SPECIAL ANALYSIS

WALGREENS: PREDICTING TRENDS AND CLOSURES

KEY TAKEAWAYS

1	Retail pharmacy closures continue to climb as chains like Walgreens, CVS, and Rite Aid face challenges from labor issues, online competition, and shrinking pharmacy margins.
2	Walgreens plans to review 25% of its U.S. stores for potential closure, focusing on underperforming locations, which may include sister-store overlap, low traffic, and markets with high poverty levels.
3	Leveraging RetailStat's proprietary locational data, we identified markets with the highest concentration of stores that fit Walgreens' closing criteria.

PHARMACY CHAIN DECLINE

In prior years Walgreens and CVS each opened hundreds of stores yearly, filling in high-traffic and convenient street-corner locations. However, as front-end sales softened and pharmacy margins were pressured, the top chains shifted to closing hundreds of stores.

Several factors at play are negatively affecting the current pharmacy model. Expensive brick-and-mortar stores are burdened by operating issues, including labor shortages and rising labor rates, online competition, and elevated shrink. Additionally, pharmacies now rely almost exclusively on filling generic prescriptions, whose prices and profits are under pressure due to dwindling reimbursement rates from third-party payers.

Accordingly, it's unsurprising that the three largest drug chains are closing stores.

In 2021, CVS announced it was closing 900 stores through 2024. After divesting about 1,900 stores to Walgreens, Rite Aid's, DIP, store count continued to fall, from over 2,500 in 2018 to the Company now planning to exit bankruptcy with roughly 1,300 locations. For its part, Walgreens has already closed about 2,000 stores over the past decade, including recent plans to close up to 700 U.S. stores. Walgreens also recently announced it is reviewing 25% of its U.S. store base (8,595 as of May 31, 2024) that are underperforming, or about 2,150 stores. The news of more closures comes at the same time that the Federal Trade Commission released a report suggesting that anticompetitive practices by pharmacy benefit managers are putting pharmacies, especially independents, out of business. The FTC report noted, "Between 2013 and 2022, about 10% of independent retail pharmacies in rural America closed" (see our recent White Paper for more on this issue).

As noted, currently 25% of Walgreens' stores are underperforming and do not contribute to operating income, but this does not mean it is closing 2,150 stores. Instead, the Company will attempt to turn around a portion of these and another subset could close. The timing of closures would likely span several years, although there is the potential that some could begin closing in 4Q24. Targeted closures could be due to low store traffic and/or heavy store overlap with Walgreens and/or competitors. Additionally, locations in high-poverty areas, where the poverty rate is 15% or higher, with a higher proportion of Medicaid sales, and potentially elevated shrink, are at risk of becoming "pharmacy deserts" or areas with limited access to prescription drugs. To help identify markets that meet these criteria, we have prepared the following analysis.

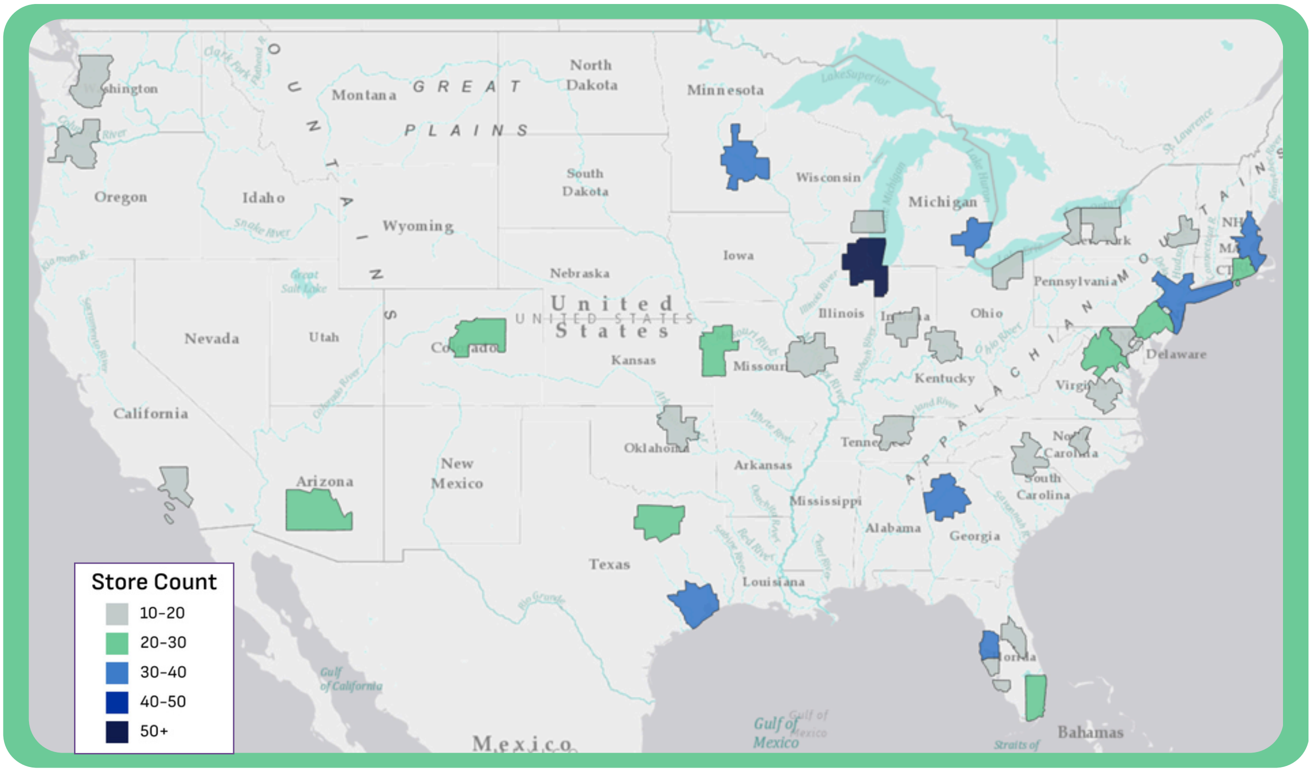
WHAT DID RETAILSTAT'S ANALYSIS FIND?

KEY FACTORS IN STORE CLOSURE PREDICTIONS

This analysis focused on three critical aspects to identify stores that may have criteria warranting a review for potential closure. The first aspect assessed Walgreens' visits per square foot using mobile device and POI (Point of Interest) data. The second considered customer overlap at sister stores and visits per square foot (using mobile data), while the third evaluated urban and rural stores with above-average poverty levels.

LOW VISITATION PER SQUARE FOOT:

The map below highlights market exposure with stores in the bottom 25% of visits per square foot.



The 10 markets (as defined by CBSA) with the highest concentration of stores in the bottom 25% of visits per square foot (Subset):

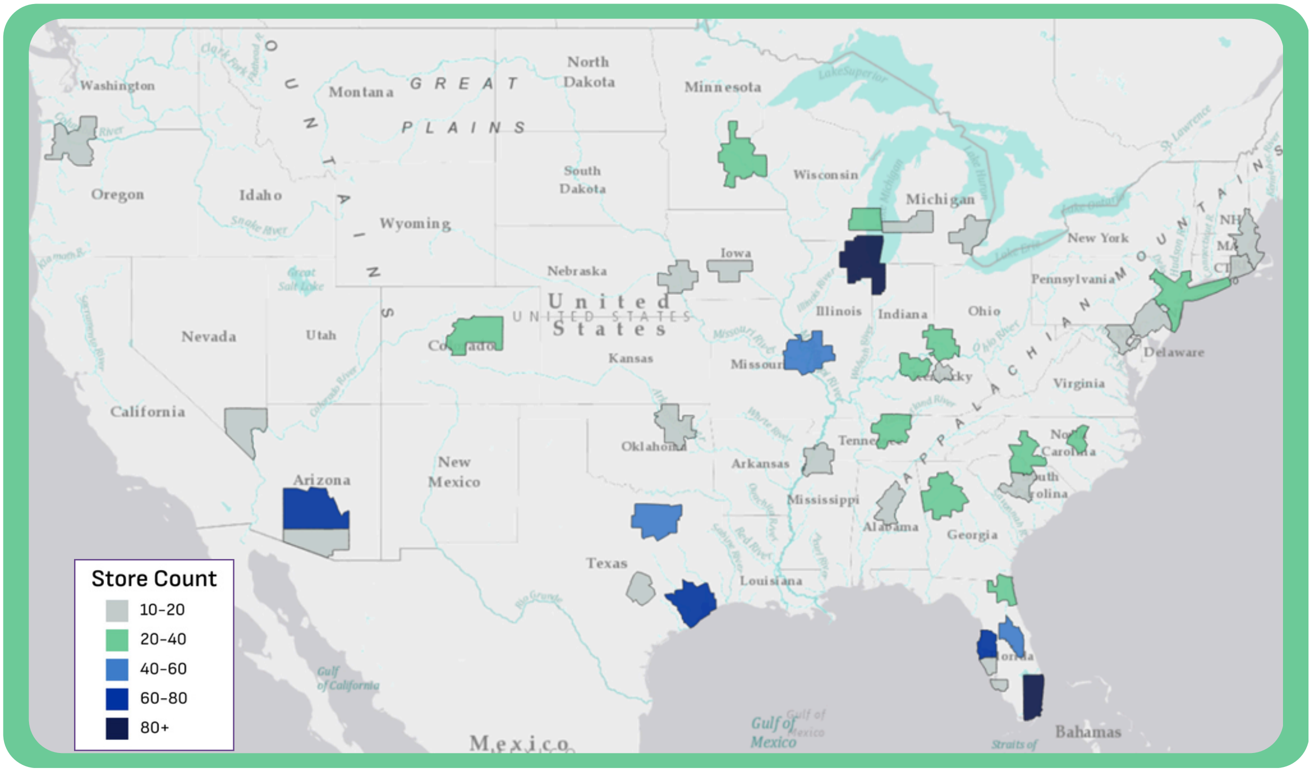
Market (CBSA)	Count in Subset	Count in Market	% of Market	% of Chain
Chicago-Naperville-Elgin, IL-IN-WI	58	445	13.0%	0.7%
Atlanta-Sandy Springs-Alpharetta, GA	40	132	30.3%	0.5%
Tampa-St. Petersburg-Clearwater, FL	38	121	31.4%	0.5%
New York-Newark-Jersey City, NY-NJ-PA	37	357	10.4%	0.4%
Minneapolis-St. Paul-Bloomington, MN-WI	35	112	31.3%	0.4%
Boston-Cambridge-Newton, MA-NH	32	142	22.5%	0.4%
Detroit-Warren, Dearborn, MI	32	90	35.6%	0.4%
Houston-Woodlands-Sugar Land, TX	32	219	14.6%	0.4%
Phoenix-Mesa-Chandler, AZ	29	157	18.5%	0.4%
Miami-Ft. Lauderdale-Pompano Beach, FL	28	232	12.1%	0.3%

The 10 states with the highest concentration of stores in the bottom 25% of visits per square foot (Subset):

State	Count in Subset	Count in State	% of Subset	% of State	% of Chain
FL	182	795	10.0%	22.9%	2.2%
OH	92	226	5.0%	40.7%	1.1%
NY	88	364	4.8%	24.2%	1.1%
TX	86	743	4.7%	11.6%	1.0%
GA	84	247	4.6%	34.0%	1.0%
NC	80	334	4.4%	24.0%	1.0%
IL	78	541	4.3%	14.4%	0.9%
MI	76	222	4.2%	34.2%	0.9%
IN	58	171	3.2%	33.9%	0.7%
CA	58	524	3.2%	11.1%	0.7%

SISTER-STORE OVERLAP AND LOW VISITATION PER SQUARE FOOT:

The following map highlights market exposure to stores with above-average sister store overlap and below-average visits per square foot.



The 10 markets (as defined by CBSA) with the highest concentration of stores exhibiting above-average sister store overlap and below-average visits per square foot (Subset):

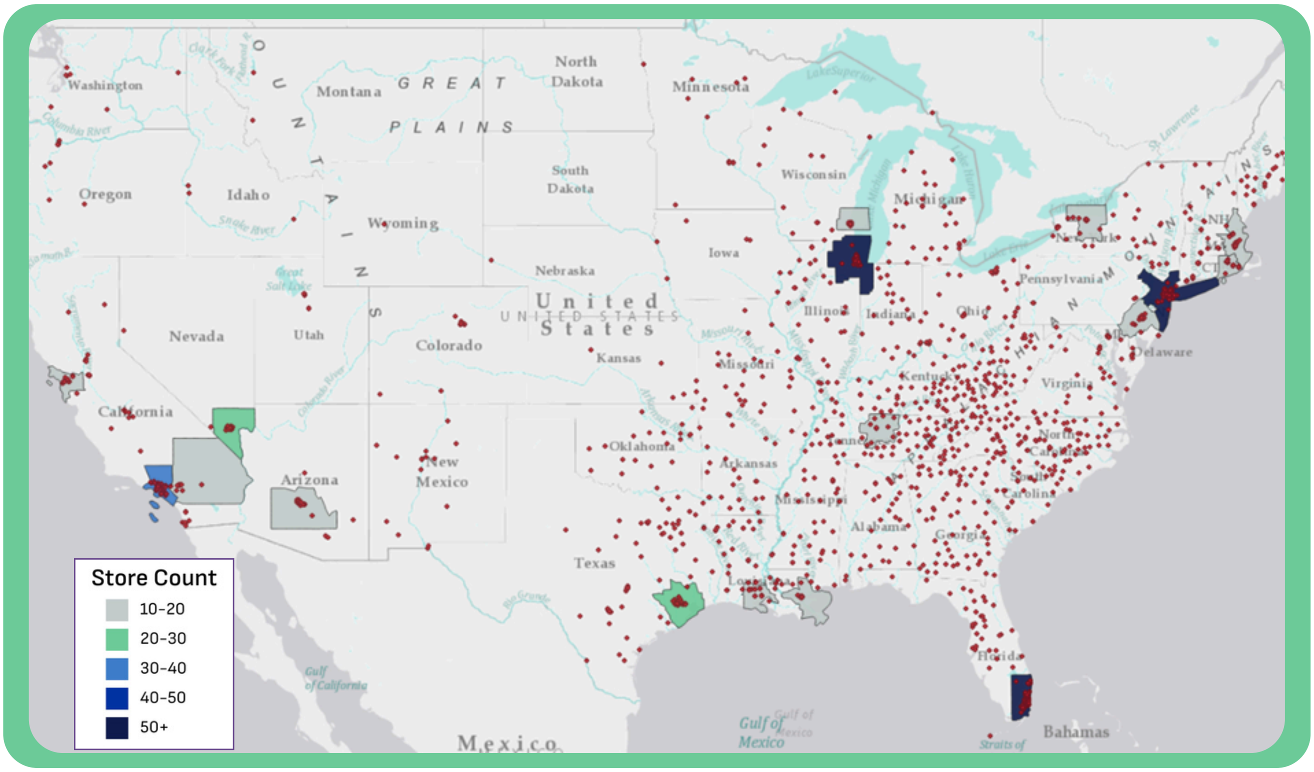
Market (CBSA)	Count in Subset	Count in Market	% of Market	% of Chain
Chicago-Naperville-Elgin, IL-IN-WI	128	445	28.8%	1.6%
Miami-Ft. Lauderdale-Pompano Beach, FL	84	232	36.2%	1.0%
Phoenix-Mesa-Chandler, AZ	65	157	41.4%	0.8%
Houston-Woodlands-Sugar Land, TX	64	219	29.2%	0.8%
Tampa-St. Petersburg-Clearwater, FL	61	121	50.4%	0.7%
St. Louis, MO-IL	48	127	37.8%	0.6%
Orlando-Kissimmee-Sanford, FL	42	107	39.3%	0.5%
Dallas-Ft. Worth-Arlington, TX	41	184	22.3%	0.5%
Minneapolis-St. Paul-Bloomington, MN-WI	40	112	35.7%	0.5%
Atlanta-Sandy Springs-Alpharetta, GA	39	132	29.5%	0.5%

The 10 states with the highest concentration of stores exhibiting above-average sister store overlap and below-average visits per square foot (Subset):

State	Count in Subset	Count in State	% of Subset	% of State	% of Chain
FL	322	795	17.9%	40.5%	3.9%
IL	158	541	8.8%	29.2%	1.9%
TX	148	743	8.2%	19.9%	1.8%
NC	105	334	5.8%	31.4%	1.3%
AZ	84	222	4.7%	37.8%	1.0%
TN	67	265	3.7%	25.3%	0.8%
GA	65	247	3.6%	26.3%	0.8%
CO	59	160	3.3%	36.9%	0.7%
MO	56	195	3.1%	28.7%	0.7%
WI	56	219	3.1%	25.6%	0.7%

RURAL AND URBAN STORES WITH ELEVATED POVERTY LEVELS:

The map below highlights market exposure to Rural and/or Urban Stores with elevated poverty rates (above 15%). The red points indicate Walgreens locations that meet the poverty and density criteria; these points are included since many of these stores are outside CBSA boundaries.



The 10 markets (as defined by CBSA) with the highest concentration of rural and/or urban stores with elevated poverty levels (above 15%) (Subset):

Market (CBSA)	Count in Subset	Count in Market	% of Market	% of Chain
Miami-Ft. Lauderdale-Pompano Beach, FL	75	232	32.3%	0.9%
New York-Newark-Jersey City, NY-NJ-PA	65	357	18.2%	0.8%
Chicago-Naperville-Elgin, IL-IN-WI	53	445	11.9%	0.6%
Los Angeles-Long Beach-Anaheim, CA	39	134	29.1%	0.5%
Houston-Woodlands-Sugar Land, TX	29	219	13.2%	0.4%
Las Vegas-Henderson-Paradise, NV	23	66	34.8%	0.3%
Boston-Cambridge-Newton, MA-NH	18	142	12.7%	0.2%
Phoenix-Mesa-Chandler, AZ	17	157	10.8%	0.2%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	16	112	14.3%	0.2%
Providence-Warwick, RI-MA	16	63	25.4%	0.2%

The 10 states with the highest concentration of rural and/or urban stores located in areas with elevated poverty levels (above 15%) (Subset):

State	Count in Subset	Count in State	% of Subset	% of State	% of Chain
FL	110	795	7.6%	13.8%	1.3%
TX	94	743	6.5%	12.7%	1.1%
CA	92	524	6.3%	17.6%	1.1%
NC	89	334	6.1%	26.6%	1.1%
IL	80	541	5.5%	14.8%	1.0%
NY	77	364	5.3%	21.2.%	0.9%
TN	72	265	5.0%	27.2%	0.9%
LA	62	193	4.3%	32.1%	0.8%
KY	58	152	4.0%	38.2%	0.7%
GA	58	247	4.0%	23.5%	0.7%

CONCLUSION

Our analysis examines key criteria such as visitation, sister-store overlap, and income levels, which are likely to influence Walgreens' strategic decisions moving forward. The report identifies several markets with a high concentration of stores operating in potentially challenging trade areas.

The issue of drugstore closures has been increasing over the past few years, with the industry seemingly at a crossroads. The traditional economic model built on convenient retail store locations appears to no longer be sustainable, at least at the current scale of stores. However, having convenient and adequate access to pharmacies is crucial; CDC data indicates that 50% of the American population used a prescription drug in the last 30 days, and 25% used three or more. The need for pharmaceuticals is not going away. In fact, it's expected to continue to expand, especially given the aging population, but the delivery model will need to adapt. This could include drastically fewer locations, each with greater volume, more automated fulfillment, and more reliance on home delivery. Another option is to repurpose the real estate footprint, including expanding the pharmacist's role and offering additional healthcare services.

Until recently, both CVS and Walgreens were looking to transform their real estate footprint by expanding into value-based primary care, combining their pharmacies with new clinics to become hubs for healthcare and disease prevention. This includes Walgreens' sizeable investments in VillageMD. However, this transition, planned under prior Walgreens leadership, has been costly and has not progressed as well as expected. Earlier this year, VillageMD closed 160 clinics and may divest its majority stake in the business.

As for Walgreens' future store closures, our analysis shows a somewhat scattered geographic distribution. However, there is a notable concentration in Illinois and Southern states, specifically Florida, Georgia, North Carolina, Texas, and Arizona. For instance, Chicago, Houston, Miami, and Phoenix are markets that appear in all three subsets of our analysis, indicating that these areas may require particular focus when assessing next steps.

These insights suggest that Walgreens may prioritize store closures or restructuring efforts in these key markets to enhance operational efficiency. Some of these markets, both inner-city and rural, may already be characterized as retail deserts, where a pharmacy may not only be the primary source for pharmaceuticals but also many front-end general merchandise goods. While the focus on closures is intended to boost operating margins, in the long run, it may also lead to further market share erosion by leaving consumers with only one retail option: online competitors.

Want to learn more about our data products, request information about the closure possibilities mentioned above, or discuss Walgreens with our team of expert analysts? Contact us at contact@retailstat.com.