

# Digital transformation opens up new opportunities

By Matt Katz, Nick Kramer and Chris Ventry

A consistent theme across industries is that the lockdown accelerated digital transformation, opening up numerous short-term and strategic benefit drivers. But when economic uncertainty makes it necessary to minimize investment, the challenge is knowing which bets to make and which levers to pull now.

For chain drug stores, we see this “Sprint with Digital” manifesting itself in a focus on deepening customer relationships and providing a richer customer experience. This will drive share of wallet and sustain customer loyalty. The COVID-19 crisis disrupted the retail pharmacy industry and how the business operates. As we transition into what we call “The New Abnormal,” the big question is how to reimagine the business and operating model to preserve market share, seize opportunity and control operating expense.

## E-commerce, stores and fulfillment

While online pharmacies such as Capsule and Hims/Hers have shown the viability of digitizing the prescription delivery life cycle, chain drug retailers were already investing heavily in e-commerce capabilities in both prescription and nonprescription products. We expect the acceleration of e-commerce sales precipitated by stay-at-home orders will not reverse or diminish. So, chain drug retailers who want to remain successful will need to place an even greater emphasis on engaging customers online.

But unlike the online pure plays, amid this transition, chains with a significant brick-and-mortar footprint have two distinct advantages. First, their existing customer base confers a significantly lower cost of customer acquisition compared to their digitally native competitors. Second, the local brick-and-mortar chain pharmacy can act like a mini-distribution center to support customer online orders through buy online pickup in-store (often with curbside pickup), buy online fulfill from store, buy online ship to store, etc. This capability is vividly highlighted in Target’s recent announcement that its physical stores fulfilled 80% of Target.com’s orders, resulting in a 40% reduction in costs vis-a-vis DC-fulfillment. Utilizing the physical fleet supports inventory optimization and speed, increases store traffic generation and the leveraging of store labor, while reducing cost of delivery.

In-store experience is another area where we envisage The New Abnormal. Unlike so-called unessential retail, chain drug stores remained open throughout the lockdown. They therefore gained an early



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glimpse into how customer behavior would change, particularly as restrictions ease and the economy begins to reopen. This early data is invaluable in reimagining the in-store layout, traffic and service interactions.

One takeaway is that in-store use of apps will become more prevalent as physical distancing continues to increase demand for contactless service. Successful retailers across categories will be the ones who wholeheartedly embrace the digitization of the in-store experience. There is much experimentation to do with technologies like Augmented Reality — for example, the increasing ubiquity of AR offers the ability to show product ingredients and usage without the need for physical contact with the item. Transformation via AR also changes store resourcing. Increased self-service along these lines provides the opportunity to redeploy store associates, whether to higher-value tasks or a more technological role. It makes it possible to rethink the role of in-store labor.

## Fine-tuning customer intimacy and loyalty

One way to enhance customer

intimacy and loyalty is through newly emerging services chain pharmacies can offer. While chain drug store loyalty programs are mature and relatively sophisticated compared to other retailers, the physical store has been the engine of that customer relationship. Reduced foot traffic in stores is a trend that will continue at least until a COVID-19 vaccine is widely available and is likely a permanent trend. With spending also going down, chain drug retailers must create new offerings and messages to preserve share of wallet and brand loyalty from current customers.

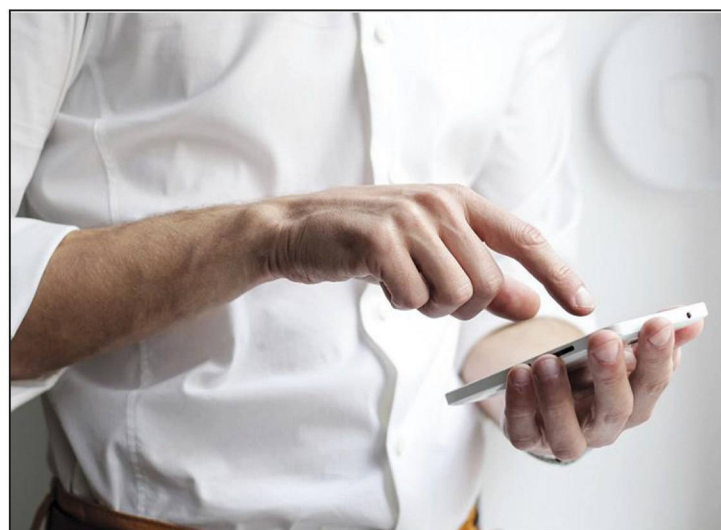
An example of the direction in which pharmacies can head is to offer more whole-body health services. Drug stores can recommend specific food items and supplements based on patient prescriptions or other signals suggested by customer data. Here, app features and content can drive consumer engagement and can help focus the customer’s attention on higher-margin private label products. There’s also the opportunity to create new partnership opportunities — for example, expanding clinic services via telemedicine. Academic studies are showing that, after growing only slowly and incrementally, telemedicine use has expanded exponentially, changing the perception and role of telemedicine forever. This whole-body health approach, with telemedicine as a facet, can generate value for the customer, with the drug store playing a central role integrating it into customers’ lives. That, even with reduced physical interaction.

Successfully making this transition is a true Sprint with Digital: it will require doing more with customer data, predictive analytics, A/B testing

## Drug chains got an early glimpse into how customer behavior would change.

and marketing performance measurement. The above example of collecting data during the lockdown and transition to reemergence is just the tip of the iceberg in terms of what can be done.

The reason digital native leaders like Amazon and Google can expand into industries like health care is not because they are experts in medicine, wellness or even insurance — it’s because they are expert at deriving insights from the customer data they collect themselves or purchase from other sources. They infer customer behavior by triangulating from data sets beyond what they collect from their own interactions with customers. These digital leaders continually eliminate blind spots in their knowledge about



customers, what they want and what drives purchase behavior. Retail drug stores must continue to close the insight and action gap to succeed in preserving market share, customer loyalty and revenue.

## Internal efficiency and cost savings

Another way to improve the balance sheet and fund investment in the customer and in reimagining the business is to reduce operating costs. The dramatic cost savings from in-store fulfillment mentioned above is one example. Automating repetitive tasks within human resources, finance, supply chain and customer services processes is another. Before the COVID-19 crisis and lockdown, the trend was to focus on high-value, high-complexity tasks to take advantage of machine learning, text analytics and an ecosystem of analytics capabilities. But now the focus for automation has to be on delivering accelerated financial benefits — often within six months or less — with minimal investment.

sign, change management and measurement — not just the technology. Automating a broken process doesn’t work. Leaving upstream and downstream processes unchanged limits improvement. Leaving your organization unchanged perpetuates inefficiencies. This axiom is one reason we’re seeing renewed application of Lean (complemented by Agile and Design Thinking) for reducing waste and cost through process improvement while fostering buy-in. Now you can optimize the organization to divide work and decisions between human and digital coworkers. Iterative implementation drives quick wins and establishes momentum for ongoing improvement. Immediate financial impact is paramount right now; with this holistic approach, automation is a valuable lever to pull.

## Conclusion

Facing unprecedented uncertainty as they reemerge from the COVID-19 lockdown, winning businesses will take advantage of forced transformation and continue to Sprint with Digital. Chain drug stores are well positioned to take advantage of digital’s ability to transform their businesses. Those who reimagine business models and reengineer operating models, those who do more with data to make the best decisions and take the best actions stand to benefit most. They will embrace digital tools like automation, mobile engagement, and e-commerce to preserve market share. For chain drug stores, that means the opportunity to become even more integral to customer wellness and in their lives.

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