

How CVS Quit Smoking

By Drake Bennett and Dorothy Gambrell

IT'S BEEN 16 YEARS SINCE THE LAND-MARK SETTLEMENT BETWEEN BIG TOBACCO AND MOST OF THE NATION'S STATE ATTORNEYS GENERAL, AND TODAY OVER HALF THE STATES IN THE U.S. BAN SMOKING IN PUBLIC PLACES.

FOR NONSMOKERS, IT MAY BE HARD TO THINK OF SMOKING AS SOMETHING MILLIONS OF PEOPLE STILL DO.



AND YET THIS YEAR SMOKING KILLED 5 MILLION PEOPLE WORLD-WIDE.



THE EFFORT TO BRING THAT NUMBER DOWN INVOLVES DOCTORS AND PUBLIC OFFICIALS, CELEBRITIES AND HEALTH INSURANCE COMPANIES. AS OF THIS FALL, IT ALSO INVOLVES THE COUNTRY'S SECOND-LARGEST PHARMACY CHAIN.

ONE IN FIVE AMERICAN DEATHS WERE SMOKING-RELATED.

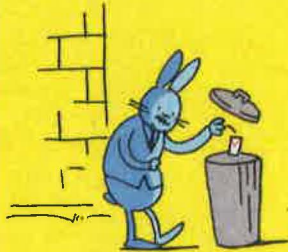
ON SEPT. 3, CVS HEALTH ANNOUNCED THAT IT HAD REMOVED ALL TOBACCO PRODUCTS FROM ITS SHELVES.

"IT BECAME CLEAR THAT ELIMINATING TOBACCO PRODUCTS FROM OUR STORES IS THE RIGHT THING TO DO."

CEO LARRY MERLO



IT IS DIFFICULT TO FIND A PRECEDENT FOR WHAT CVS HAS DONE: A PUBLICLY HELD CORPORATION VOLUNTARILY GIVING UP, FOR THE PUBLIC GOOD, SELLING A PERFECTLY LEGAL AND HIGHLY PROFITABLE PRODUCT.



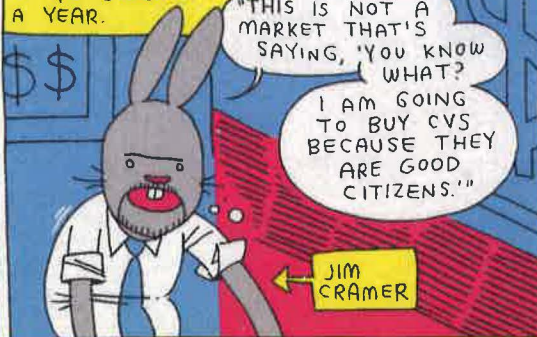
CVS ESTIMATES ITS DECISION WILL COST IT \$2 BILLION A YEAR.

"THIS IS NOT A MARKET THAT'S SAYING, 'YOU KNOW WHAT?'"

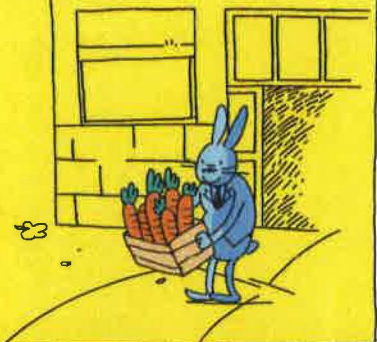
I AM GOING TO BUY CVS BECAUSE THEY ARE GOOD CITIZENS."

JIM CRAMER

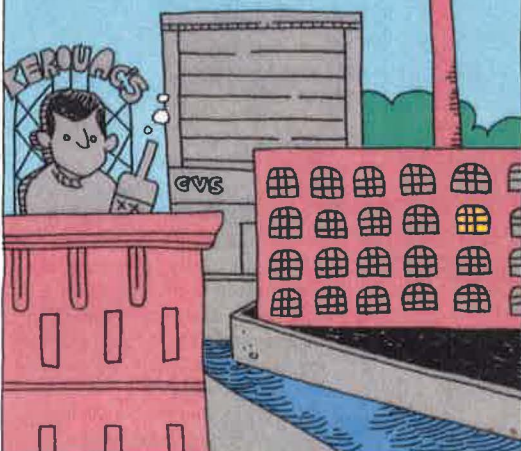
EVEN SO, CVS'S STOCK PRICE HAS GONE UP BY NEARLY HALF SINCE A 2014 LOW IN FEBRUARY.



CVS IS FINDING THERE'S MORE MONEY TO BE MADE IN TRYING TO GET PEOPLE HEALTHY THAN IN HELPING THEM GET SICK.



THE FIRST CVS, A DISCOUNT HEALTH AND BEAUTY AID STORE, OPENED IN THE FORMER MILL TOWN OF LOWELL, MASS., IN 1963, A YEAR BEFORE THE FIRST SURGEON GENERAL REPORT ON THE HEALTH CONSEQUENCES OF SMOKING.



THERE HAS LONG BEEN A TENSION IN THE FACT THAT ONE COULD BUY BOTH CIGARETTES AND MEDICINE AT A CVS, AND IT ONLY INCREASED WHEN THE COMPANY MOVED FROM BEING IN THE DISCOUNT STORE BUSINESS INTO THE PHARMACY BUSINESS.

"IF YOU'RE IN HEALTH AND YOU'RE IN WELLNESS, IT UNDERMINES YOUR INTEGRITY."



TROYEN BRENNAN, CVS'S CHIEF MEDICAL OFFICER AND A FORMER PROFESSOR OF MEDICINE AND PUBLIC HEALTH AT HARVARD

A RESEARCH TEAM LED BY BRENNAN HAD BEEN STUDYING CIGARETTE SALES IN BOSTON AND SAN FRANCISCO AFTER THEY BANNED THE SALE OF CIGARETTES IN PHARMACIES. IT FOUND THAT ON AVERAGE, THE TWO CITIES SAW A 133 PERCENT REDUCTION IN THE NUMBER OF HOUSEHOLDS BUYING TOBACCO PRODUCTS AFTER THE BANS.



"TOBACCO CONTROL PEOPLE TALK ABOUT NORMALIZATION AND DENORMALIZATION. PHARMACIES ARE ASSOCIATED WITH HEALTH CARE, AND WHEN YOU STILL HAVE CIGARETTES THERE, IT NORMALIZES THEM. SUBLIMINALLY PEOPLE ARE GETTING THE WRONG MESSAGE."



THE COMPANY FOUND ITSELF WITH UNEXPECTEDLY GOOD SALES IN ITS RETAIL PHARMACY IN LATE 2013.

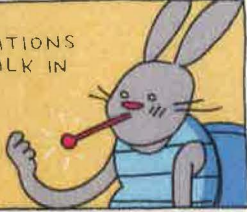
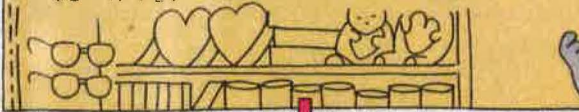
"WE HAD SOME GOOD THINGS HAPPENING IN THE BUSINESS."

HELENA FOULKES, EXECUTIVE VICE PRESIDENT OF CVS HEALTH

THE BUMP IN PHARMACY SALES PROVIDED A BUFFER AGAINST THE EXPECTED LOSS ON TOBACCO SALES.

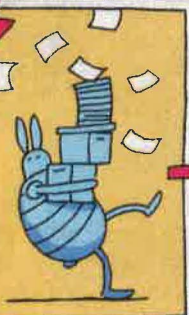


IN JULY 2006, CVS BOUGHT MINUTECLINIC. TODAY THERE ARE 900 CLINICS IN CVS LOCATIONS AROUND THE COUNTRY, WHERE YOU CAN WALK IN TO GET A FLU SHOT OR A PHYSICAL.

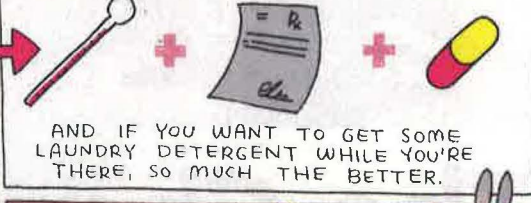


WHEN EXECUTIVES AT CVS TALK ABOUT BEING AN INTEGRATED HEALTH-CARE COMPANY, WHICH THEY DO A LOT, THAT IS WHAT THEY MEAN: BEING A PLACE THAT HANDLES ALL THE BACK-OFFICE HEADACHES OF PRESCRIPTIONS AND DRUG PAYMENTS, A PLACE WHERE YOU GO TO GET THE DRUGS THEMSELVES, AND A PLACE THAT ACTUALLY PROVIDES MEDICAL CARE.

IN NOVEMBER 2006, THE COMPANY BOUGHT CAREMARK RX, A PHARMACY BENEFITS MANAGER. CAREMARK MANAGES THE BAROQUE SYSTEM OF APPROVALS AND PAYMENTS REQUIRED TO FILL AND PAY FOR A DRUG PRESCRIPTION.

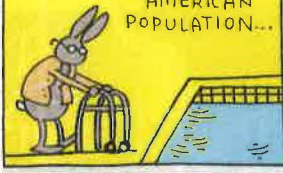


TODAY CVS'S BENEFITS MANAGEMENT BUSINESS ACTUALLY BRINGS IN MORE REVENUE THAN ITS PHARMACIES.



AND IF YOU WANT TO GET SOME LAUNDRY DETERGENT WHILE YOU'RE THERE, SO MUCH THE BETTER.

CVS CAREMARK'S STRATEGY RELIES ON THE AGING OF THE AMERICAN POPULATION...



AND BENEFITS FROM THE AFFORDABLE CARE ACT, WHICH BROUGHT MILLIONS MORE INTO THE POOL OF THE INSURED AND INCREASED THE DEMAND FOR HEALTH-CARE SERVICES.



AT THE SAME TIME, THE ACA DIDN'T APPRECIABLY REDUCE THE COMPLEXITY OF THE SYSTEM—



OR THE NEED FOR COMPANIES LIKE CVS CAREMARK.



ACCORDING TO ANALYST ROSS MUKEN OF EVERCORE ISI, "CVS IS NOW HEALTH CARE FIRST, AS OF NOW RITE AID AND WALGREENS ARE RETAIL-FIRST BUSINESSES. I DON'T SEE ANY REASON WHY THEY WILL GO IN THAT DIRECTION!"



IN THE MEANTIME, THE NUMBER OF AMERICAN SMOKERS CONTINUES TO DROP AS THEY QUIT OR SUCCEMB TO THE HEALTH EFFECTS OF THEIR HABIT.



"BEING FIRST WAS PART OF THE APPEAL. ONLY ONE COMPANY COULD BE THE FIRST TO DO THIS."

FOR SMOKERS WHO WANT TO QUIT—AND THE MAJORITY SAY THEY DO—MINUTECLINICS NOW OFFER CUSTOMIZED SMOKING CESSATION PROGRAMS.

