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Walgreens Slows Down To Boost Profits

Sep 23, 2009 1:57 PM, Lauren Shepherd

After years of strong growth, Deerfield, Ill.-based drugstore chain Walgreen Co. is slowing down in a bid to boost profits and reinvest its capital into its current store portfolio. In a big shift, new CEO Greg Wasson announced late last year that the company would chop its new store growth from 9 percent to 3 percent by fiscal 2011.

The strategy is more and more popular among retailers as the economy became more of a hindrance to growth. It allows the chain to shore up its profits while still adding new locations, says Walgreen spokesperson Vivika Vergara. "With this approach, we will have a positive impact on operating profits and ROIC and still be the fastest-growing retailer in the country," she says, adding that slowing down the pace of store growth can "lessen the financial drag of a large number of new stores opening each year."

Besides the growth slow-down, the company is attempting to save money by cutting 1,000 corporate and field-management jobs through both voluntary buyouts and layoffs. In all, the company hopes to cut about \$1 billion in annual expenses by 2011.

With more cash available, the company plans to reinvest in its current store portfolio. This fall, Walgreens is redesigning 400 stores to reflect changes like lower shelves, similar item grouping, informational signs and the reduction of nearly 4,500 SKUs. Vergara says the company will then rollout the changes nationwide through calendar 2010. She says Walgreens also plans to add more in-store health clinics, called Take Care Clinics, to existing stores and expand its product offerings.

The changes may be coming at just the right time. With the economic downturn still keeping shoppers focused mainly on value, Walgreens has seen sales slide in its general merchandise. In August, same-store sales, or sales at stores open at least a year, rose just 1.9 percent, a much smaller boost than the 3.1 percent increase Wall Street expected.

Most analysts have lauded the company's plans to cut store growth, boost profits and reinvest in existing stores, but it will take some time before the changes make a big impact on profit or sales. Morningstar analyst Matthew Coffina said in a note to investors that the changes are "necessary for Walgreens to become a more adept, consumer-driven merchant and give it a cost structure to be able to live within its means going forward" but cautioned "change will take time."

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