

Case Prospectus



CVS/PHARMACY

<http://www.cvs.com/>

Background: As of December 31, 1997, CVS/Pharmacy was the largest drugstore chain in the United States in terms of store count and second only to Walgreens in terms of sales revenue. CVS grew rapidly primarily by acquiring other drugstore chains in strategic markets. An underlying objective of CVS's growth strategy was to attain sufficient size quickly to allow it to exploit opportunities in the retail drug market, which was undergoing significant change. The most important changes included the rapid consolidation of existing drugstore chains and independent pharmacies, the emergence of managed-care companies (HMOs, PPOs) as powerful players with the ability to set drug prices and control reimbursement rates, and uncertainty created by the U. S. government as it considered various methods for controlling healthcare costs.

This case provides an overview of the drugstore industry, compares the growth strategies employed by Walgreens and CVS, and examines the financial statement and audit implications of each strategy. Both companies have become dominant corporations using different strategies in pursuit of their respective corporate objectives. Walgreens has grown internally by opening new stores while CVS has grown primarily through acquisition of other drugstore chains.

Case learning objectives: Students completing this case will:

- Obtain an understanding of how the drugstore industry creates value and the relative competitive position of industry leaders, CVS and Walgreens.
- Design a system of complex analytical procedures for the 1998 audit of CVS.
- Learn how to apply a strategic-systems audit (SSA) approach to CVS. Specifically, students will:
 - Understand why the auditor must know a great deal about a client's industry, competitors, strategy, and operations when examining and opining on financial statements.
 - Learn how to assimilate business and industry information into knowledge that will enable the auditor to identify and evaluate financial-statement assertions.
 - Learn how to leverage knowledge based on business and industry information into accurate and specific expectations regarding account balances, ratios, etc.
 - Understand how an auditor can reduce audit risk to an acceptable level by reconciling differences between his or her expectations and reported outcomes.

Level of use: The case can be used in undergraduate and graduate auditing courses. Much of the case also may be appropriate for strategy courses. Previous exposure, or concurrent exposure with this case, to strategic-systems auditing (SSA) is assumed.

Time to complete: We recommend that students spend 4-8 hours reading the case and preparing responses to the discussion questions. We suggest that the case be covered over two separate, sequential 1.5-hour class meetings.

Note: As background, students should be encouraged (required) to read, *Auditing Organizations Through a Strategic-Systems Lens* by Bell, et. al.