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HEALTH

At CVS Golf Gala, Suppliers Pay for Access to Executives

By DAVID ARMSTRONG

Updated Sept. 24, 2008 11:59 p.m. ET

(See *Corrections and Amplifications* item [below](#).)

NEWPORT, R.I. -- Like other retailers, CVS Caremark Corp. has an ethics policy meant to keep suppliers from using pricey travel, entertainment or gifts to buy the favor of its employees. But many companies have found a way to spread largess to the drugstore giant's influential executives -- with the blessing of CVS.

This year, for example, KKM LLC of Lincoln, R.I., paid at least \$50,000 for a weekend of yachting and golf with two top CVS officials. In past years, KKM, which sells goods to CVS on behalf of manufacturers, has funded other vacations that paired its executives with those from the retailer.

[See the program from the June, 2008 CVS Charity Classic in Newport, R.I.](#)

[See the 2006 tax filing for the CVS Charity Classic.](#)

Access to company decisionmakers is a hallmark of the CVS Caremark Charity Classic, the drugstore chain's annual golf tournament, which this year featured golf pros Nick Faldo, Rocco Mediate and Davis Love III vying for

\$1.55 million in prize money. Held each year at the Rhode Island Country Club, the four-day event attracts scores of donors, many of them CVS vendors. Companies that underwrite the event are granted time with top CVS officials, including department heads and executives who make important purchasing decisions.

Generous contributors are rewarded with rounds of golf at the tournament with CVS employees. Top sponsors get fairway-view pavilions and private visits by company officials. The highlight of the event's gala dinner is an auction where this year, KKM bought one of the seven vacations for golf, game fishing, riding or yachting. Each auction lot included high-level CVS executives as guests; one promised a day of golf with the company's CEO.

"I take advantage of this Classic, asking the different manufacturers I work for if they want to participate," said KKM's president, John Malmberg. "They all chip in and we work to get to a high level of participation and have access to CVS executives on an informal basis. It really is helpful."

Bans against vendor gifts are meant to ensure that buying decisions are made solely based on who is offering the best prices and quality. The strict gift policy of Wal-Mart Stores Inc. was at the center of a recent flap that led to the ouster of a top marketing executive. Earlier this summer, two former buyers for Home Depot Inc. pleaded guilty to federal charges that they defrauded their employer by taking payments from vendors in return for favored treatment.



Greg Norman, left, talks with CVS President Tom Ryan, second from right, as others look on during the 6th Annual CVS Charity Classic in 2004. *Associated Press*

Some CVS insiders have complained that the Charity Classic promotes a "pay to play" system, according to people familiar with the company, under which the ninth-largest U.S. retailer favors donors when deciding which products to promote and how they're displayed. Former employees say that donating to the tournament boosts suppliers' chances to be named a CVS "supplier partner," an award that signals to store managers which vendors are in favor with headquarters.

CVS doesn't benefit financially from auction purchases or other vendor donations, which primarily support charities in its home state of Rhode Island. Since its inception in 1999,

the event has contributed about \$10 million to Boys and Girls Clubs, the March of Dimes, the Special Olympics and others.

Experts in charitable giving say that a relatively small slice of the event's overall revenue flows to charity. For every six dollars it took in, less than one went to charity, according to the event's 2006 federal tax filing, the latest available. That represents a significantly smaller share than some comparable events donate.

CVS declined to grant interviews about the Charity Classic. In written statements, it said the event "plays an important role in helping us give back, which is why we ask our executives to commit their time and energy to support this event each year." It said "participation in the event each year is optional and does not affect our vendor selection process" or "influence in any way" how merchandising decisions are made. CVS said it has not received complaints from vendors about any pressure to participate in the event.

Driving Force

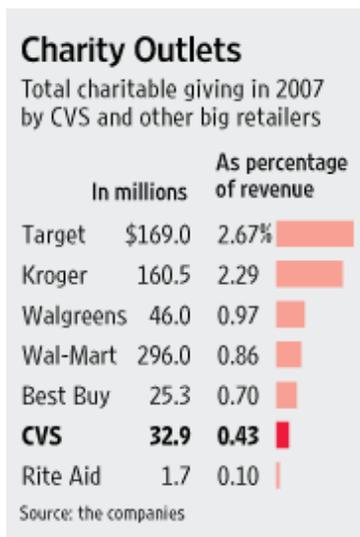
The CVS ethics policy prohibits all but modest vendor gifts, but makes a specific exemption to allow employees to participate in the golf matches and auctioned trips associated with the company's annual event.

The driving force behind the Charity Classic is CVS Chief Executive Thomas Ryan, who is rated one of the top golf-playing CEOs by Golf Digest magazine. People familiar with the company say Mr. Ryan is instrumental in rallying CVS workers to the cause. Company employees solicit vendor gifts, help organize the event and comprise its entire 11-person board of directors. Mr. Ryan doesn't sit on the event's board.

Mr. Ryan does sit on the board of the nonprofit organization that has received the biggest checks in recent years from the Charity Classic -- Andrade Faxon Childrens Charities, named for Brad Faxon and Billy Andrade, two golf professionals from Rhode Island. From 2001 through 2006, Andrade Faxon received more than \$1 million from the Charity Classic, according to federal tax filings. In 2005 and 2006, Andrade Faxon received the majority of its funding from the Charity Classic.

The CVS chief has frequently paired up with Mr. Faxon at the famed Pebble Beach pro-am tournament, winning the event with him in 2003. Mr. Faxon is a fixture at the CVS event and is annually listed as one of its two hosts.

The CVS chief also holds a stake in Summit Golf Brands, a closely held company that sells apparel to the Charity Classic, including the shirts worn by hundreds of tournament volunteers and merchandise given to



VIPs and sold to spectators. Summit's head of corporate sales, Kirk Kowalewski, said the Charity Classic is one of Summit's top revenue-generating events, exceeding some bigger PGA Tour tournaments.

CVS said in a statement that Mr. Ryan owns less than 1% of the company and has nothing to do with the tournament's buying decisions. Peter Jacobsen, a PGA golf pro who owns a company that runs the Charity Classic -- it was paid \$1.8 million in 2006, according to that year's filing -- said the decision to purchase products from Summit was made by his own company. Mr. Jacobsen said he was unaware of Mr. Ryan's stake in Summit.

CVS Caremark -- the outgrowth of Consumer Value Stores, founded in Lowell, Mass., in 1963 -- has expanded rapidly in recent years. With about 6,300 stores, it now rivals Walgreen Co. as the biggest U.S.

drugstore chain. It has also diversified into prescription-benefits management. With sales last year of \$76 billion, CVS is a coveted customer for companies that produce prescription drugs, over-the-counter medication, personal-care products, snacks and general merchandise.

Many of these suppliers turn out for the Charity Classic. Contributions to the event totaled \$2.45 million in 2006, according to that year's tax filing. A document included with the filing lists the names of 147 contributors to the event, at least 125 of which have identified themselves as CVS vendors.

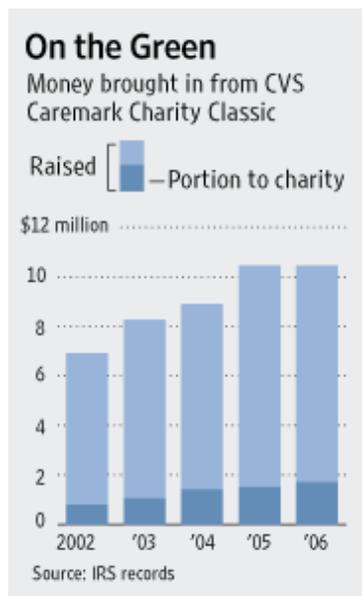
Donors for the 2006 event included drug makers Barr Laboratories Inc., which gave \$160,900, and GlaxoSmithKline PLC, which contributed \$11,560. A unit of Nestle SA that sells bottled water to CVS gave \$76,724. Others included PepsiCo Inc., at \$33,190, and Kimberly-Clark Corp., maker of Huggies diapers and Kleenex, at \$22,500. Those companies didn't dispute their participation.

Some vendors say the event provides relief from strictures against doing something nice for their retailing contacts.

"In today's marketplace, giving gifts to any company's employees -- you can't do it," said Jim Miller, president of QMI Security Solutions, an Itasca, Ill., outfit that sells security grates to stores including CVS. Mr. Miller said he believes retailers adopted tough policies out of a fear that generosity could affect employees' judgment. "At Wal-Mart today, you can't buy them lunch," he said. "Here, you have that opportunity to do it in a very nice setting where you are appreciated and discuss business. When you get done [on the course], the whole company is there with you."

Mr. Miller says he makes a donation annually -- this year it was \$12,000 -- to secure a foursome in the Charity Classic's amateur golf tournament, held ahead of the pro event. He says he picks three CVS employees who work on the QMI account to join him or another QMI executive on the links. "This is very important for their employees," Mr. Miller said. "They really like to play in it."

The golf tournament also solicits sponsors. This year, the top-level "platinum" sponsorship package, for \$120,000, included air-conditioned course-side suites with "scheduled visits from CVS Caremark executives," according to tournament marketing material. CVS wouldn't identify platinum sponsors. Three contributors this year were singled out as "presenting sponsors" in programs and event Web sites -- battery maker Energizer Holdings Inc., medical-products giant Johnson & Johnson and PepsiCo.



Johnson & Johnson and PepsiCo. both said CVS is an important partner and that the event provided an opportunity to support New England charities. Energizer didn't respond to requests for comment.

Martini Flumes

This year's gala dinner and auction, held June 23 in Newport on the lawn of the Breakers mansion built by the Vanderbilt family, drew 1,000 guests. At a \$27,000 drink station, Ketel One apple martinis, cosmopolitans and lemon drops flowed through six flumes in an ice sculpture. The Pointer Sisters played. Lehman Brothers Holdings Inc., which is representing CVS in its current \$2.6 billion bid to take over Longs Drug Stores, was listed as the performance's sponsor. (Lehman's advisory business has since been purchased by Barclays PLC.)

Under a giant white canopy, vendors ate filet mignon and mingled with CVS managers before the auction for the seven golf-vacation packages.

Five of the trips fetched a total of more than \$600,000. Hammer prices for the other two trips couldn't be determined; bidding for those lots started at \$35,000 and \$50,000.

KKM, the Rhode Island company that represents manufacturers that don't have sales forces, paid to be one of the Charity Classic's sponsors. It also bought one of the auction packages, said Mr. Malmberg, its president. The "European Spa, swimming, yachting and riding" vacation promised accommodation for two couples for four nights at the private Carnegie Abbey Club on Narragansett Bay in Rhode Island. "This item includes two CVS Caremark executives of your choice as your guests," the auction program stated.

The program placed the fair-market value of the trip at \$30,000. Bids opened at \$50,000. Mr. Malmberg declined to say how much he paid. For his guests, he said he picked CVS's vice president of merchandising, Mike Bloom, and another vice president. CVS declined to make Mr. Bloom and other executives available for interviews.

The event "gives us a chance to talk to guys we don't get to ordinarily talk to," Mr. Malmberg said. But he added that the benefits are intangible. "I can't say I wrote an order at the event," he said.

The trip that featured CVS chief Mr. Ryan as a guest -- a game for four at the Liberty National Golf Club, a private New Jersey club that features views of the Statue of Liberty and the Manhattan skyline -- went for \$130,000. Another lot was a three-night stay for four at the Bandon Dunes Golf Resort in Oregon, with transport on a CVS corporate jet. The special guest for this trip was Larry Merlo, president of the CVS pharmacy business. It sold for \$110,000.

CVS declined to identify auction winners. Nestle Waters North America, which sells Poland Spring water to CVS, says it has been a past winner.

'Shades of Unethical'

Michael Levy, the director of Babson College's Retail Supply Chain Institute, said that allowing vendors to buy trips for executives who are in the position to influence business decisions on the vendors' behalf was "shades of unethical."

Mr. Levy says most big retailers generally let employees "accept something of minor value for a birthday or

Christmas," he said. "When it goes beyond that, it starts corrupting people's judgments."

The Charity Classic's 2006 tax filing reported revenue of \$10.5 million. It gave away \$1.7 million to charities, or about 16% of the total cash the event took in. By comparison, the charity for South Carolina-based supermarket chain Bi-Lo LLC, which receives most of its revenues from the Bi-Lo Charity Classic golf tournament, gave away \$3.2 million in 2006, or 56% of its revenue. CVS competitor Rite Aid Corp. sponsors its own annual charitable golf tournament, which made donations of \$1.7 million, or 53% of its revenue.

"This event is very much about marketing and making people feel good," says Ken Berger, president of Charity Navigator, an organization in Mahwah, N.J., that studies the efficiency of charities and reviewed the IRS filings of the Charity Classic. "The actual amount going to charity compared to what is being turned out is really poor and pathetic."

Harvey Kamil says his company has won several trips at the CVS auctions, but said he didn't think the donations had helped boost his sales to the chain. The president of NBTY Inc., a Ronkonkoma, N.Y., company that supplies CVS with Nature's Bounty and house-branded vitamins, said he and other NBTY officials had been joined by merchandising vice president Mr. Bloom and other executives.

"We actually did a lot of business" on the trip he attended, Mr. Kamil said. But if his company fails to deliver competitive products, he added, the drug-store chain "will throw me out."

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Corrections and Amplifications:

A chart that accompanied this article showed incorrect figures on the percentage of revenue that goes to charitable giving at Best Buy Co., CVS, Kroger Co., Rite Aid Corp., Target Corp., Walgreen Co. and Wal-Mart Stores Inc. A corrected chart appears here:

A Correction

This corrects the revenue-percentage figures that were published in a chart with a Sept. 24 page-one article on CVS Caremark Corp.

Charity Outlets

Total charitable giving in 2007 by CVS and other big retailers

	In millions	As percentage of revenue	
Target	\$169.0	0.267%	
Kroger	160.5	0.229	
Walgreens	46.0	0.086	
Wal-Mart	296.0	0.080	
Best Buy	25.3	0.070	
CVS	32.9	0.043	
Rite Aid	1.7	0.010	

Source: the companies; charitable giving is for the latest full year reported by the companies, ranging from years ended March 3, 2007 to Feb. 2, 2008. Revenues used for calculation were for the same year as the charitable giving or for the fiscal year closest to the year of giving.

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