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Looking the customer in the eye: the challenges facing Raia Drogasil to build loyalty by digital means

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Abstract

The Raia Drogasil Group (RD) is the leader in the national retail pharmacy market, with annual revenues of more than BRL30.9 billion and adjusted net income of more than BRL 991 million. There are 2,697 pharmacies distributed in all Brazilian states, more than 47.5 million active customers and more than 53,039 direct jobs generated. The group is committed to digital transformation to retain customers. Given this context, this case explores the group's dilemmas related to a potential paradox: joining efforts to obtain greater approximation and personalization in customer service and simultaneously seeking to explore opportunities in digital relationships. The purpose of the case is to encourage students to put themselves in the shoes of the CEO of the Raia Drogasil Group, Marcilio Pousada, and his team so that they can make strategic decisions to increase customer loyalty for the current leader in Brazilian retail pharmacy market. This case was designed mainly within the scope of marketing and strategy disciplines and works with the trajectory of RD up to the present moment and with its future perspectives in view of the possibility of greater digitalization for the business. It can be worked with undergraduate, graduate, and executive education students, especially in the areas of administration and applied social sciences.

Keywords: Raia Drogasil Group. Pharmacy retail. Digitalization. Loyalty. Strategy.

Olhos nos olhos? Os desafios de fidelização da Raia Drogasil por meios digitais

Resumo

O Grupo Raia Drogasil (RD) lidera com folga o mercado nacional de redes de farmácias, com faturamento anual superior a R$ 30,9 bilhões, lucro líquido ajustado superior a R$ 991 milhões. São 2.697 farmácias distribuídas em todos os estados brasileiros, mais de 47,5 milhões de clientes ativos e 53.039 empregos diretos gerados. O grupo aposta na transformação digital para fidelizar clientes. Assim, este caso explora dilemas da Raia Drogasil referentes a um potencial paradoxo: reunir esforços para obter maior aproximação e personalização no atendimento a clientes e, ao mesmo tempo, buscar explorar oportunidades nos relacionamentos digitais. O caso tem o propósito de estimular os alunos a se colocarem no lugar do CEO do Grupo Raia Drogasil, Marcilio Pousada, bem como no de sua equipe, de forma que possam tomar decisões estratégicas para ampliar a fidelidade dos clientes da atual líder do varejo farmacêutico brasileiro. Este caso foi desenhado principalmente no âmbito de disciplinas de Marketing e Estratégia, abordando a trajetória da RD até o presente momento, bem como suas perspectivas de futuro diante da possibilidade de maior digitalização para o negócio. O presente caso pode ser trabalhado com alunos de graduação, pós-graduação e educação executiva, especialmente nas áreas de Administração e Ciências Sociais Aplicadas.

Palavras-chave: Grupo Raia Drogasil. Redes de farmácias. Digitalização. Fidelização. Estratégia.

¿Vis a vis? Desafíos de fidelización de Raia Drogasil a través de medios digitales

Resumen

El Grupo Raia Drogasil (RD) lidera ampliamente el mercado nacional de cadenas de farmacias, con ingresos anuales superiores a R$ 30,9 mil millones y utilidad neta ajustada superior a R$ 991 millones. Son 2.697 farmacias distribuidas en todos los estados brasileños, más de 47,5 millones de clientes activos y 53.039 empleos directos generados. El grupo apuesta por la transformación digital para fidelizar a los clientes. Ante este contexto, este caso explora los dilemas del grupo relacionados con una potencial paradoja: aunar esfuerzos para obtener una mayor aproximación y personalización en la atención al cliente y, al mismo tiempo, explorar oportunidades en las relaciones digitales. El objetivo del caso es incentivar a los estudiantes a ponerse en el lugar del CEO del Grupo Raia Drogasil, Marcilio Pousada, y su equipo, para que puedan tomar decisiones estratégicas para aumentar la fidelidad de los clientes del actual líder en el comercio minorista farmacéutico brasileño. Este caso fue diseñado principalmente en el ámbito de las disciplinas de Marketing y Estrategia, aborda la trayectoria de RD hasta el momento actual y sus perspectivas futuras ante la posibilidad de una mayor digitalización de los negocios, y puede ser trabajado con estudiantes de grado, posgrado y educación ejecutiva, especialmente en las áreas de Administración y Ciencias Sociales Aplicadas.

Palabras clave: Grupo Raia Drogasil. Cadenas de farmacias. Digitalización. Fidelización. Estrategia.

Case study submitted on June 06, 2023 and accepted for publication on November 29, 2023.
[Translated version] Note: All quotes in English translated by this article's translator.
DOI: https://doi.org/10.1590/1679-395120230106x

A STRATEGIC RACE: THE CEO AND THE COMPANY

It's 7:00 a.m. on Monday morning. Following his customary breakfast, Pousada meets his personal trainer to start the day by running just a part of his usual 10 km. a week. He's not running to compete, but rather for his physical and mental health and well-being. While he's running, his entrepreneurial and innovative mind is always reflecting on how he's going to expand the success he's already achieved and innovate business approaches in the market in which he operates. This is how the week begins for Marcilio Pousada, a Brazilian business studies graduate of the Armando Alvares Penteado Foundation (Faap/SP) in Sao Paulo. He's married, the father of three daughters, and an avid reader who loves to travel. He has also been elected one of the best CEOs in Brazil, according to the prestigious Forbes list. It will be yet another week of great challenges for the head of the Raia Drogasil (RD) Group, a giant in the drugstore market, with annual sales revenue of R$ 30.9 billion in 2022 (which represents significant growth relative to the R$ 18.4 billion of three years earlier), in excess of 47.5 million active customers, and more than 53,039 direct employees spread across every state in Brazil.

Pousada knows that the consumer market will be undergoing major transformations and that new technologies will represent both opportunities and challenges. Serving the older public and attracting younger consumers will require not only creativity but also present strategic choices for the group if it is to continue on its successful journey. This is why Pousada has stated: "One thing that makes me uneasy is how we've managed to do all this successfully. Stories of organic retail growth in companies in Brazil are like flying chickens; they try but fail. Growing organically is difficult." In the midst of so many challenges, the CEO can hardly complain of being bored!

Pousada began his journey in the RD Group about two years after the merger between Droga Raia (Figure 1) and Drogasil (Figure 2), in 2011.

Figure 1
View of a Droga Raia drugstore



Source: Droga Raia (2022).

He replaced Cláudio Roberto Ely, a successful executive who had been in charge of the group's companies for more than a decade. The new leader of the RD Group was already accustomed to the challenges that come with a position in senior management. After starting his executive career as a commercial manager with the Walmart Group (1994 and 1995), he assumed senior management positions as the commercial director of Walmart (from 1995 to 1999) and of Submarino.com (from 1999 to 2000). He was also CEO of OfficeNet (from 2000 to 2005), which he founded, and Saraiva (for eight years, between 2005 and 2013). With the coherence that is characteristic of him, as soon as he arrived in RD in 2013 Pousada made the following commitment to the group:

> Raia Drogasil has already reached cruising speed. It has great capacity to grow, consolidate its position and conquer new markets. My mission is to inspire the employees to keep the company on its winning path and take advantage of the complementary strength of the two chains to provide consumers with the best of shopping experiences (Barbosa, 2013).

It is very clear that he really did follow this path. Ten years after joining RD, Pousada achieved significant numbers as a result of the work he did in the group in Brazil's competitive pharmacy chain market.

Figure 2
View of a Drogasil drugstore



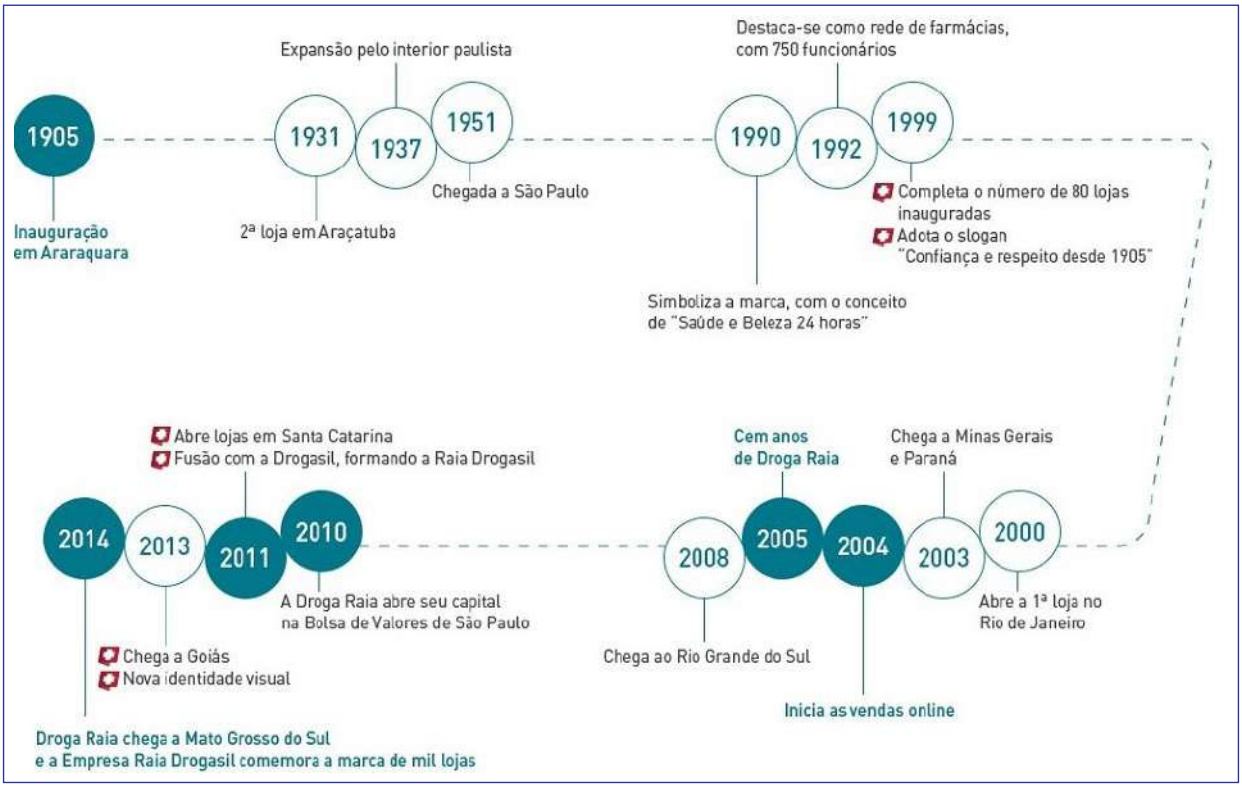
Source: Drogasil (2022).

But despite the impressive numbers the Group has been achieving, RD is facing important challenges regarding customer loyalty, its strategic positioning using digital means, and even the way it operates with the different layers of the Brazilian population that go to make up its target audience, as we will see as we present our case.

THE RAIA DROGASIL GROUP: THE PERFORMANCE OF THE CEO AND HIS VISION FOR THE FUTURE

The RD Group was formed by the merger of two large and traditional pharmacy chains. The oldest of them, Droga Raia, was founded at the beginning of the 20th century in 1905, in Araraquara, in the interior of the State of Sao Paulo, as detailed in Figure 3.

Figure 3
Historical summary of Droga Raia



Translate note: 1905: Inauguration in Araraquara; 1931: 2nd store in Araçatuba; 1937: Expands in the State of Sao Paulo; 1951: Arrives in Sao Paulo (city); 1990: Brand uses slogan "Health & Beauty 24 Hours"; 1992: Pharmacy chain now has 750 employees; 1999: # Chain now has 180 stores; # Adopts a new slogan "Trust and respect since 1905"; 2000: Opens 1st store in Rio de Janeiro; 2003: Arrives in the states of Minas Gerais and Parana; 2004: Starts selling on-line; 2005: 100 years of Droga Raia; 2008: Arrives in the state of Rio Grande do Sul; 2010: Droga Raia goes public on the Sao Paulo Stock Exchange; 2011: # Opens stores in Santa Catarina; # Merges with Drogasil to form Raia Drogasil; 2013: # Arrives in the state of Goias; # New visual identity; 2014: Droga Raia arrives in the state of Mato Grosso do Sul and Raia Drogasil celebrates the opening of its 1000th store.
Source: Droga Raia (2022).

The second store was only opened 26 years after the first, and the company only reached the city of São Paulo in 1951. By 1999, however, Droga Raia had 88 stores and went public on the BM&F – Bovespa (now B3) in 2010, also because of its governance structure. Drogasil was also founded in the early part of the 20th century, more precisely in 1935 (Figure 4 and Figure 5):

Figure 4
Drogasil store in 1953



Source: Drogasil (2022).

Originating from the merger between Drogarias Bráulio and Brasil, the first Drogasil store was located in Uberlândia, in the State of Minas Gerais, and is still in operation today. The year 1975 is particularly important in the company's history, because that was when it became a pioneer in the pharmaceutical sector by going public on the stock exchange. The two companies merged in 2011.

Figure 5
Drogasil store in 1953



Source: Drogasil (2022).

Marcilio Pousada took over as CEO of RD about two years after the merger. Under his command RD Group's revenue jumped from R$5.6 billion to R$15 billion between 2012 and 2018 and had exceeded R$30.9 billion by the end of 2022, with EBITDA of R$2.262 billion and adjusted net income exceeding R$991 million. In relation to digital means, although the e-commerce operation represented "only" 11.1% of the group's retail revenues in 2022, we have to remember that this number was 9.2% in 2021 and only 2.3% in 2019. RD's financial report also showed that this figure reached 14.3% in Q2 of 2023.

In addition to achieving good financial returns, Pousada improved the people management of its employees. By way of a series of process reviews and through training, "[...] RD's turnover rate fell from around 60% a year to around 30%", according to the CEO. Regarding these numbers, Pousada emphasized an old Raia Drogasil maxim: "[...] for more than 20 years, every store manager has been an employee who started working on the shop floor. This culture is what makes our business strong and keeps it growing." Recognizing the career path of employees has, therefore, been an ally in the management of people in the RD Group.

The number of RD stores has expanded significantly under Pousada's management. With an inauguration target to open as many as 240 stores a year in 2018 and 2019, the number of physical stores in Brazil jumped from an already impressive 1,000 to 2,697 over a seven-year period. This allowed RD to far exceed companies that were also highly wide-spread in other sectors, such as McDonald's and Magazine Luiza, which have more than 1,000 stores each. The group has set a goal of opening 260 stores a year in the 2023 to 2025 period.

Gains in competitiveness are also evident when we look at RD's market share in Brazil, which increased from 14.1% (2021) to 15.1% (2022) and reached 26.8% in the State of São Paulo (in Q2 of 2023), where the group has 1,146 stores. Its growth is impressive even in regions where its share is smaller, such as in the North Region, where its share increased from 6.6% to 8.3% between Q2 in 2022 and Q2 in 2023. In 2019, for example, the Group's market share in the North Region was just 1.7%.

Raia Drogasil has distinguished itself as one of the most important companies in the country. It was elected Company of the Year in the 2017 edition of Exame magazine's Best and Biggest (Salomão, 2017) and solidified its position as the biggest pharmacy retail chain.

Faced with stiff competition, which includes rivalry between RD and other giants, such as Drogaria São Paulo and Pacheco (DPSP), the group is planning its next strategic actions, which in recent years have involved buying companies – in 2015 it acquired 4Bio (2020), a specialty drug company, and in 2019 the traditional Onofre chain – and strengthening its partnerships, such as the one with Stix Fidelidade, a joint venture between the Pão de Açúcar Group (GPA, 2020) and Raia Drogasil, which offers customers a platform of products and services that allows them to accumulate and redeem points on their purchases (see more in Mattos, 2019). Figure 6 shows just some of the brands belonging to the RD Group.

Figure 6
Examples of RD's exclusive brands

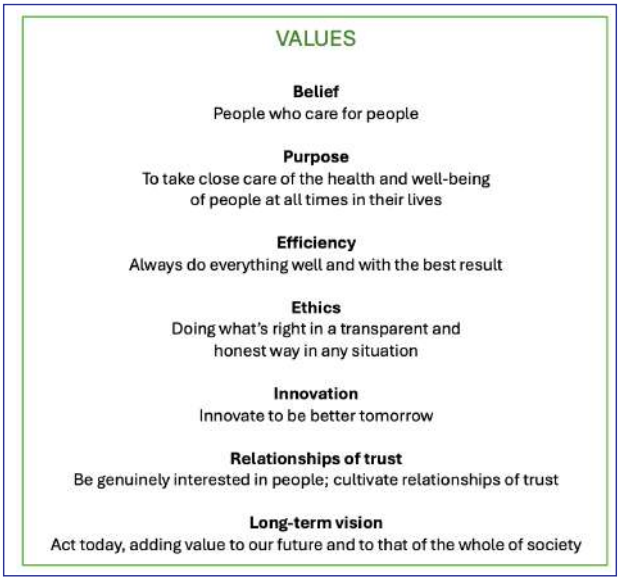


Source: RD (2020b, 2022b).

In 2020, for example, the group invested in Manipulaê, a marketplace that was launched in 2021for items made on site in pharmacies across the country, and Vitat, its platform for promoting comprehensive health after it acquired the Tech.fit startup. In that same year it also acquired 50.75% of Healthbit, a technology startup that focuses on big data for helping companies reduce claims on their health plans, and Cuco Health, a startup that focuses on increasing adherence to treatment using medication. At the end of 2021 the company also announced it had acquired Amplimed, an electronic medical records company that serves medical and dental clinics throughout Brazil. It also invested in Labi Exames, a laboratory analysis company that also provides a vaccine service via its units and as a home care facility, and in ConectaLá, a technology platform to support sellers in different marketplaces. These movements are in line with growth plans via digital means and are important initiatives to attract customers and improve customer loyalty.

Although the opening of new stores is still in the plans, with a forecast of another 260 a year in the 2023-2025 period, Pousada understands that "[...] the key pieces for the business from now on will not be the branches, but rather the customers." The objective is to increase customer satisfaction and loyalty, resulting in an increase in their average ticket. The group argues that this will be mainly achieved by digital means and by offering new pharmaceutical services in each of its stores. RD's core purpose (see Figure 7) is "[...] to take close care of people's health and well-being at all times in their lives." Pousada's vision of the future seems to move in the same direction. The market leader, however, will be facing various challenges.

Figure 7
RD Group values



Source: RD (2022c).

THE BRAZILIAN PHARMACY CHAIN MARKET[1]

In terms of the number of laboratories, the Brazilian pharmaceutical market is the sixth largest in the world, which denotes the importance of pharmacies and their chains. Proof of this are the final figures for 2022, when pharmaceutical retail had another very positive year, accounting for sales of more than R$184.22 billion through its more than 90,000 + pharmacies. This result corresponds to growth of 16.2% compared to 2021, according to the Brazilian Federation of Associate & Independent Pharmacy Chains (Febrafar). According to Febeafar's president, Edison Tamascia: "The double-digit growth in pharmaceutical retail sales is exceptional, but the market was impacted by the pandemic. We more or less got back to normal in December, but we started 2022 with the number of pandemic cases once again increasing."

Because they offer health-related products and services, pharmacies and drugstores can be found in more than 5,500 Brazilian municipalities and, even in times of crisis, this sector shows just how strong it is. Nelson Mussolini, president of the Pharmaceutical Products Industry Union (Sindusfarma) says: "We're the last sector to be affected by an economic crisis and the first to emerge from it." He also notes that "[...] most of the pharmacies and drugstores in Brazil are located on our streets. This is followed by [*those in*] shopping centers, galleries, supermarkets, airports and bus stations." The main metropolitan regions are dominated by the biggest chains, which is not what happens in municipalities with fewer than 50,000 inhabitants, which are mainly served by chains or independent establishments. In the context of the country's macro-regions, in 2020 the Southeast Region accounted for 42.6% of the physical stores, followed by the Northeast (24%), South (16%), Central-West (9.9%) and North (7.5%).

The pharmaceutical market is generally known as being one of the most stable and profitable in the Brazilian economy, which is why large business groups are both involved and interested in it. The sector is characterized by the growing number of mergers and acquisitions, particularly among pharmacy chains. Many large deals were carried out in the last decade, especially in 2011, 2013 and 2019. The main year for mergers was 2011, when Droga Raia merged with Drogasil, and Drogaria São Paulo merged with Pacheco, giving rise to the RD and DPSP Groups, which today are the main players in the Brazilian pharmacy

[1] The data for the Brazilian pharmacy chain market were taken from the Federação Brasileira das Redes Associativistas e Independentes de Farmácias (Febrafar, 2023), Mundo do Marketing (2020), Panorama Farmacêutico (2023), Ribeiro (2019, 2020), Saúde Business (2020), Secad (2019), and UOL (2016).

chain market. In 2013 American giant, CVS Health acquired Onofre (2020), a relationship that lasted until 2019, when it sold Onofre to the RD Group and pulled out of Brazil.

In a market with more than 90,000 establishments, the RD Group is the leader, with sales revenue of more than R$30.9 billion (2022) and 2,697 stores distributed across the country's five macro-regions. The DPSP Group is second (sales revenue of more of R$13 billion and more than 1,440 stores), followed by Pague Menos (sales revenue of more than R$9.8 billion and more than 1,646 stores) and São João (sales revenue of more than R$5.4 billion and more than 1,000 stores). Also, among the top ten in the ranking are the Panvel, Araújo, Nissei, Venancio, Indiana and Drogal Farmacêutica chains in this order.

Due to the nature of the sector, medicines are still the main products in this market, accounting for more than 60% of the total sales in pharmacies in recent years. Despite this natural predominance, in recent years the main chains have tried to diversify in terms of the products they sell and services they provide. Each group has its own strategy for diversification, and offers medical and orthopedic items in addition to medicines, as well as personal hygiene items, perfumery and cosmetics (including dermo-cosmetics, which already represent a significant proportion of the revenue). In an interview with BandNews in 2016, Pousada had already said: "[...] 30% of our business is beauty and perfumery [...]. We work in two market segments: the health market and the beauty market." In some points of sale, the assortment goes further and also includes convenience foods, batteries and cell phone recharging.

Conscious of the trend towards diversification, increased competition and changes in the consumer market, in order to maintain the company's pioneering spirit in terms of trends and its leadership in the sector, Pousada has been outlining RD's vision to the employees.

DIGITALIZATION AS A PLAN FOR THE FUTURE[2]

The company, whose formal (legal) name is Raia Drogasil S/A, has in recent years adopted the corporate brand RD – Gente, Saúde e Bem-estar [*People, Health & Well-being*]. Its initiative has been to invest in a digital future as a key to expanding its competitive advantage in the medium and long term. The stores, however, are still identified with the Droga Raia or Drogasil brands, because customers are used to them.

The group has invested in a consumer-centered digital experience, following the maxim highlighted by Pousada: "[...] we want to take ever closer care of people's health, at all stages in their lives." He believes that this will also be done by expanding the database and making the loyalty program more sophisticated. This means that RD intends to offer customers an integrated digital experience, based on omnichannel retail, the personalization of products and services, and greater interaction with its customers both in its physical stores and via apps, websites and on social media. This strategy obviously involves developing its own apps for shopping via cell phones or computers, the collection of products from stores whenever customers wish to do so, and a delivery option. In his Letter to Shareholders, which was published in the management report, the group clarifies part of its strategies as it moves toward digital transformation:

> […] We've embarked on an ambitious digital transformation [*program*], which will allow us to shift our focus from caring for illness to promoting health and well-being. We're going to try to encourage healthy habits and prevention through treatment adherence programs, medication and repurchase reminders and via vaccination, in addition to other health services. We aim to help our customers look after their pockets and take care of their time by way of services that are relevant to them, such as subscriptions, exclusive offers and pre-authorization in PBM [Pharmacy Benefit Management] programs. We also want to empower them so they can shop whenever and wherever they want, efficiently and without friction, including in-store purchases, buy and collect, or fast deliveries from our stores.

[2] This section was based on RD Group's annual reports, accessed at https://ri.rd.com.br/show.aspx?idCanal=Sg7EdW0O9RO2q75S+fTJuQ==

In the context of these actions, the main ones comprised: the purchase of the traditional Onofre chain (recognized for its digital operations); a joint venture with the Pão de Açúcar Group, a partnership that led to the setting up of Stix Fidelidade; the acquisition of the Tech.fit start-up; and buying 50.75% of Heatlhbit, a startup that specializes in big data.

The Group bought Onofre in 2019, when the company had 50 units, 47 of which were located in São Paulo (Scaramuzzo, 2019). Pousada emphasized that the acquisition would be strategic in terms of RD's digital operations: "[...] we bought Onofre for a competitive price. We know it's a case of a 'turnaround', but Raia Drogasil has something to learn from Onofre's e-commerce." Pousada's words reflect Onofre's online retail numbers, which, at the time of purchase, corresponded to 45% of the company's total revenue. Onofre's substantial digital focus led to the RD Group replacing the physical store brands acquired from Onofre with the Droga Raia and Drogasil brands but maintaining the Onofre brand in digital means.

Stix Fidelidade, which actually started operating in 2020, has been fundamental to one of the business's macro-objectives: increasing customer loyalty and engagement. Stix Fidelidade is the first Brazilian coalition between retailers with national coverage, since it brings together as its anchors the Drogasil, Droga Raia, Extra and Pão de Açúcar brands, which are benchmarks in the pharmaceutical and food sectors, and which jointly have more than 3,000 establishments in Brazil. Banco Itaú is also a strategic partner, which contributes with the strength of its brand and as a reference in loyalty cards and programs (Stix, 2022). Pousada believes that this is a strategic action by the group, as highlighted in his Press release RD (2019):

> Stix will allow us to reward our loyal customers and promote healthy habits by delivering points that have a clear value and certainty regarding their use. [*ICustomers*] will also be able to combine their purchases with Droga Raia, Drogasil, Pão de Açúcar and Extra, and with the other retailers that will be an integral part of our platform, and also their spending with Itaú cards to increase their gain. In addition to the health and financial benefits we'll be offering our customers, Stix will allow us to increase their loyalty and attract new customers who already have relationships with our partners.

The purpose of this program is to offer customers who purchase in the stores that belong to one of the four brands the ability to accumulate "Stix points". Customers can also exchange the points they have accumulated on their Itaú credit cards or when paying normally for their transactions in stores belonging to the four brands, both in physical establishments and on the companies' and Stix's own apps. There is also a Stix catalogue that offers attractive discounts to customers. The RD Group, therefore, argues that both Onofre and Stix are pillars of its digital transformation strategy.

DIGITALIZATION ENABLERS AND INITIAL RESULTS[3]

RD understands that its digital transformation will continue to be facilitated and, therefore, made viable by different factors. The company currently has more than 47.5 million active customers, who are responsible for more than 90% of its revenue. Having a large and consolidated customer base can facilitate customer relationship management (CRM) actions in digital means, the search for greater loyalty and, consequently, an increase in the average ticket. Another facilitating point highlighted in the annual report is the number of units the group has and their reach: RD has more than 2,697 stores distributed throughout Brazil and serves "[...] 91% of the Class A people in Brazil who live within a 1.5 kilometer radius [*of a store*], which are powerful foundations for supporting our strategy," Pousada stated. This means that in addition to having a wide customer base and units throughout the country, RD offers the vast majority of people classified as "Class A" a pharmacy located, at most, 1.5 kilometers from where they work or live, which is another major differentiator of the group. RD is also investing in an infrastructure that can support its digital transformation, according to an excerpt from one of its annual reports:

> We also made progress in the organizational and infrastructure prerequisites for supporting our digital transformation. We ended 2019 with a new data lake in operation and began converting our systems to microservices and migrating them to the cloud. We have seven agile teams in place to improve our digital execution, including data scientists and design experts who are entirely dedicated to understanding and improving the customer journey. Finally, we integrated Onofre's e-commerce into our operations, enabling demand to be met at a lower cost via our network of stores.

[3] This section was based on RD Group's anual reports, accessed at https://ri.rd.com.br/show.aspx?idCanal=Sg7EdW0O9RO2q75S+fTJuQ==

The improvement in infrastructure, combined with the development of its apps, the expansion of its geographic coverage and reduction in delivery times are, according to RD, fundamental when it comes to increasing the creation of value for customers, their satisfaction and their consequent loyalty; this also involves its multichannel customers becoming more representative. This logic will continue to be part of its corporate strategy for the coming years.

The group understands that good results have been achieved year after year. As an illustration of this, digital sales from e-commerce and buy-and-collect systems represented 9.2% of RD's sales revenue in Q4 of 2021, which is more than the 5.9% share registered in 2020. The numbers for digital apps are also surprising. The year 2019 ended with 1.2 million downloads. In Q4 of 2021, this number was already over 15.9 million (considering the accumulated download from apps). Another important fact is that 89% of all digital transactions were handled by stores, either via buy and collect, which is available in the whole of the network, or via delivery, the deadline for which varies from unit to unit. RD's annual report also highlights an important partial result of its processes:

> We have recorded a total of 15.9 million accumulated app downloads since Q1 2019, a significant number given the universe of 42 million active customers, and one that's fundamental in the process of digitalizing our relationship with them. This digitalization of customer relationships is essential to our long-term strategy. Customers who use our digital channels become more loyal, are more engaged and purchase more frequently. They also spend 20% to 25% more, on average, than they spent previously, thus becoming a fundamental vector of our value creation process. This will also allow us to connect them to the three pillars of our strategy: the New Pharmacy, the Marketplace, and the Health Platform.

Figures for 2023 also show that the group continues to make rapid progress with its digital strategy, having reached the milestone of R$1.195 billion in gross revenue from its digital channels in Q2 2023, which represents a retail penetration of 14.3% and growth of 56.4% over the same period in the previous year. Also noteworthy in the quarter in question was the fact that the group's apps and websites had been accessed 118.7 million times. These results seem to indicate that while a fair wind is blowing for RD, the company is still aiming to reach even greater loyalty levels. But even with the purchase of Onofre and the digital startups, exclusively digital purchases have not yet reached levels that are representatively higher relative to total revenue. It may still be too early to draw any conclusions, but there will undoubtedly be major challenges to face in the coming years, such as those arising from the group's digitalization.

LOOKING THE CUSTOMER IN THE EYE? THE DILEMMAS FACED BY MARCILIO POUSADA AND RD

Customer loyalty has long been one of the main topics of discussion in the RD Group. Despite the group's purpose being to "[...] take better care of people at different stages in their lives", many customers still see pharmacies as "responsible for just delivering a small box [medication]," as Pousada pointed out. But RD wants to change this view and retain its customers, especially the elderly population, which has been growing due to the increase in life expectancy of Brazilians. There is so much concern about being more careful with its customers that the company has included the following words in one of its means of visual communication in its physical stores: "You trust those who are transparent, who look you in the eye, who pay attention to you, who welcome you [...]" According to Pousada, RD aims to have with its customers "the relationship that the pharmacy of the past had, along with the closeness that existed in the past". It turns out, however, that digitalization is being seen as RD's main bet for getting closer to its customers and retaining them. This possible paradox between digitalization and loyalty (involving a public for which using digital means on a regular basis may not be natural) seems to be one of the main challenges for Pousada and RD, which has been reflecting on ways of having a relationship of trust with its customers in times of digitalization – when the "looking people in the eye" element is limited – that has its origins in the personalized service that pharmacies provided in the past (see Figures 4 and 5).

Another very sensitive topic in the group's discussions refers to the target audience and the strategic positioning of RD. The company operates primarily by way of differentiation, to the detriment of a leadership strategy based on cost/price. This means that RD seeks to deliver a distinctive value mix to its customers by balancing benefits achieved vs. perceived price. This delivered value can be seen as being greater than that offered by most of its competitors. There is evidence pointing to this, such as the group's greater presence in neighborhoods located outside popular areas, the average price it charges and the cost of its physical stores. In this regard, Pousada says: "[...] we always say the following: 'Let's take the corner we want to

have, and not the cheapest one. We've got high-performance stores all over the country. We pay higher rent because we believe that the right business is done on the right corner".

On the other hand, Pousada said that in 2020 just over 20% of the company's stores – 430 at the time – were classified as popular, i.e., they were located in popular neighborhoods. This less favored class of the population does not have an RD pharmacy very close to their homes (or their places of work), like those who have greater purchasing power do. In principle, therefore, this would be the public that would benefit most from digital services to the extent that they can provide the convenience these people do not have because of their physical distance from a store. With the growth in internet access among all segments of the population, particularly via cell phones, the expansion of digital channels could be a good bet.

But only around 50% of Classes D and E households have internet access (information adapted from Neder & Amorim, 2019; Valente, 2019). As most of these people still use prepaid services on their cell phones, their purchasing potential via digital means is restricted. There is also the problem of the physical delivery of the products: delivery by RD itself (with the difficulties typical of any delivery system) or the customer going to a pharmacy in the chain to pick up the product (which may be difficult because of physical distance and/or the fact that the more popular classes do not have their own means of transport). This context gives rise to another challenge, which Pousada has reflected on: on the one hand, encouraging the most favored socioeconomic class and the popular classes to use digital means can boost the group's digital sales; on the other, increasing the group's physical presence in the more popular areas can meet the needs of a class that is very accustomed to in-person shopping.

After the morning exercise that Monday, the award-winning CEO of the Raia Drogasil Group would meet with senior RD managers to decide on what he called "the RD Group's dilemmas." How would you help Pousada in his decisions? What would you recommend he does? This is your challenge.

TEACHING NOTES

The teaching notes have restricted access and are only available to professors and instructors associated with an academic institution upon request at: https://periodicos.fgv.br/cadernosebape/article/view/91916/86285

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Jorge Carneiro: Conceptualization (Equal); Data curation (Equal); Funding acquisition (Equal); Investigation (Equal); Methodology (Equal); Writing- original draft (Equal); Writing- review & editing (Equal).

DATA AVAILABILITY

The entire dataset supporting the results of this study was published in the paper itself.

ACKNOWLEDGEMENTS

We are grateful to the members of YPO (Young Presidents Organization) for their kind invitation to develop the Raia Drogasil case, to members of Fundação Getulio Vargas (FGV EAESP) for supporting this research and, in particular, to the CEO of Grupo Raia Drogasil, Marcilio Pousada, and his team for the way in which they welcomed us when we interviewed them at the group's headquarters.

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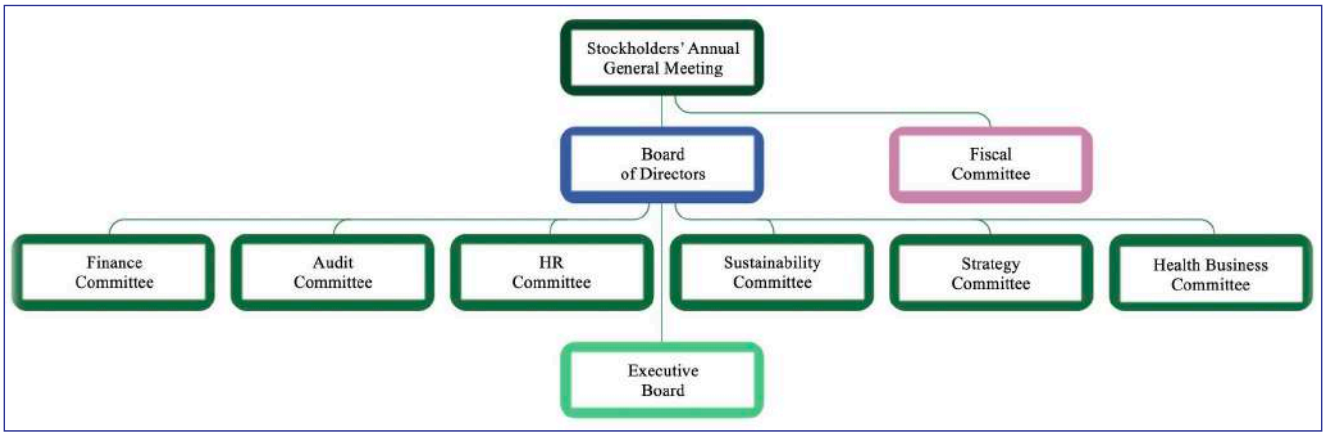
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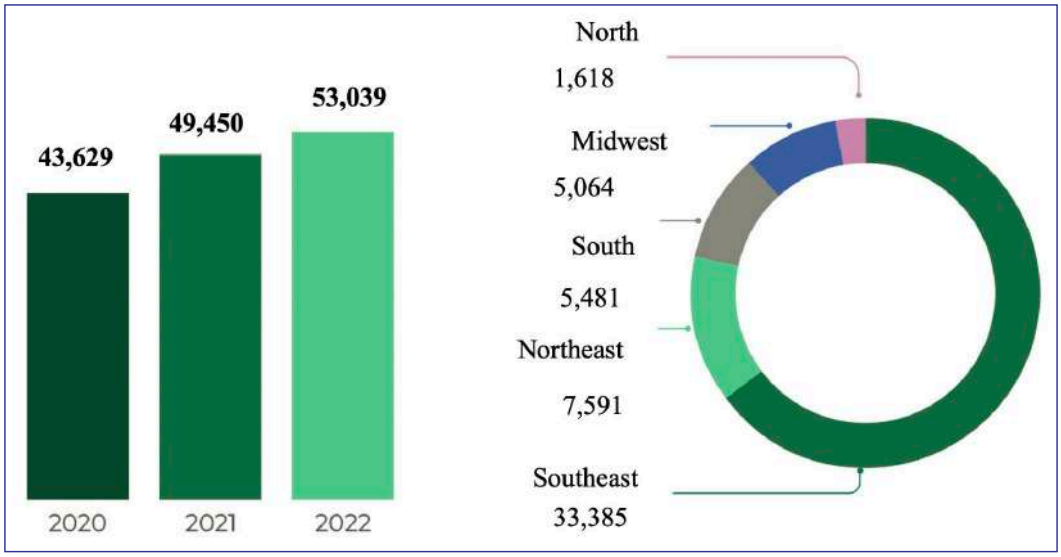
APPENDIX

Figure 8
RD Group governance structure



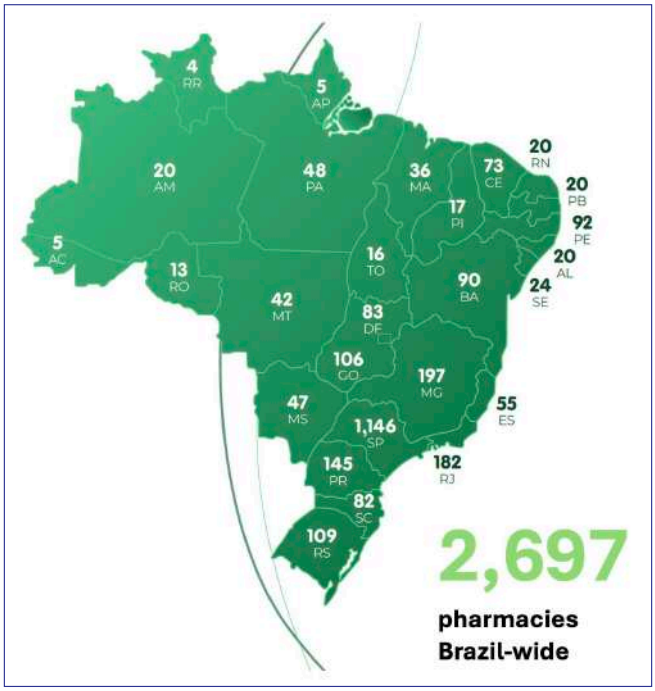
Source: RD (2023).

Figure 9
Total number of employees by region



Source: RD (2023).

Figure 10
Brazil wide distribution of the RD Group



Source: RD (2023).

Figure 11
RD Group performance in 2022



Source: RD (2023).