Charles R. Walgreen

Walgreen Co.

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CHARLES R. WALGREEN III

by

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Charles R. "Cork" Walgreen III is one of eleven CEOs identified by Jim Collins as having taken a good company to greatness (Jim Collins, *Good to Great,* 2001). Walgreen became chief executive officer of Walgreen Co. in 1971 and retired as CEO in 1998 (he remained chairman of the board of directors for one more year). As CEO he made a key strategic decision that repositioned the company and led to more than two decades of superior growth of sales and revenue. He is credited with fashioning the policies which made the new strategy work. During the 1980s the *Wall Street Transcript* named him best CEO for retail drug chains seven different years (Kogan).

HISTORY

Cork Walgreen was born in 1935 and groomed to become CEO of the company founded by his grandfather. He earned a degree in pharmacy from the University of Michigan and then went to work full time at Walgreen. His father was the company CEO at the time.

After gaining experience in various parts of the company, Cork was named president at the age of 33 on October 1, 1969. Two years later he was named CEO. When he became president, Walgreen operated 546 drug stores in 34 states and Puerto Rico, 12 Sanborns restaurants in Mexico, 16 Globe discount stores, and six Danbury junior department stores.

Walgreen's pharmacy business was at a crucial point in its history when Cork became its new leader. As Kogan reported:

> *"The company entered the decade sluggishly - sales were stagnant, earnings marginal. As well, many stores were more than 15 years old, allowing some markets the company dominated to become the domain of younger, flashier and more aggressive companies. Walgreens,"* wrote Chain Store Age , *"had assumed many of the characteristics of the moribund A&P chain."*
> Cork Walgreen's first few years at the helm were characterized by a flurry of activities aimed at rejuvenating the company. Heavy discount pricing and the opening of 54 new drug stores occurred in 1970. The company began to quote prescription prices over the telephone in 1971. A program to increase individual store productivity was introduced in 1972. Teams of employees were empowered to identify opportunities for improvements in systems and procedures. New advertising formats were tried in 1973. Computers were systematically applied to data processing tasks and, in 1974, the company made what, at the time, was a tough decision to switch from FIFO to LIFO accounting. Because that was a time of high inflation rates, the change simultaneously reduced profitability but increased cash flow (due to the lower taxes that accompanied the lower reported profits). Walgreen was the first drug store chain to make that change but its competitors followed.
>
> It was also in 1973 that the Planning Committee was established. All top officials were members. They met twice a month to evaluate and plan changes related to:
>
> 1. financial performance
>
> 2. employees
>
> 3. consumer issues including implications of market research
>
> 4. corporate identity with the public

In 1974 Cork Walgreen's efforts to revitalize the company led to the appointment of John Brown to modernize the company's distribution system. Included in his mandate was the charge to implement top management's decision to invest heavily in the use of computers.

In 1975 the company moved into a modern new headquarters building in the Chicago suburb of Deerfield. Sales reached the $1billion mark that year and *Chain Store Age* gave the following

assessment (Kogan):

> *"During the past three years alone, the once bland giant has taken undisputed industry leadership in consumer relations ... shown itself capable of exciting new store concepts ... assembled the strongest upper-management in its history..."*

As suggested by the *Chain Store Age* article, one of Cork Walgreen's early accomplishments was that of selecting a strong management team. Another, related, accomplishment was realigning the business operations so that they became profit centers. For example, prior realignment responsibility for the drug store division was divided. One executive had responsibility for purchasing. A different executive had responsibility for store operations. Neither reported to the other and performance for each of the two areas was evaluated separately with no serious concern for the interrelationship between the two. After the realignment one executive was given overall responsibility for purchasing and store operations. The individuals handling purchasing and store operations reported to that higher level executive and results were measured for the entire operation rather than the parts.

In 1976 Cork Walgreen's father retired as chairman of the board. Cork became the new chairman while retaining the CEO title. Bob Schmitt replaced Cork as Walgreen's president. Schmitt's most difficult task was to eliminate the Globe Division which had become relatively unprofitable. He succeeded in liquidating the Globe operation for a sizeable, but acceptable, loss of $1.8 million.

In the 1980s Walgreen formulated and implemented a focus strategy. The strategy was to exit from businesses not directly related to the drug stores. This meant selling off the Sanborn restaurants in Mexico (accomplished in 1985) and the Wags restaurants (accomplished in 1989). It also meant continued expansion of drug stores. But the drug store expansion occurred with a few interesting strategic changes. One was the decision to open stores in the inner cities. Another was to increase the number of stores within each small geographical area.

The decision to increase the concentration of drug stores within small geographic areas was based on two other decisions. The first was to view each store as a convenience store. A larger number of stores within a given geographical area meant greater locational convenience for customers. Larger numbers of stores within a small area also meant that Walgreen could become the location of choice for a larger number of items which customers purchased on a

locational convenience basis. The second decision was to measure financial performance on the basis of profit per customer visit. Here is how Collins describes this approach (p.104):

> *"Walgreens switched its focus from profit per store to profit per customer visit. Convenient locations are expensive, but by increasing profit per customer visit, Walgreens was able to increase convenience (nine stores in a mile) and simultaneously increase profitability across its entire system. The standard metric of profit per store would have run contrary to the convenience concept. (The quickest way to increase profit per store is to decrease the number of stores and put them in less expensive locations. This would have destroyed the convenience concept.)"*

It was also in the 1980s that the company's embrace of technology achieved a major success. Here, again, is Collins' summary (p.147):

> *"In the early 1980s...(Walgreen) pioneered a massive network system called Intercom. The idea was simple: by linking all Walgreen stores electronically and sending customer data to a central source, it turned every Walgreens outlet in the country into a customer's local pharmacy. You live in Florida, but you're visiting Phoenix, and need a prescription refill. No problem. The Phoenix store is linked to the central system, and it's just like going down to your hometown Walgreens store."*

> *"This might seem mundane by today's standards, but when Walgreens made the investment in Intercom in the late 1970s, no one else in the industry had anything like it. Eventually, Walgreens invested over $400 million in Intercom, including $100 million for its own satellite system."*

The 1990s was a period of continued rollout of the convenience store model with sales, cash flow and earnings per share rising steadily along with employment. The annual rates of growth between 1992 and 2001 were (Hoover's, p.1479):

1. Sales 14.2 percent per year
2. Net income 16.7 percent per year
3. Earnings per share 15.8 percent per year
4. Employees 10.3 percent per year

Accompanying the growth were numerous small changes and some notable larger ones. Prescriptions by mail were introduced in 1992. A service to manage prescription drug programs for group health plans was started in 1994. An on-line pharmacy service was introduced in 1999.

Cork Walgreen relinquished the CEO position a year before the on-line business was introduced. He was succeeded by L. Daniel Jorndt. In 1999, Cork also stepped down as chairman of the board.

CORK WALGREEN AS A

"GOOD TO GREAT" EXECUTIVE

In 2001, the highly regarded management consultant Jim Collins published his newest study of management excellence. The book was called *Good to Great.* It claimed to identify the eleven best large (Fortune 500) companies in terms of performance over the period 1975- 2000. Cumulative stock returns was the measure of performance that was used to identify the great companies and the thrust of the book was an attempt to find out what the eleven companies had in common in terms of management approaches. One of the eleven was Walgreen.

Collins identified six characteristics which Walgreen had

in common with the other ten stars. The six were:

1. Level 5 leadership.
2. Emphasizing the development and empowerment of a highly talented group of top executives and using the group to then set company direction.
3. Confronting the brutal facts of core competence and market environment.
4. Focusing on markets where the firm can be the best in the world and for which the company has a passion and developing the strategy around the one financial variable that has the greatest impact on long run profitability (referred to as the "hedgehog concept").
5. A culture of discipline.
6. Proactive use of technology as an accelerator.

Collins identified Cork Walgreen as a "level 5" leader. Such leaders, he claims, combine a strong proactive personality or "professional will" with "personal humility."

Here are eight statements Collins uses to describe Cork and the other ten company leaders in his study (p.36):

> *"Creates superb results, a clear catalyst in the transition from good to great."*
>
> *"Demonstrates a compelling modesty, shunning public adulation; never boastful."*
>
> *"Demonstrates an unwavering resolve to do whatever must be done to produce the best long-term results, no matter how difficult."*
>
> *"Acts with quiet, calm determination; relies principally on inspired standards, not inspiring charisma, to motivate."*
>
> *"Sets the standard of building an enduring great company; will settle for nothing less."*
>
> *"Channels ambition into the company, not the self. Sets up successors for even greater success in the next generation."*
>
> *"Looks in the mirror, not out the window, to apportion responsibility for poor results, never blaming other people, external factors or bad luck."*
>
> *"Looks out the window, not in the mirror, to apportion credit for the success of the company -- to other people, external factors, and good luck."*

With respect to the second characteristic of the eleven great CEOs, Collins makes the following comparison between Walgreen and the rival Eckerd Corporation (p.46):

> *"Eckerd Corporation suffered the liability of a leader who had an uncanny genius for figuring out 'what' to do but little ability to assemble the right 'who' on the executive team. Jack Eckerd, blessed with monumental personal energy (he campaigned for governor of Florida while running his company) and a genetic gift for market insight and shrewd deal making, acquired his way from two little stores in Wilmington, Delaware, to a drug store empire of over a thousand stores spread across the southeastern United States. By the late 1970s, Eckerd's revenues equaled Walgreen's and it looked like Eckerd might triumph as the great company in the industry. But then Jack Eckerd left to pursue his passion for politics, running for senator and joining the Ford Administration in Washington. Without his guiding genius, Eckerd's company began a long decline, eventually being acquired by J.C. Penney.*
>
> *"The contrast between Jack Eckerd and Cork Walgreen is striking. Whereas Jack Eckerd had a genius for picking the right stores to buy, Cork Walgreen had a genius for picking the right people to hire. Whereas Jack Eckerd had a gift for seeing which stores should go in what locations, Cork Walgreen had a gift for seeing which people should go in what seats. Whereas Jack Eckerd failed utterly at the single most important decision facing any executive -- the selection of a successor -- Cork Walgreen developed multiple outstanding candidates and selected a superstar successor who may prove to be even better than Cork himself. Whereas Jack Eckerd had no executive team, but instead a bunch of capable helpers assembled to help the great genius, Cork Walgreen built the best executive team in the industry. Whereas the primary guidance mechanism for Eckerd's strategy lay inside Jack Eckerd's head, the primary guidance mechanism for Walgreen's corporate strategy lay in the group dialogue and shared insights of the talented executive team."*

By selection of key people and by his own example, Cork Walgreen made sure that the company "confronted the brutal facts" of its strengths, weaknesses, threats and opportunities. Collins cites the example of how Cork approached the issue of keeping or selling the company's restaurants. The issue had been debated within the executive team for a number of years and the group finally concluded that the company's prospects in the convenience drug store business were much better than in the restaurant business (even though the restaurant business was profitable). Collins explains what

happened next using the following quotation from Dan Jorndt who succeeded Cork as company CEO (p.32):

> *"Cork said at one of our planning meetings, 'Okay, now I am going to draw the line in the sand. We are going to be out of the restaurant business completely in five years.' At the time, we had over five hundred restaurants. You could have heard a pin drop. He said, 'I want to let everybody know the clock is ticking.' Six months later, we were at our next planning committee meeting and someone mentioned, just in passing, that we only had five years to be out of the restaurant business. Cork was not a real vociferous fellow. He sort of tapped on the table and said, 'Listen, you have four and a half years. I said you had five years six months ago. Now you've got four and a half years.' Well, that next day, things really clicked into gear winding down our restaurant business. He never wavered. He never doubted. He never second-guessed."*

The preceding example also relates to Collins' argument that the "Good to Great" companies follow a so-called "hedgehog concept." The name comes from the well-known philosopher Isaiah Berlin's essay *The Hedgehog and the Fox.* In the essay Berlin argues that the world is divided into two kinds of people. One group, like the fox, sees the world as complex and pursues many goals and achieves modest success. The other group, like the hedgehog, simplifies its view of the world to a single organizing principle and focuses its behavior on that vision. It single-mindedly pursues a simple goal. As a result, the hedgehog achieves greater success than the fox. Such, argues Collins, is the way the great companies achieve their greatness. They focus their investments on markets where they can achieve superior success. They refrain from, or pull out of, businesses where they can achieve good profitability but not exceptional performance. In Walgreen's case, pulling out of the restaurant business and focusing on convenience drug stores was such a "hedgehog" strategy.

CONCLUSION

Charles R. "Cork" Walgreen III managed a company that had achieved greatness prior to his tenure as CEO. His grandfather, Charles Walgreen, Sr., had founded the company and done well enough to be named by *Chain Store Age* as the drug store industry's "Man of the Half Century" in 1975. His father, Charles Walgreen II, had kept the company in reasonably good shape as the founder's successor. But changes in the competitive environment presented

Walgreen with the need to make some important decisions when Cork Walgreen became CEO. Cork was able to take the company to a higher level of performance. In doing so he put himself and the company on the Jim Collins list of the top eleven "Good to Great" companies of the 1975-2000 era.

REFERENCES

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