

Engaging the Consumer

**An Interview with John Standley,
President and Chief Operating Officer, Rite Aid**

EDITORS' NOTE John Standley returned to Rite Aid Corporation as President and Chief Operating Officer in September 2008, after serving as CEO of Pathmark Stores, from 2005 to 2007. Standley had joined Rite Aid in December 1999, serving as Chief Financial Officer, Chief Administrative Officer, and Senior Executive Vice President during his tenure. Standley was named a director of the company in June 2009. He will become President and CEO at the company's annual stockholder meeting on June 24.



John Standley

COMPANY BRIEF As one of the nation's leading drugstore chains, Rite Aid (www.riteaid.com) has nearly 4,800 stores in 31 states and the District of Columbia with fiscal 2009 annual sales of more than \$26.3 billion.

How was the Rite Aid brand positioned during the economic downturn and how much of an impact did you see?

We have a good brand name and a good brand image. Consumers have changed their behavior a bit, and the community drugstore needs to change with them. We've been working hard to do that.

Our issues were not brand related issues. When I assumed this role, we had a significant amount of debt maturities coming due in 2010 and a fairly tight liquidity situation so we put a major effort into getting our debt refinanced and building our liquidity. We took a significant amount of inventory out of the system, which helped us start to get liquidity turned around. We significantly reduced our costs, which helped us stabilize the earnings situation. Sales have been tough, but we've been trying to get some traction with today's consumer, and we've had our best luck on the pharmacy side. There were a number of initiatives that helped us get script count growth cooking – one of the important ones was our RX Savings Card, which is a value card offering at the pharmacy with big savings on a list of 500 generic prescriptions. The card also offers a 20 percent discount on all other generics and a 15 percent discount on all brands. Compared to other retailers in our space, we are very competitively priced in this regard. We introduced the RX Savings Card 18 months ago, and have around 5 million users of that card today.

When the recession started, we saw some patients changing their behavior, splitting pills, and even skipping prescriptions because they couldn't afford to fill them. So we developed the card for those who are underinsured or lack insurance, and it works well.

What is driving consumer behavior today and what is Rite Aid developing to reflect those changes?

Today's consumer is much more value-conscious, and has come to grips with the current economic situation. They're paying more attention to

what they spend, where they spend it, and what they spend it on. To be competitive, we need to offer good value to go with our good service. We continue to work hard to streamline our cost structure and operate more efficiently so we can afford to deliver that.

Private brand has been a great way to show value to today's consumer. This year, our focus is on a three-tiered brand architecture: it's a premium, a national brand equivalent, and a value brand structure. It's a big focus for us, and we're also developing some new sub-brands like our own baby care line called Tugaboos, which includes diapers and other baby products. All of our private brand packaging is changing.

How does Rite Aid differentiate itself in its market space?

There are three big players in the space with similar store offerings, but we can still make a big difference from a service perspective. We're working hard to provide services that help patients and customers improve the quality of their lives or to deal with their medical situations. We continue to focus on trying to improve service in stores, communicate better with customers, and improve compliance, which is an important issue in drug therapy. Of 100 prescriptions written, fewer than two-thirds are picked up by patients, only 25 to 30 percent are taken properly, and only 15 to 20 percent are refilled as prescribed. If we can get our patients to take their medication as prescribed, we can help the health care system – including employers, insurance companies, and health plans – save on long-term costs. These kinds of services help us separate ourselves from the pack.

We were also one of the first companies to focus on health and wellness, by offering educational programs on diabetes, heart health, allergies, skin care, and weight management. We have great partners like the American Diabetes

Association and the Skin Cancer Foundation. We also have pharmacists trained in medication therapy management, especially in helping patients manage their diabetes.

This year, we're rolling out our Wellness + Program, which is a rewards-based program designed to build customer and patient loyalty. It's different from other card programs in that it not only offers shopping discounts, it also offers wellness benefits.

In terms of your portfolio of stores, do you have the right mix now, and do you foresee changes for the future?

We're focused on making the network that we have today more profitable. In 2007, the company completed the acquisition of the Brooks Eckerd stores, which included 1,800 stores and represented a \$3.4 billion investment, and we're working to operate these stores more efficiently. We have a great network in the Northeast and across the West Coast, and we're relevant to large employers. So we don't need to dramatically grow our store base; we need to grow our store productivity.

How much of a focus has community engagement been to the culture of Rite Aid?

That's something that has always been important to this company. In fact, one of our core values is being caring neighbors. For example, we are a national sponsor of Children's Miracle Network (CMN), a network of 200-plus hospitals across the U.S. It's the most efficient charity in the U.S. and every dollar we raise goes directly to hospitals. Last year, we raised \$5.1 million, and over the past 15 years, Rite Aid has raised and donated nearly \$40 million to CMN. I'm on the board of governors.

Our Rite Aid Foundation last year gave out more than \$1.4 million in grants to charities focused on health and wellness. On occasion, we have used our store network to help raise money for special causes such as Haiti, 9/11, and Hurricane Katrina.

What are the key areas you're focused on for Rite Aid to ensure continued success?

It's important to continue to evolve our brand. The health and wellness aspect is strategically important going forward. More tactically, we're focused on growing profitable sales. We have done a ton of work on our cost structure to provide ourselves with a runway from which to launch a turnaround. Now it's about engaging the consumer, delivering service, and providing value, because if we can do that, we're going to leverage that tight cost structure we've put into place and really improve our results. ●