

Leading Retail Pharmacy

Highlights

The company's investment in the Lexmark products, services and solutions will achieve a 113% return on investment in the first three years. Additionally, the company will achieve a first year payback, with total net benefits of nearly \$1 million over three years.

Benefits summary

Within three years, the company's investment in the Lexmark solutions is projected to yield benefits totaling \$1.1 million. The largest portion of the savings (\$790K) is expected to come from more efficient and economical consumables management. Lower capital expenditures on the printer fleet, lower printer maintenance costs and a reduction in toner inventory costs contribute the balance of the savings. Minus the cost of adding Lexmark's PCM service, the company should realize net benefits of about \$965K over three years, equating to a 113% ROI over this period. The company is projected to break even on its investment in the first year.

Financial benefits

- ▶ \$790K in consumables (toner) savings
- ▶ \$228K in maintenance cost savings
- ▶ \$77K in CAPEX avoidance
- ▶ 93% reduction in printer repair time
- ▶ 80% reduction in printer service calls

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Director of Store Systems

Retail Pharmacy

About Leading Retail Pharmacy

Background: Founded in 1960, this company is the largest drugstore chain in a major metropolitan city, offering a wide variety of prescription and over-the-counter drugs, health and beauty care items, cosmetics, greeting cards, photo supplies and photofinishing.

Total revenue: \$1.8 billion

Executive summary

Founded in 1960, this retail pharmacy has grown into the most recognized drugstore chain in a major metropolitan East Coast city.

With rival drugstore chains vying for its customers, the company is under constant pressure to improve service and control costs. Competition is particularly keen in the pharmacy department, which generate the lion's share of the company's revenue and profits. Here, this company can't afford to let slow service turn away customers—and one of the most common causes of delays is when the pharmacy's printer breaks down.

Until recently, printer malfunctions happened all too frequently at the company's stores, holding up prescriptions sometimes for hours before technicians arrived. Its aging fleet of printers was largely to blame, along with the company's choice of remanufactured toner cartridges which were prone to paper jams and streaky output. The lost sales from pharmacy downtime and escalating maintenance costs prompted the retail pharmacy to completely re-engineer its store and pharmacy printing operations.

The company's solution called for replacing its aging fleet of printers with Lexmark's T630 and T640 series monochrome printers and switching to Lexmark-branded toner and cartridges as part of Lexmark's proactive consumables management (PCM) service. The more reliable and economical Lexmark printers and cartridges cut downtime and device ownership costs significantly, while the PCM service streamlines consumables management by monitoring toner levels and delivering replacement cartridges directly to stores. Today, the retail pharmacy has more than 600 Lexmark devices installed throughout its retail and headquarters locations.

Finally, as it moved to the Lexmark platform, the company took over printer maintenance duties from outside contractors, giving the company more control and boosting average printer-repair turnaround time from more than four hours to less than two hours.

According to an assessment by Mainstay, the company's investment in Lexmark printers and consumables management is expected to generate nearly \$1 million in net benefits over three years and yield a return on investment of 113%. The company is expected to break even on its Lexmark investment in the first year. The retail pharmacy will undoubtedly benefit from an increase in customer satisfaction and is now recapturing sales previously lost during pharmacy downtime.

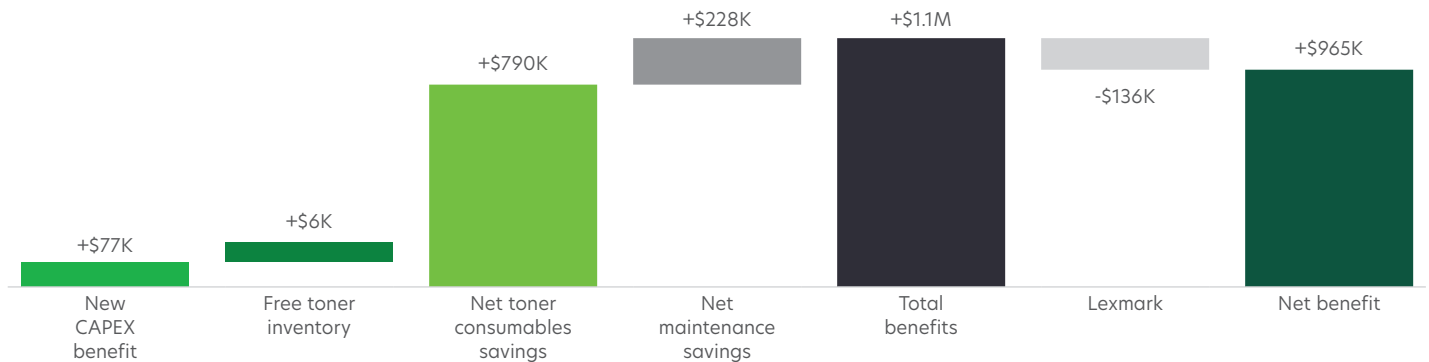
“Lexmark keeps us looking ahead at new approaches so we can manage our business better. This is one of the reasons why we're loyal to Lexmark.”

Director of Store Systems
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Figure 1

Total benefits and cost

(3-year view)



Challenge

At its network of 249 stores, the retail pharmacy sells everything from greeting cards to photo finishing, but its pharmacies make up the largest share of the business, contributing some 50% of the company's \$1.8 billion in sales. Consequently, the job of keeping its pharmacies running smoothly and efficiently has been a top priority for the company and the focus of ongoing investments in technology and process automation. The company's goal, stated the director of store systems, is "to achieve zero downtime when it comes to filling prescriptions."

To meet that goal, company officials recently decided to take a closer look at the way the retail pharmacy managed its fleet of laser printers. The devices play an indispensable role in the prescription-filling process: pharmacists print a container label for every medication they dispense, along with an information sheet describing potential drug interactions and side effects. Printer jams and malfunctions create bottlenecks in the pharmacy that can hurt sales and customer satisfaction.

"When a printer goes down, the pharmacy cannot fill prescriptions until it's fixed," the director of store systems says. "That downtime slows operations, but more importantly, has the potential for losing customers."

In fact, the retail pharmacy was experiencing too many printer breakdowns, leaving the pharmacy stranded until the company's maintenance contractor arrived, sometimes hours later. Machine jams and streaking were also common, frustrating pharmacists who wanted to focus more on customers and less on troubleshooting printers. On average, stores were hit by printer failures two to three times a month, resulting in four to five hours of downtime per incident. Maintenance costs were rising as a result.

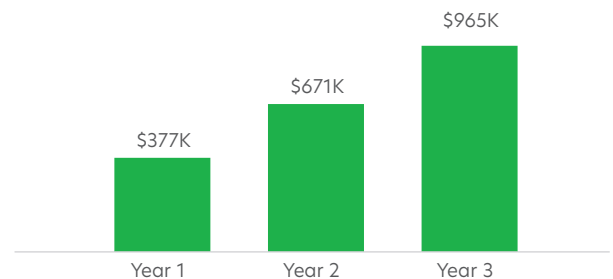
"The printer in our pharmacies is a mission-critical piece of technology," the director of store systems explained. "The printer has to be up and running whenever we are open for business. The print quality has to be pristine because it's responsible for communicating information that is vital to patient safety, and each page printed reflects our brand." He added that the device must print quickly and handle unique media flawlessly, such as adhesive labels and other specialized paper stocks. Finally, if something does go wrong, the printers need to be fixed quickly. "They have to be easy to repair so we can get back to business," the director of store systems stated.

Other inefficiencies kept printing costs high, including higher-than-average toner consumption rates, a problem that the retail pharmacy traced to its use of less-efficient remanufactured toner cartridges. The non-OEM cartridges also contributed to the high incidence of paper jams and streaks.

"The lower price of the remanufactured cartridges was initially appealing, but very quickly we realized that we were not getting the expected yield, the print quality was sub-par and that the remanufactured toner was causing the printers to break down frequently," the director of store systems explained.

To keep enough supplies on hand, the retail pharmacy stored pallets of cartridges at its central warehouse, incurring carrying costs. At the same time, stores had to keep a close eye on toner levels and order replacements from the warehouse in time to avoid running out—an unneeded distraction for busy pharmacists and technicians.

Figure 2
Cumulative net benefits



Solution

The retail pharmacy addressed the challenge by engaging Lexmark in a detailed review of its printing operations. "We chose Lexmark because they're the leading printer vendor in our industry," the director of store systems stated. "If you look at the major pharmacy chains like CVS and Walgreens—they're all with Lexmark."

The company also liked Lexmark's problem-solving approach. "We presented them with our situation and Lexmark came to the table with a solution that made sense for our business," he explained. "Lexmark listened to our unique circumstances and goals, applied its knowledge of the retail pharmacy marketplace and offered a solution that was customized just for us."

Lexmark's review helped the retail pharmacy develop a comprehensive solution to boost printer uptime and quality, rein in capital and maintenance costs, and minimize customer wait time and lost sales. The solution called for:

- ▶ Deploying a fleet of Lexmark printers, including the T640 and T630 series of networked monochrome laser printers, in place of the company's existing fleet of aging devices
- ▶ Switching to Lexmark OEM toner cartridges in place of remanufactured cartridges
- ▶ Adopting Lexmark's proactive consumables management service, which remotely monitors toner levels and ships replacement cartridges directly to stores before they run out
- ▶ Transferring printer maintenance operations from outside contractors to the retail pharmacy's maintenance department

Launched in late 2008, the Lexmark-based solution established a common printing and service solution throughout the retail pharmacy chain, and began generating benefits within months. According to the director of store systems, "It's one of the best programs we've ever installed. It's uniquely tailored to our business objectives of serving our customers better and keeping our pharmacists focused on customers and not on technology."

Results

The company's investment in Lexmark equipment and consumables service, coupled with its new in-house maintenance program, is expected to yield savings and benefits of \$965K over three years, as detailed below.

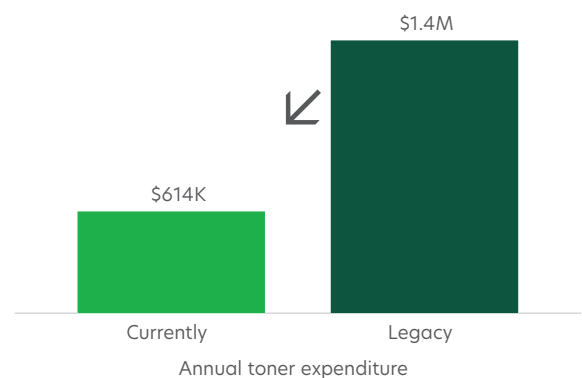
Toner cartridge savings

By switching to Lexmark toner cartridges, the retail pharmacy is saving about \$790K over three years—56% less than what it was paying for refurbished cartridges, as shown in Figure 3. The lower per-unit cost of Lexmark cartridges contributed to the savings, as did a significant reduction in warehouse and shipping costs achieved by implementing Lexmark's PCM service. Stores also saw a significant improvement in print quality, with fewer incidences of toner streaking and paper jams—and consequently fewer reprints.

With PCM, the company moved to a lean, just-in-time inventory system for its toner replenishment. Instead of stocking large quantities of toner cartridges at its central warehouse—as well as holding costly backup supplies at its stores—the company now relies on the PCM service to track toner levels and ship replacement cartridges directly to stores as needed.

The cost differential may seem surprising in light of the common misconception that non-OEM cartridges offer cost advantages over OEM consumables. However, research by Gartner has shown that non-OEM cartridges frequently need more maintenance, are more likely to have paper feed problems, and may not provide the cost savings their lower prices imply. The company's experience with Lexmark consumables confirms this finding.

Figure 3
Reduction in toner expenditures



Lower printer maintenance costs

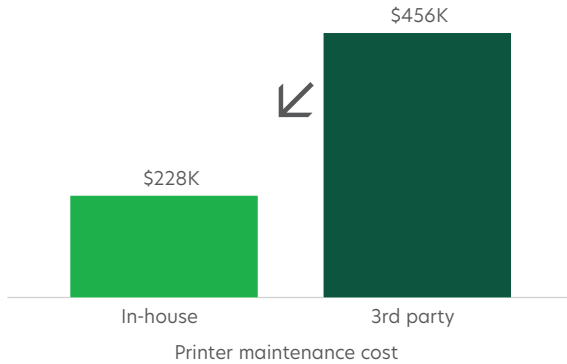
The retail pharmacy's initial deployment of a new fleet of 225 Lexmark T640 and T630 series printers, combined with bringing maintenance duties in house, is on track to cut printer maintenance costs by about \$76K a year, or \$228K over three years—a 50% reduction. Key to the savings is the reliability and consistent output quality of the Lexmark devices, especially when paired with the Lexmark brand toner cartridges, which has translated into fewer breakdowns and service calls.

Indeed, managers said the superior performance and uptime of the Lexmark devices made the transition to in-house maintenance a feasible alternative. Moreover, since taking charge of printer servicing, the company has been able to implement a regular preventive maintenance program, helping prolong the life of the fleet and reducing overall maintenance needs.

Figure 4

Reduction in printer maintenance cost

(Over 3 years)



Less downtime, faster printer fixes

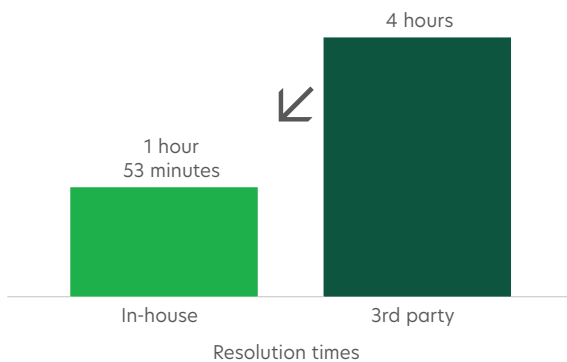
In a business where printer downtime can mean lost sales and lost customers, the retail pharmacy has made major strides toward its goal of ensuring 100% uptime at its pharmacies. Installing the more dependable Lexmark fleet is a major reason for the improvement, significantly decreasing the frequency of printer breakdowns.

In its assessment of the company’s previous printer fleet, Lexmark determined the average device received 7.72 service calls per year. Since the new fleet was installed, that rate has dropped to only 1.5 service calls per device per year, an 80% improvement.

Moreover, because the new Lexmark printers are also easier to repair, the retail pharmacy can speed service calls and boost uptime even further. When a printer breaks down today, it takes company technicians less than 1 hour and 53 minutes to repair it, on average, compared to between four to five hours previously—a 52% improvement—as shown in Figure 5.

Figure 5

Faster printer fixes

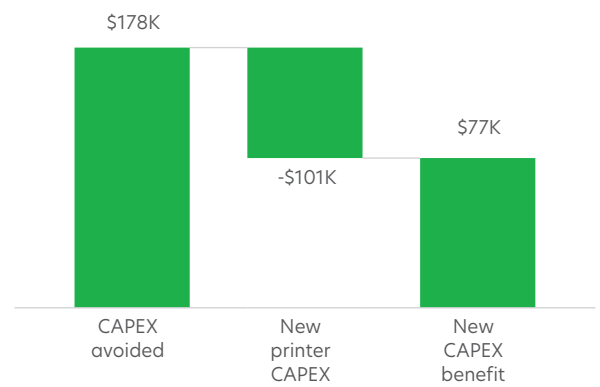


Capital expenditure avoidance

Compared to its existing fleet of output devices, the T640 series printers are more reliable and less prone to streaking, and came with a lower price tag. Altogether, the Lexmark printer fleet cost the retail pharmacy about \$77K less than it would have spent to replace its existing fleet of devices, as shown in Figure 6.

Figure 6

Net CAPEX avoidance



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Future plans

Working with Lexmark, the retail pharmacy is exploring new ways to boost store productivity. To avoid downtime, for example, it hopes to install backup printers in every pharmacy, and this year it started equipping each new pharmacy it opens with two printers.

The company is also looking at adding double-sided printing capabilities to its fleet to minimize paper consumption in anticipation of new HIPAA regulations that will require pharmacies to provide privacy information to new patients.

As new challenges and opportunities emerge, the company's executives say they can count on Lexmark to respond with timely solutions.

"Lexmark keeps us looking ahead at new approaches so we can manage our business better," commented the director of store systems. "This is one of the reasons why we're loyal to Lexmark."

About this ROI and business benefits assessment

Research and analysis for this business impact study was conducted by Mainstay, an independent consulting firm and was based on interviews with officials at this Leading Retail Pharmacy and Lexmark and searches of industry literature. ROI calculations use industry-standard assumptions regarding the time value of money.

Mainstay is the leading provider of independent value assessment and IT strategy services. For more information, please visit www.mainstaycompany.com. Information contained in this business impact study has been obtained from sources considered reliable but is not warranted by Mainstay.