

## **"Pay to Play" Atmosphere for Suppliers at Annual CVS Caremark Golf Outing Raises Questions**

### **Intentions May be Good, but Suppliers Can Buy Access; the Exception to the Rules**

**SCDigest Editorial Staff**

Like many retailers, drug store chain CVS Caremark has strict policies to prevent suppliers from using gifts and other "freebies" to influence buyers and other company managers and executives.

Some firms can take such buyer-supplier "ethics" policies to absolute levels. Wal-Mart, for example, won't even allow vendors or potential vendors to pay for a lunch meeting – Wal-Mart employees cover their own tab at such get togethers.

But the Wall Street Journal last week reported that CVS, at least, makes one big exception – the CVS Caremark Charity Classic, a PGA tour event in Rhode Island sponsored by the retailer.

At that event, suppliers can use charitable contributions to get access to CVS executives.

This year, for example, KKM LLC of Lincoln, R.I., a "manufacturer's rep" firm that represents other sellers to CVS, paid at least \$50,000 for a weekend of yachting and golf with two top CVS officials during the tournament.

"Some CVS insiders have complained that the Charity Classic promotes a "pay to play" system, according to people familiar with the company," says the Wall Street Journal. CVS allegedly "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," the article states.

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To be clear, even this report does not allege CVS benefits directly from the contributions, which ultimately go to various charities.

The CVS ethics policy prohibits all but extremely 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.

Contributions to the event were \$2.45 million in 2006, according to that year's tax filing. That filing also showed there were 147 contributors to the event, at least 125 of which have identified themselves as CVS vendors.

Is this a procurement ethics issues – or a tempest in a teapot? One of the issues may be that CVS CEO Thomas Ryan is an avid golfer, and appears to be very involved in driving the participation and support for the contribution program in both suppliers and CVS employees. In most cases, the CEO's interests inevitably has an impact on decisions down the line.

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The Wall Street Journal article makes clear that many CVS vendors believe they are getting their money’s worth.

For example, KKM's president **John Malmborg** says, “The event “gives us a chance to talk to guys we don't get to ordinarily talk to.”

Other suppliers note that the contact and setting do offer some advantages, but that ulti-

mately they still have to deliver for CVS in terms of products and supply chain integration regardless of contributions to tournament related events.

“In reality, it probably isn’t a major factor in decision-making,” Gilmore added. “If this was a private company, you’d say “Let them do whatever they want.” As a public company though, they have a duty to make the best business decisions they can for shareholders – and this at least opens the possibility that other sourcing decision factors are involved.”

