

*Special Section***CONTEMPORARY MARKETING STRATEGIES AS
COMMUNICATION TOOLS FOR MODERN RETAILERS****Is CVS Just 'Blowing Smoke?':
Evaluating the CVS Decision to Ban Tobacco Products****Cheryl B. Ward****Don P. Roy****Diane R. Edmondson***Middle Tennessee State University*

Abstract

In 2014, Larry Merlo, president and CEO of CVS, made the decision to remove all tobacco related products at its more than 7,600 locations because it was "the right thing to do." CVS was the first national retail pharmacy to make this decision and it was estimated that doing so could cost the company \$2 billion in lost revenues. Eliminating tobacco did not come without risk in how customers and competitors would respond. One year after this decision was implemented, industry reaction was mixed. How did the CVS decision fit in with current political/legal, social, and competitive trends regarding tobacco use in the United States? Would potential brand image benefits for CVS justify the estimated \$2 billion in lost revenues? Did CVS effectively implement contemporary marketing strategies using social media in this major policy change? There were several unresolved issues regarding the long term impact of the CVS decision.

Keywords: social responsibility; brand management; social media; marketing strategy; external environment; tobacco

Introduction

In 2014, CVS Health became the first national retail pharmacy chain to stop selling all tobacco products at its more than 7,600 locations. Larry Merlo, president and CEO of CVS Health Corporation, received wide

To cite this article

Ward, C. B., Roy, D. P., & Edmondson, D. R. (2016). Is CVS just 'blowing smoke?': Evaluating the CVS decision to ban tobacco products. *Case Studies in Strategic Communication*, 5, 249-264. Available online: <http://cssc.uscannenberg.org/wp-content/uploads/2016/10/v5art14.pdf>



acclaim, including acknowledgment from such public figures as First Lady Michelle Obama, for CVS' actions. Merlo (2014) claimed,

Ending the sale of cigarettes and tobacco products at CVS Pharmacy is simply the right thing to do for the good of our customers and our company. The sale of tobacco products is inconsistent with our purpose – helping people on their path to better health. (para. 1)

A year after CVS implemented their policy banning the sale of tobacco products in their retail pharmacies, the reaction of the industry was mixed. How did the CVS decision fit in with current political/legal, social, and competitive trends regarding tobacco use in the United States? Would potential brand image benefits for CVS Health justify the estimated \$2 billion in lost revenues? How effective had contemporary marketing strategies using social media been in informing and promoting awareness of CVS' actions during this major policy change? There were several unresolved issues regarding the long term impact of the CVS decision.

Background

Consumer Value Stores, better known as CVS, began in 1963 when the first store opened in Lowell, Massachusetts, focusing on selling health and beauty products. CVS added pharmacy departments to stores in 1967. In 1994, CVS launched PharmaCare, which offered pharmacy benefit management services to employers and insurers. CVS extended nationwide reach of its retail business in the 2000s, acquiring more than 2,400 stores. During that period, CVS also entered the health clinic business, acquiring MinuteClinic, the leading provider in the in-store clinic business. In 2007, CVS merged with Caremark Rx, creating the nation's top integrated pharmacy services provider. By 2011, CVS hit \$100 billion in revenues (CVS Health, 2016c).

Problem

In 2014, CVS eliminated tobacco products from its stores, signaling the company was serious about positioning itself in the wellness business. At the same time, CVS changed its name to CVS Health to reflect a broader scope of stakeholder benefit (CVS Health, 2016c). The decision to eliminate tobacco came at a high cost to the company—\$2 billion to be

specific. CVS estimated this loss of annual sales would result from \$1.5 billion in lost tobacco revenue and \$500 million in sales of other products made when tobacco was purchased (Yue, 2014).

Trends in Tobacco Usage

CVS leadership touted tobacco removal as its social responsibility as well as aligning business strategy with CVS Health's stated purpose of "helping people on their path to better health" (CVS Health, 2016d, para. 1). Approximately 40 million Americans smoke. However, the number of smokers has declined from 20.9% in 2005 to 16.8% in 2014. Even with this decline, the U.S. still had more than 16 million citizens suffering from a smoking-related disease—with smoking being the number one cause of preventable diseases and deaths (Centers for Disease Control and Prevention, 2015).

Socially, smoking cigarettes has become less publicly acceptable. Thirty-six states, along with the District of Columbia, American Samoa, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands, have laws that require non-hospitality workplaces and/or restaurants and/or bars and/or state-run gambling establishments to be smoke-free. This amounts to 82% of the U.S. population being covered by smoke-free laws at the local, territorial, commonwealth, or state level (American Nonsmokers' Rights Foundation, 2016). This might be why a recent poll found that 56% of Americans favored banning smoking in public areas (a large shift in public opinion since 2001) (Riffkin, 2014). In addition, some states like California and Hawaii and more than 100 cities, such as San Francisco, Boston, and New York, have raised the legal age to smoke to 21 years old (Berlinger & Rose, 2016). Essentially, the negative health effects of smoking have generated a social stigma towards smokers among the American public.

CVS Versus the Competition

Drugstores have experienced diminished profits as reimbursement rates for prescription medications have dropped (Dulaney & Ziobro, 2015). To combat this trend in the industry, pharmacy chains have turned to acquisitions to add locations and geographic coverage to their operations. CVS bought Target pharmacies, adding more than 1,600 locations to the

CVS Health Group. CVS Health Corporation also offered a prescription drug plan that charges patients more for medications purchased at pharmacies that sold tobacco products (Silverman & Ziobro, 2014). The plan would benefit CVS at the direct expense of Walgreen's, resulting in a possible competitive advantage to CVS retail pharmacies.

Walgreen's recently agreed to buy Rite Aid Corporation for more than \$9 billion. This purchase would provide Walgreen's with an estimated 12,800 total locations for the company, approximately 5,000 more than CVS (Mattioli, Siconolfi, & Cimilluca, 2015). Walgreen's had no plans to follow CVS in banning tobacco products from their locations, instead planning to focus on smoking cessation plans and products (Japsen, 2014). The only other retailer who has indicated plans to remove tobacco products from its shelves was Costco, who planned to slowly scale down the number of tobacco products available ("Is Costco Following," 2016).

CVS Health Marketing Actions

The decision to discontinue tobacco sales in CVS Health stores was one element of a strategy designed to articulate the company's values. CVS Health emphasized a tobacco-free lifestyle in its social responsibility of "helping people on their path to better health" (CVS Health, 2016e, para. 1). In 2016, CVS Health announced plans to spend \$50 million over the next five years on a youth antismoking campaign called "Be The First." The CVS goals for this program were to contribute to a 3% decline in the national youth smoking rate, a 10% decline in the number of new youth smokers, and doubling the number of tobacco-free colleges and universities (CVS Health, 2016b). The ultimate goal of the campaign was to make today's youth the first tobacco-free generation. "Be The First" invested in anti-tobacco and youth organizations including the American Cancer Society, American Lung Association, Campaign for Tobacco-Free Kids, and DoSomething.org to promote healthy behaviors and tobacco education. The challenge was formidable as the Centers for Disease Control and Prevention estimates each day 3,800 children under the age of 18 smoke their first cigarette and 580 become regular, daily smokers (CVS Health, 2016b).

The communication strategy for the "Be The First" campaign focused heavily on social media (see #BeTheFirst, 2016). CVS Health used

Facebook, Twitter, and YouTube as channels to promote its antismoking program. For Facebook and Twitter, a separate account was created for the company's social responsibility programs. The "CVS in the Community" Facebook page had approximately 20,000 likes compared to the nearly 2 million likes for the CVS Pharmacy page. The Twitter account for "CVS in the Community" (@CVSinAction) had approximately 10,000 followers versus 310,000 followers for the CVS Pharmacy Twitter account (@CVS_Extra). The strategy for CVS Health's YouTube channel (approximately 14,000 subscribers) differed in that a separate identity was not created for social responsibility. A playlist called "CVS Health in the Community" included videos pertaining to "Be The First" along with other social initiatives with which CVS Health was involved. Two social media platforms used heavily by the teen market, Instagram and Snapchat, were not utilized in the "Be The First" campaign.

The message strategy to communicate CVS Health's social responsibility initiatives on social media included touting community involvement and cause support in addition to messages focused on the "Be The First" campaign. Twitter messages from @CVSinAction usually included the #BeTheFirst hashtag. Although it was a good fit with the campaign theme, the generic meaning of "be the first" resulted in the hashtag being used in many different contexts and by many different Twitter users. In other words, "Be The First" was not synonymous with CVS Health and its tobacco-free campaign. Facebook messages shared CVS Health's involvement with many different causes at national, regional, and local levels. While "CVS in the Community" shared the varied philanthropic involvement of the company, "Be The First" could become just one of many different CVS Health initiatives in the public's mind.

Sports marketing was another strategy CVS Health used for communicating its tobacco-free initiative. In 2016, CVS Health partnered with the New England Revolution, a Major League Soccer (MLS) club, to promote #BeTheFirst to its fans. The club featured #BeTheFirst on its web site, shot a public service announcement which featured four players for #BeTheFirst, and encouraged fans to complete a tobacco-free pledge online in exchange for a chance to win prizes like post-game field access or a visit to a training session ("Pledge to #BeTheFirst," 2016). While the reach of the CVS Health-New England Revolution partnership was limited to one geographic market (the greater Boston area), partnering with other

MLS clubs or the league itself might be a good fit. MLS had a larger percentage of its TV audience made up of 2-17 year-olds (17%) than any other U.S. professional sports league (Gaille, 2015).

In addition, CVS Health also took action to change inventory in their retail pharmacies. In an interview, CVS health executive Troyen Brennan said CVS had begun to make some adjustments in the food its retail pharmacies offer. CVS was "very interested in trying to add more products that contribute to people's health" ("CVS 'Confident,'" 2015, para. 7). However, one vocal critic of CVS stated,

If it is indeed to remove unhealthy products from a place where health is the focus, perhaps CVS should only carry whole grain bread, nonalcoholic beverages and high-fiber snack foods - or ideally fresh fruit, dairy and vegetables only. (Koenig, 2014, para. 18)

Brennan indicated that CVS will continue to make changes in the food products it offers.

Tobacco Elimination Impact on CVS Health

The impact of removing tobacco from CVS stores was noticeable immediately. Retail sales revenue declined 6.1% the first quarter following the ban, resulting in a 1.3% drop in retail operating profit (Campbell, 2015). However, overall, in 2015, revenues grew 6.2% for CVS's retail and long-term care (LTC) pharmacies. CVS Health, driven largely by acquisitions, saw revenues hit \$153 billion in 2015, a gain of more than 50% in just four years. Unfortunately, the assumed rise in gross profit margin percentage resulting from dropping low margin tobacco products and selling higher margin products did not materialize. The gross profit margin percentage in the retail/LTC segment actually dropped 0.9% in 2015 (to 30.5% in 2015 from 31.4% in 2014) (CVS Health, 2016a).

In the long term, the effect of removing tobacco products from CVS stores might be a wash. Lost revenue from tobacco sales could be offset by growth in CVS's pharmacy business, especially as Baby Boomers get older (Campbell, 2015). Another solution for CVS Health's retail post-tobacco business suggested by one stock analyst was to take "a page out of

Walgreen's playbook...by improving the overall shopping experience" (Egan, 2015, para. 12).

Conclusion

Elimination of tobacco products was described as a "sensible move" by one industry observer (Egan, 2015, para. 4). However, that move came at a cost in terms of lost direct and indirect sales from former tobacco customers. CVS Health was counting on the tobacco ban to enhance its brand image, especially among the growing population of Americans who do not smoke. At the same time, the decision potentially had a financial benefit if tobacco sales were replaced by selling more profitable items like beauty products. Eliminating tobacco products in CVS stores may have had little to do with either profit margins or brand image. In addition, the effectiveness of the CVS social media campaign's success was undetermined—an essential area of contemporary marketing strategy in today's competitive environment. The company's stance on the decision was that it positioned CVS for future growth as a health care company. Justifying the actions taken by CVS Health, CEO Larry Merlo (2014) said, "this is the right thing to do" (para. 2).

Discussion Questions

1. Do you agree with CVS's decision to ban sales of tobacco products? Why or why not?
2. What are the external legal, social, and competitive trends impacting CVS' decision?
3. What are the brand image benefits to CVS Health of eliminating tobacco products? Are the potential brand image benefits enough to offset the estimated \$2 billion in lost revenues?
4. CVS Health created "CVS in the Community" accounts on Facebook and Twitter to focus on communicating with stakeholders about its social responsibility initiatives. What are the pros and cons of using the "CVS in the Community" brand as one of the primary means of promoting the "Be The First" campaign?

5. CVS Health focused its communication strategy for “Be The First” on Facebook and Twitter. What other channels might be possibilities for promoting a tobacco-free lifestyle?

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Editorial history

Received May 31, 2016

Revised August 29, 2016

Accepted October 7, 2016

Published October 24, 2016

Handled by guest editors H. W. L. Ho and T. P. Brotherton; no conflicts of interest

Appendix. Discussion question answer guide for teachers.

1. Do you agree with CVS's decision to ban sales of tobacco products? Why or why not?

Note to Professor: There is not a right or wrong answer to this question. Because of this, both viewpoints are answered below. The intent is for students to justify their viewpoint from information given in the case. This question can be used as a way to encourage class discussion.

Yes, CVS's decision to ban sales of tobacco products was the correct decision for the company. By removing tobacco products from retail store shelves, the company is able to better focus on the mission of the company which is "helping people on their path to better health" (Merlo, 2014, para. 1). CVS Health is more than just a retail pharmacy as they also offer a prescription drug plan, a long-term care pharmacy, a pharmacy benefit management service, and a health clinic business. Advocates for corporate social responsibility would agree with Merlo that not selling tobacco products is the "right thing to do" since smoking is still the number one cause of preventable diseases and death in the United States (Centers for Disease Control and Prevention, 2015). Although retail sales revenue and operating profit may have originally declined, overall revenues for 2015 grew 6.2%. CVS Health, driven largely by acquisitions, saw revenues hit \$153 billion in 2015, a gain of more than 50% in just four years (CVS Health, 2016a). This shows that being socially responsible can be profitable. In addition, eliminating tobacco from their retail stores may actually put them ahead in the future due to the fact that there are less people smoking and that additional laws continue to be passed restricting where individuals can smoke and who can purchase tobacco products.

No, CVS's decision to ban sales of tobacco products was not the correct decision for the company. As a retail pharmacy, CVS has to be profitable to stay in business, and dropping tobacco products from store shelves caused CVS to give up a large amount of direct and indirect sales. Based on the revenue and profit information in the case, CVS saw a drop in retail sales revenue by 6.1% and a 1.3% drop in retail operating profit the first quarter following the ban. The company

also did not see a rise in the gross profit margin percentage as expected after dropping the low margin tobacco products for supposedly higher margin products. The gross profit margin percentage in the retail/LTC segment dropped 0.9% in 2015 (to 30.5% in 2015 from 31.4% in 2014) (CVS Health, 2016a).

2. What are the external legal, social, and competitive trends impacting CVS' decision?

A number of elements in the external marketing environment can impact CVS' decision to ban tobacco products. The three external elements of interest in this case are legal, social, and competition.

Legal. CVS's decision to ban tobacco products corresponds with many new laws restricting tobacco consumption and/or purchases that have been passed over the past decade. In essence, many laws have been passed that impact where individuals can smoke as well as the legal age for purchasing tobacco products. As of April 2016, 36 states, along with the District of Columbia, American Samoa, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands, have laws that require non-hospitality workplaces and/or restaurants and/or bars and/or state-run gambling establishments to be smoke-free. This amounts to 82% of the U.S. population being covered by smoke-free laws at the local, territorial, commonwealth, or state level (American Nonsmokers' Rights Foundation, 2016). In addition, some states like California and Hawaii and more than 100 cities, such as San Francisco, Boston, and New York, have raised the legal age to smoke to 21 years old (Berlinger & Rose, 2016).

Social. The CVS decision to ban tobacco products corresponds with a social movement in the United States to limit or restrict use of tobacco products in public areas. As mentioned above, a number of states have gone so far as to pass legislation governing the use of tobacco. These actions have become increasingly common as continued medical evidence points to the negative health impacts that tobacco use, especially smoking, have on individual health and the significant overall costs of treating these tobacco-related diseases has for society. Smoking is the number one cause of preventable diseases and deaths in the U.S. (Centers for Disease Control and Prevention, 2015).

Students can also cite the statistics provided in the case about the decline in the percentage of smokers (20.9% in 2005 to 16.8% in 2014), which may translate to a lower demand for tobacco products (Centers for Disease Control and Prevention, 2015). In addition, the most recent poll indicated that 56% of Americans favored banning smoking in public areas (Riffkin, 2014). This number continues to grow as more Americans recognize the social stigma attached to smoking. CVS has moved to proactively address this trend by committing to spending \$50 million dollars over the next five years on an antismoking plan directed at youth called "Be The First." This action is consistent with CVS' stated goal of "helping people on their path to better health" (CVS Health, 2016d, para. 1).

Competition. The competitive climate is changing for retail pharmacies as the industry becomes more consolidated. CVS bought Target pharmacies, adding 1,600 locations to CVS Health. Walgreen's has recently committed to purchasing Rite Aid pharmacies, resulting in an estimated 12,800 total locations (Mattioli, Siconolfi, & Cimilluca, 2015). Walgreen's will have approximately 5,000 more retail locations than CVS. However, CVS Health has not limited their expansion exclusively to retail pharmacies. The company had positioned themselves to be the nation's top integrated pharmacy services provider by previously adding PharmaCare (pharmacy benefit management service) and MinuteClinic (in-store clinic business) to their corporate structure. CVS Health Corporation also offered a prescription drug plan that charged patients more for medications purchased at pharmacies that sold tobacco products (Silverman & Ziobro, 2014). The plan could provide a competitive advantage to CVS, as it has been the only retail pharmacy at this time to ban the sale of tobacco products.

3. What are the brand image benefits to CVS Health of eliminating tobacco products? Are the potential brand image benefits enough to offset the estimated \$2 billion in lost revenues?

Elimination of tobacco products was part of a strategy by CVS Health to position its brand as a comprehensive health care company. The tobacco decision preceded the name change to CVS Health by a few months. It would have been more difficult for CVS to portray itself as a

company committed to better health outcomes if it still sold a product known to contribute to health problems and health care costs. CVS Health went beyond eliminating tobacco by committing \$50 million to the smoking cessation cause. This commitment to social responsibility reinforced CVS Health's image of concern for promoting better health. The decision to eliminate tobacco products benefits CVS Health from a branding standpoint by giving it leeway to develop other health initiatives in the future that build upon its credibility of commitment to better health.

The \$2 billion in lost revenue attributed to tobacco buyers could be made up in two ways. First, CVS Health could take the space and inventory dollars previously committed to tobacco products and sell products with higher gross profit margin (Egan, 2015). The company and industry average for front store profit margins are about 30% compared to 15% for tobacco products (Yue, 2014). Thus, CVS Health could recoup lost profits by shifting emphasis to other products that are consistent with its wellness positioning and profitable, too. Second, CVS Health could leverage its position as a health care company committed to better health outcomes to grow its pharmacy services business (Campbell, 2015). Although this business has lower profit margins, the sheer size of the market coupled with growing emphasis on wellness as Baby Boomers age will make this segment more important in the near future.

4. CVS Health created "CVS in the Community" accounts on Facebook and Twitter to focus on communicating with stakeholders about its social responsibility initiatives. What are the pros and cons of using the "CVS in the Community" brand as one of the primary means of promoting the "Be The First" campaign?

The primary pro or strength of a single identity ("CVS in the Community") to promote CVS Health's efforts to demonstrate social responsibility is that the messaging conveys the many good works of CVS Health in the communities it serves. Examples include making grants to local nonprofit organizations and donating goods or money to areas affected by natural disasters. CVS Health uses its "CVS in the Community" identity to tout its support as well as inform the public about other ways the company demonstrates social responsibility,

such as efforts to reduce its environmental impact. "Be The First" fits with other social responsibility initiatives CVS Health has undertaken. Taken together, all of these efforts create perceptions that CVS Health is a company that cares about customers and the communities where they live.

A related pro of "CVS in the Community" is that it is a cohesive brand under which all of CVS Health's social responsibility work can be communicated. For a brand that is very involved in philanthropy and social responsibility like CVS, creating separate brands for each initiative could be cumbersome and expensive to market. All of the company's initiatives work together to positively influence perceptions of the CVS Health corporate brand.

A con or weakness of communicating "Be The First" messages through "CVS in the Community" is that there is competition for attention with other messages about the company's social responsibility efforts. CVS Health plans to spend \$50 million on "Be The First" over five years; does it justify a separate identity given the company's financial commitment to antismoking efforts? While CVS Health benefits the communities it serves in many ways, "Be The First" messaging could get lost among communication about other initiatives if it is managed the same as all other social responsibility messages.

5. CVS Health focused its communication strategy for "Be The First" on Facebook and Twitter. What other channels might be possibilities for promoting a tobacco-free lifestyle?

A major factor in selecting channels to use to reach an audience is determining what media the target audience consume for information or entertainment. Facebook and Twitter are obvious go-to choices given their popularity, but are there other channels that represent opportunities to reach young people in particular? A 2016 survey of American teenagers found Snapchat was the most important social networking site for 28% of teens, followed closely by Instagram (27%). Twitter and Facebook trailed at 18% and 17%, respectively (Chew, 2016). So, if CVS Health wants to reach teens with its antismoking messages, is it using the most appropriate channels? Should social media strategy be expanded to include Instagram and

Snapchat? If yes, consideration must be given to how they will be used in terms of message strategy given the unique characteristics of each platform.

Another channel that CVS Health could use more extensively is sponsorship. The company partnered with a single MLS club, the New England Revolution, to promote #BeTheFirst. The CVS Health-MLS link is a good match in terms of audience demographics. The partnership could be extended more widely in MLS. CVS Health could also explore other sport properties whose audience characteristics match the profile CVS Health is targeting (e.g., high school sports).