member-only discounts.

In 2011, the program was awarded the 2011 LEADER Award in the loyalty category, sponsored by IBM, as determined by the Shopper Technology Institute.

In September 2012, wellness+ members began having their +UPs rewards automatically loaded to their wellness+ card. +UPs are rewards earned when certain items are purchased, and can be used like cash toward a qualifying purchase at a future Rite Aid visit.

In 2012, Rite Aid also added six new flavors to its award-winning private brand Thrifty Ice Cream, including two Greek-style nonfat frozen yogurts. To celebrate the Tugaboos brand turning two, the retailer ran a promotion in which shoppers could enter to win a year's worth of the diapers.

This March, Rite Aid announced the expansion of NowClinicOnline Care services inside 58 additional Rite Aid pharmacies in Baltimore, Boston, Philadelphia and Pittsburgh. Rite Aid was the first to provide a



Rite Aid brands include:

Rite Aid brands include:
 Rite Aid pharmacy
 PharmAssure
 Renewal
 Pantry
 Home
 Tugaboos
 Simplify
 Purespring
 Rx Suncare
 Thrifty Ice Cream

virtual clinic in a retail pharmacy setting in 2011. NowClinic Online Care offers Rite Aid customers real-time access to quality and convenient medical care, information and resources from doctors and Optum nurses. Using the Internet, Rite Aid customers can have one-on-one consultations via secure video, chat or phone, with doctors. Customers can also interact with Optum nurses. Conversations with nurses are complimentary and a 10-minute consultation with a doctor is \$45.00. **PLB**

A Look Into Private Label OTC

PL Developments' Joni Foley provides insight on the world of private label pharmaceuticals.

As we take a look at what's going on in the private label world of chain drugstores, Joni Foley, Senior Director, Sales and Marketing, PL Developments, sat down to provide *PLBuyer* with insights into private label OTC products.

PLBuyer: How tightly regulated are OTC drugs?

Foley: Many people may not realize that OTC drugs go through a rigorous review process by the U.S. Food and Drug Administration before they are cleared to be marketed and are regulated by the same standards as Rx drugs. In 1951, the Durham-Humphrey Amendment explicitly defined two specific categories for medications, legend (prescription or Rx) and over-the-counter (OTC) drugs.

There are two regulatory pathways for OTC drugs. One is the OTC New Drug Application (NDA) and the second is the OTC Drug Monograph Review that was established in 1972 by FDA to evaluate the safety and efficacy of OTC ingredients, doses, formulations, and labeling used in medicines available to consumers without a prescription.

OTC drugs are required to meet the same safety and efficacy standards as prescription drugs and are regulated by the same current Good Manufacturing Practices or cGMPs as their Rx counterparts.

The key differentiator between Rx and OTC drugs is the requirement that consumers must be able to self-diagnose, self-treat and self-manage their medical condition using OTC drugs. This can be confirmed through label comprehension studies and actual use studies. The FDA has standardized the labeling requirements known as "drug facts" for all OTC drugs to aid consumers to properly use OTC drugs and understand the risks associated with their use.

PLBuyer: How closely do private label OTCs have to match the national brands to claim to

compare to them?

Foley: They need to be equal to or better than the national brand. Our products are tested by (UL, formerly STR) on a regular basis. (UL) testing specifically relies upon the comparison of private brand with national brand and rates accordingly. All of our products score a perfect 10 with (UL) except for a few "better than the brand" products such as softgel offerings of a brand's caplet or tablet.

PLBuyer: What are some of the challenges to create a private label that meets all FDA regulations?

Foley: OTC drugs are tightly regulated and must meet strict requirements before they can be marketed. The same criteria applies to a private label OTC. There are no published studies or scientific evidence to show that the interchangeability of a private label for a brand name drug presents difference in safety or effectiveness for the consumer. The FDA has confirmed on several occasions that bioequivalence requirements for private label and brands are rigorous and ensure that approved private label OTCs are therapeutically equivalent to their brand counterparts.

PLBuyer: What kind of packaging is available for private label OTCs?

Foley: Typically, private label packaging is designed to be as close to the national brand as possible, making it easy for the consumer to identify which products compare to which. That being said, store brand has come a long way as far as design and eye-appeal. Extraordinary package design is a key differentiator in the consumer decision-making process. Our insight into evolving packaging concepts gives us the ability to offer our retailers higher levels of consumer awareness, which ultimately delivers increased sales.

PLBuyer: How can retailers best market their OTC brands?

Foley: Marketing and promotion are invaluable here. Retailers must match their private brand



PL Developments provides a full range of manufacturing, packaging, distribution and creative solutions.

penetration goals with their promotional schedules – in other words, private brand must receive the same (or better) promotional exposure than that of the national brands. On this subject, PL Developments has spearheaded a new group in the industry called MORE (Marketing Opportunities Roundtable Events) for private brand. This group will bring together suppliers, retailers and brokers to discuss best practices in promotion, consistent charity donation programs and cross-promotional opportunities (free ibuprofen vial in package of tampons for example). We are very excited about this new group.

PLBuyer: How do retailers come up with prices for their products?

Foley: Typically, retailers price their private brand at 30 percent less than national brand. There are many exceptions here. Also, softgels warrant a higher price point than tablets or caplets due to the premium dosage form.

PLBuyer: What generic products are coming up soon that may be entering stores?

Foley: Based on published information there are a number

of proposed prescription-to-OTC switches on the horizon and the future looks especially bright for generic private label opportunities. There are several OTC store brands expected to launch in the next few months including Clarinex, Deson, Allegra D-12, Mucinex and Claritin D. It is also anticipated that Aciphex, Nexium, Protonix will also switch from Rx-to- OTC making the way for additional private label opportunities.

PLBuyer: What are the smallest size runs available?

Foley: PL Developments has one of the lowest minimums in the industry. We can do a private brand item for a retailer at a minimum annual usage of 25,000 pieces.

PL Developments provides a full range of manufacturing, packaging, distribution and creative solutions at a quality that is unmatched. PL Developments is a leader in both the OTC private label space as well as the Contract Packaging pharmaceutical industry. This growth has been accomplished through a steadfast commitment to quality, an unwavering focus on customer service, and by embracing innovation. For more information contact PL Developments Headquarters, 200 Hicks Street, Westbury, NY 11590; www.pldevelopments.com/contact-us/