



CEO EXCHANGE PROGRAM #407 TRANSCRIPT

**“DOWN ON MAIN STREET: The Bank and the Drugstore in the 21st Century”
FEATURING KENNETH D. LEWIS AND THOMAS M. RYAN**

**TAPED ON APRIL 12, 2006 AT THE HOWARD UNIVERSITY SCHOOL OF
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TEASE

Main Street USA: these days, the bank, the drugstore, most likely owned by a huge conglomerate. But CEOs say they can blend down home values with modern day trends. From the Howard University School of Business in Washington, DC, Bank of America’s Ken Lewis, “Leaders have to demonstrate that they will do what they ask others to do,” and Tom Ryan of CVS, “we’re trying to help seniors. We’re training our pharmacists.” That’s next on CEO Exchange.

SPONSOR SPOT

Funding for CEO Exchange is provided by SHRM (the Society for Human Resource Management). In today’s knowledge-based economy, the nature of work has changed. Once driven by materials and machines, success is now powered by people. Competitive strength is no longer only tied to physical resources, but upon workforce talents. SHRM believes that the power of people is not a cost to be managed, but an asset to be leveraged.

OPEN

One world, many ideas, inspiring the next generation, shaping trends and forging the future, ideas that change the way we live. CEO Exchange. And now your host, Jeff Greenfield.

JEFF GREENFIELD

Hi. Thank you very much. And welcome to CEO Exchange. I’m Jeff Greenfield. I want you to picture, if you will, just about any town or city in America. Even if there is no traffic light on Main Street, there probably are two types of businesses: a bank and a drugstore. But our guests today do not run the corner drugstore or the friendly mom and pop bank you might remember from *It’s a Wonderful Life*. That would be a

little bit like calling Exxon Mobil a gas station. Actually, both of these companies that are with us today have followed the mantra, bigger is better. And our two CEO guests have played a major role in their expansion.

Their companies offer so many products and services that they barely even look like the bank or drugstore of a couple of decades ago. One more significant link, the future well-being of both companies is bound up with two of the biggest, most complex concerns of our time: for one of them, the cost and availability of healthcare and for the other, the financial and economic health of the nation.

CVS, borne as Consumer Value Stores, has more drugstores and fills more prescriptions than any company in the United States and that is welcome news to its CEO, a former pharmacist himself, whose strategic blending of growth and customer friendly service proved to be the right prescription for success. We're going to be talking with Tom Ryan, Chairman, President and CEO of CVS in just a couple of minutes.

But first, Bank of America., who seems determined to live up to its name. With nearly 6,000 branches all across the country, Bank of America has more customers than any other bank. It holds nearly 10% of all U.S. deposits. By growing up in a blue collar home in the deep South, CEO Ken Lewis, not only learned the value of a buck, but also the value of people of all backgrounds, who work hard for their money.

KENNETH LEWIS BACKGROUND PACKAGE

JEFF FLOCK, CEO EXCHANGE

Did you envision a room like this when you joined this company 37 years ago?

KEN LEWIS

No, I can't say that I did. I, I wish I could say that.

JEFF FLOCK

Ken Lewis gives us a tour of the vast Bank of America trading floor at their Charlotte Corporate Headquarters. Hundreds of employees, phones to their ears, tapping keyboards, making money for the nation's second largest bank.

Are people nervous here now that you're walking through?

KEN LEWIS

I, I – just may maybe a little.

JEFF FLOCK

Lewis is known by B of A's 176,000 employees, particularly the ones who surround us here, as tough, no-nonsense, no excuses.

You have a reputation of expecting performance. You don't tolerate people who don't come up to the standard.

KEN LEWIS

No, that's – and, and that's not because I'm a bad guy.

JEFF FLOCK

Did anyone say that?

KEN LEWIS

No, no, but –

JEFF FLOCK

The truth is, that as tiny North Carolina National Bank grew into the behemoth Bank of America, some saw Lewis as a ruthless cost and job cutter.

HUGH McCOLL, FORMER BANK OF AMERICA CEO

He was a man and is a man that when you gave him a job, he got it done.

JEFF FLOCK

Hugh McColl, the retired Chairman and CEO who created the modern Bank of America, spotted the former credit analyst early, and tapped him to make acquisitions work. Like the time he asked Lewis to run new operations in Florida.

HUGH McCOLL

I said, when can you go, and he said, "When you're through talking to me."

JEFF FLOCK

Where does that come from? Not everybody has that attitude, you know?

KEN LEWIS

There is, you know, an inner competitiveness and I, I don't know exactly who that came from, but I have it.

JEFF FLOCK

Can I suggest your mother?

KEN LEWIS

I would, if I had to guess, that would be a pretty driving force.

JEFF FLOCK

She was a nurse.

KEN LEWIS

She was a registered nurse, yeah.

JEFF FLOCK

A single mother, who raised Lewis and his sister in Meridian, Mississippi, worked double shifts and set high standards. Like the time the now 59-year-old Lewis told her, he had been made a Corporate Officer.

KEN LEWIS

The first thing she said was, "Well how far away is that from President?" I assumed she meant of the company.

JEFF FLOCK

He got that job in 1999, became CEO in 2001 and kept acquiring: MBNA last year and Fleet the year before for more than \$80 billion dollars. Taking on his New York competitors on their northeast home turf, and making Bank of America the biggest consumer bank in America. Nearly 6,000 branches, 16,000+ ATMs.

This is the second largest trading floor of its kind in the country. The people you see here aren't on the phone with Bank of America's 50 million consumer customers. They're on the phone with the institutions and this is the area of the business that Ken Lewis really wants to see B of A grow.

MARA DER HOVANESIAN, BUSINESS WEEK

Part of the problem is that again, with Bank of America, it's an American bank, it's U.S.-based and it doesn't have a broad – I mean it doesn't have a global reach.

JEFF FLOCK

Lewis is working on that, buying nearly a quarter of a Mexican bank, hoping to grow already strong relationships with a Hispanic market in the U.S. and taking a 10% stake in the China Construction Bank.

MARA DER HOVANESIAN

I think there's a lot of risk there and a lot of the analysts have said, "You know, what is he doing?"

JEFF FLOCK

Now you are a bad guy when it comes to competitors though, aren't you?

KEN LEWIS

Well I hope so. I, I don't necessarily want any of them to like me. And I don't, I don't mind a little fear rising when they hear Bank of America.

JEFF FLOCK

Lewis says he wants Bank of America to be the biggest and the best, not just the best bank, but the best company in the world. His mother would be proud. For CEO Exchange, I'm Jeff Flock. in Charlotte, NC.

JEFF GREENFIELD

Ladies and gentlemen, please welcome the Chairman, President and CEO of Bank of America, Ken Lewis.

APPLAUSE

JEFF GREENFIELD

Come on up. Welcome

KEN LEWIS

Thank you. It's good to be here.

JEFF GREENFIELD

One of the things that you have brought to the business is a certain sense of competitive drive. Would that be a fair statement?

KEN LEWIS

Yeah. One of our core values is winning. (laughter)

JEFF GREENFIELD

But what interests me about that is, it seems in your case, that it's not much of a mystery where that competitive drive came from. In reading your biography, I mean, your mom seems to have been determined, you were raised, I guess, she raised you as a single mother for most of your life. She was determined that you were going someplace.

KEN LEWIS

Yes, she was. And, and, and she, you know leaders have to demonstrate that they will do what they ask others to do. And, and my mother was a registered nurse and worked double shifts most of my early life, and raising my sister and I. So, she was demonstrating some, you know, some work ethic there too. And therefore, as she demanded of me, what can I say? She was – you know, I saw it firsthand.

JEFF GREENFIELD

But I gather she was pretty clear that you were supposed to be on the top of that pyramid, in whatever company – in whatever job you took.

KEN LEWIS

She did. And, I tell the story, Jeff, that when I became Officer at--back then it was called NCNB--and I called her and said, "Mother, I just made Officer" and she says, "Well, how far away is that from President?" (laughter) And I assumed at the time she meant president of the bank. (laughter)

JEFF GREENFIELD

Well, you're still young, you know, there's an open presidency in a couple of years. The other thing I don't in any way mean to compare what I went through with – there's a genuinely hard scrabble background, but I remember vividly having a terrible job one summer, deadening, 9 to 5, filing. Just, just killed the soul. And I remember it, almost like Scarlett O'Hara in *Gone with the Wind* when she shakes her fist at the sky and says, "I'll never be hungry again." I actually consciously remember thinking, I don't care what it takes or how hard I have to work, I'm never going to have a job like this in my life. I'm wondering, all the work you did, before you were a teenager, whether it was door to door greeting cards, selling shoes, Al Bundy taught us that's not the most wonderful job in the world (laughter). You know hauling stuff out of freight cars. Did you consciously think to yourself, I'm going to get somewhere in life where this is going to be a memory, not my future?

KEN LEWIS

Well, one of the very first jobs I did have was selling Christmas cards door to door, and actually it was door to door in a trailer park. And I learned right away, this is not what I want to do, and I'm going to do lot better than this over time. So it – that impression, and impressions you're talking about, really hit me very early in life.

JEFF GREENFIELD

One of the things that I think people are most curious about is how a CEO spends his time and what he focuses on. And I gather that, unlike some of your contemporaries, you spend a great deal of time focusing on what's called human resources. Why do you do that?

KEN LEWIS

Well if I can just take care of that first step, that is, getting right people, keeping them, letting them grow in the business, that's about 99% of my job.

JEFF GREENFIELD

And when you, when you deal with this area, when you look for people who have whatever quality you think is critical to getting everything else done, is there a magic bullet you're looking for?

KEN LEWIS

We look for enthusiasm. You know, people had rather be around enthusiastic people than cynical people. And so, that, many times that, that level of enthusiasm with the hard work, with the intellect, actually differentiates you as an individual from others.

JEFF GREENFIELD

One of the things that changed your life, I gather, was coming under the gaze I guess, of a kind of legendary banker--your mentor, I guess--Hugh McColl from North Carolina National Bank. Was that a happy, fortuitous accident? Or was it because he

saw something in you, because of work that – a specific job that you done and said, “Ahh, I like that kid.”

KEN LEWIS

Well, it, when I came to work for NCNB at the time, as a credit analyst, you aspired to be in the National Division run by Hugh McColl, if you wanted to become President some day. And so, it was that drive for me and that acknowledgment that that was the career path that you had to take to get to that other--that top job that it caused me to want to go into the National Division, therefore my association with Hugh over the years.

JEFF GREENFIELD

He seems to have imbued in new guys, a sense that you were the outsiders. That there were people in New York and California in big office buildings that might not think you were up to it, and that that was a spur for the competitive drive. Did it take?

KEN LEWIS

Oh it did. And and some refer to it as kind of a chip on your shoulder, and I hate to refer to it that way, because that's kind of negative but there was this sense that we could conquer these worlds, just like the New York and Chicago and California banks could and that we were just as good as they and had the the same kind of work ethic and drive that they did. And as it turns out, we had more. Because we bought most of them. (laughter)

JEFF GREENFIELD

To quote our current President, as he mockingly says this, he says one of his “big advantages is when my opponents misunder-estimate me.” (laughing) He knows he's kidding. Did it help in a way?

KEN LEWIS

Yeah I think it did. I think over time, we had snuck up on a few people. It would be hard to do that now, but I think that's the case.

JEFF GREENFIELD

One of the things you describe as one of the most, I guess, memorable moments of your life, when you were in Atlanta, I think. You were there for the funeral of Martin Luther King, Jr. and you talk about that as a pretty defining moment. How?

KEN LEWIS

Well I was in school at the time, at Georgia State University and so I was a student. And I was on the street when the mule-drawn casket came by and the people walking

in the street and of course, that was just a vivid, vivid memory for me, or a picture for me.

JEFF GREENFIELD

I don't mean to be too, you know, cause and effect, but your company has a pretty good reputation, in fact, a terrific reputation in terms of diversity.

KEN LEWIS

I really can't claim that I began that effort and that commitment to diversity, because it was there when I got there and in some ways, I'm an example of that. Because I didn't have wealthy parents. I didn't have an Ivy League degree and the company allowed me to reach my full potential. And I felt like if they had done that for me, then why would somebody's gender or the pigment of their skin, the color, why would that cause somebody to not be able to succeed as well? And so I really, it's real personal with me.

JEFF GREENFIELD

Let me shift gears a bit to the more hard-nosed or at least basic business kind of question. Your company is famous for bigger is better, size does matter, if I can put it that way on PBS. You've acquired (laughter) – well it's all right. You've acquired – acquisition is the key strategy. In some of these acquisitions it has been the product that a lot of people wind up being laid off. A couple of months ago, the CEO of Valero, an energy company that was big in acquisition, proudly said, "We've never laid anybody off." Is that as far as you can say, is it a necessity? Is it a brutal fact of life in the business you're in?

KEN LEWIS

It's a brutal fact when there is over capacity. And in the banking industry, there still is and has been for some time, over capacity.

JEFF GREENFIELD

When you found yourself in a position where there was a real edge. I'm thinking particularly of the acquisition of Bank of America and some tension between you guys. As a CEO, do you picture yourself as somebody in a battle? Do you try to look for common ground?

KEN LEWIS

It's all about communication and you just try to have some empathy and understanding, because it's not easy for that other person to be in the position that they're in. And one that you referred to, this was when Nations Bank bought the old Bank of America and then moved the headquarters, took the name and moved the

headquarters to Charlotte, North Carolina. And, you don't have to be very empathetic at all to be empathetic to that and understand there are going to be some issues and some feelings, and you have to work around them. And actually, the greatest example of how that progresses, when I first did a town hall meeting, in Giannini Plaza, in San Francisco, most of the people sitting in the arena were—arms, you know the body language was bad. They didn't laugh at my jokes. They (laughter) and it was a tough one. The last time I was there and this is, you know, some time after, I walk in, standing ovation. So you know it's going to get better.

JEFF GREENFIELD

Before meeting our second guest, we want to take a couple of questions, as I mentioned from some students here at Howard.

FROM THE AUDIENCE

Good afternoon. My name is Michelle [...], I'm a junior marketing major, Howard University School of Business from Chicago, IL and I wanted to know how your recent merger with MBNA is going to affect job opportunities, knowing that there is a plan to cut approximately 6,000 jobs between both MBNA and Bank of America?

KEN LEWIS

Well remember, while that is true, we hire 50,000 people a year. And so, the first thing we'll do is, we'll eliminate positions that aren't filled and secondly, we will allow those that are affected to look around the company and post, and see if there is another match for their skill set. So while 6,000 positions will be eliminated, you know the less and less people that are affected the better, and we try very hard at that. But having said that, we're growing every single business segment that we have and we're building branches and we're adding premiere bankers. We're adding investment bankers and so the company actually is growing employment, other than this one reduction because of the credit card combination.

JEFF GREENFIELD

Thank you. This is a major credit card company you have bought?

KEN LEWIS

Correct. It makes us the largest credit card bank in the country, or the world for that matter.

JEFF GREENFIELD

Well you'll probably be repossessing some furniture of mine any day now. (Laughter) Ken Lewis is going to be back with us shortly after we meet our second guest. For now, Ken, thank you very much. We'll see you in a couple of minutes. Don't go away.

APPLAUSE

JEFF GREENFIELD

Our next guest also grew up in a blue collar family, and he thought he was doing pretty well when he became a pharmacist at CVS, little did he know. Just like Ken Lewis, Tom Ryan's career took off when he caught the attention of a powerful mentor, Stanley Goldstein, who founded CVS.

By acquiring chains like Eckert, and Save-On, Ryan CVS stores now reach across the continent and that raises this question: can a company that has grown so big, still make its customers feel that they come first?

THOMAS M. RYAN BACKGROUND PACKAGE

"Hi, how are you?" "Good. How are you doing today?" Tom Ryan and CVS have grown up together. Originally known as Consumer Value Stores, CVS morphed from a small New England chain into the top retail pharmacy in the U.S. "I always get a rush when I go back to our pharmacies."

He started at CVS as a pharmacist, right after graduating from Pharmacy School at the University of Rhode Island, where now there's a Ryan Center Basketball Arena. His early passion, growing up in New Jersey, was sports. "I wanted to be Mickey Mantle. I grew up a Yankee fan. Who doesn't want to be Mickey Mantle?" Ryan played high school basketball and baseball, but he wasn't good enough to play at the college level. So he looked for other careers. "I was a delivery driver for a local independent pharmacy. And that's how I got into it." It turns out that career choice was just what the doctor ordered. CVS co-founder Stanley Goldstein, gave him his first big break.

WILLIAM SYMONDS – BUSINESS WEEK

They actually had a vacancy in the pharmacy, the department there, and he was the acting head. And then he was doing such a great job, Mr. Goldstein asked "why can't we just make him the permanent director?" And they said, "Well he's too young. He's only 29." He said, "Well, he'll grow into it."

By 1994, Ryan was CEO of the drugstore chain. He and Goldstein went on an acquisition spree. They bought out Revco Drugstores, then Ekert, and this year, Save-On and Osco Stores in Chicago and California. The result, CVS has quadrupled in size in just the past decade. Friends like real estate developer, Paul Choquette, say Ryan isn't likely to slow down either.

PAUL CHOQUETTE – CHAIRMAN, GILBANE INC.

I think he's one of those executives that never stops thinking about the business. When he's at leisure, when he's out to dinner, that brain is working all the time. Thinking about things that he can do to move that company ahead.

Ryan has had his challenges, such as a sharp drop in sales in 2001 that forced the closing of more than 200 stores. CVS returned to health quickly, and now has more

stores than Walgreens. But Walgreens makes more money with its focus on selling mass merchandise, whereas 70% of CVS's sales are in the pharmacy. But what single item is the biggest seller at CVS? "Actually Hershey chocolate is our biggest selling item." Followed by Marlboro cigarettes. CVS just signed an agreement with the State Attorneys General to work harder at preventing cigarette sales to minors.

"Maybelline is hot." Ryan has made an intense study of his customers. And it turns out that more than 80% of them are women.

CECI RODGERS, CEO EXCHANGE

One secret to CVS's success is narrowly targeting its products to three prototype women. Market research told Ryan they wanted lower shelves, wider aisles, and more upscale products, like Lumene, a cosmetic from Finland.

Back at the pharmacy, robots dispense pills, so pharmacists can spend more of their time explaining the new Medicare program to senior citizens. "My mother is 86 and I said, 'what are you going to do?' She says, 'well I'm waiting to talk to you.'"

Even if customers can buy cheaper generic or Canadian drugs, Ryan isn't worried. After all, CVS started as Consumer Value Stores, and wound up having the last laugh on most of its competitors. For CEO Exchange, I'm Ceci Rodgers, in Wakefield, Rhode Island.

JEFF GREENFIELD

Ladies and gentlemen, please welcome the Chairman, President and CEO of CVS Corporation, Mr. Tom Ryan.

APPLAUSE

JEFF GREENFIELD

I was remembering literally, just a half hour ago, this errant thought popped into my mind. When Bob Kerrey, the Senator from Nebraska was running for President, he was meeting with a bunch of us journalists and he was a pharmacy major. And John Chancellor, late of NBC News, asked Senator Kerrey, why were you a pharmacy major? And Bob Kerrey, who has a wicked sense of humor said, "John, it was the 60s." (laughter) Now I suspect that's not your answer, but –

TOM RYAN

I'll tell you, I will tell you this. I didn't inhale. (laughter)

APPLAUSE

JEFF GREENFIELD

Okay, so more seriously, why choose that?

TOM RYAN

You know, I don't know. People ask me that question. I was good in math and science and I worked in a drugstore as a delivery boy and I played basketball and baseball and in the off season I worked as a delivery boy. And I kind of liked it and he said, well he knew this place, the University of Rhode Island, and this was in New Jersey and I went up there and looked at it and filed for early acceptance and next thing I knew I was in pharmacy school.

JEFF GREENFIELD

But I think actually that is a very instructive story, because I hear from a lot of people that the choices they made, sometimes didn't sit down and do careful calculations or it wasn't necessarily a driving ambition. It just happened and –

TOM RYAN

Yeah, it doesn't. I mean I'll tell you a quick story about it because once I picked the pharmacy, I think we might have pharmacy students here, but I was in my third year of pharmacy school. At that time, it was five years and I was taking organic chemistry.

JEFF GREENFIELD

Ohhhh. (laughter)

TOM RYAN

Oooh (laughter) This we don't like. We don't like it. And was having a tough time and I called my dad up, and once again he was down in New Jersey and I was in Rhode Island, and I called him up and I said, "Dad you know, I'm not sure this whole pharmacy thing is going to work out." And he said "Well what are you thinking about?" And I said, "Well, I'm thinking about teaching. I think I could be a teacher." And he said, "Well, that's a noble profession and it's a great profession, but there's no sense you going up to Rhode Island. You can just come home and live with your mother and I and go to Montclair State." (laughter). I said, "Well, I'll get back to you on that." (laughter) So I ended up sticking it out.

JEFF GREENFIELD

You go to work for CVS, and now it's 32, 33 years later, and you're still there. Was the grass never greener?

TOM RYAN

I was always happy in the job I was in. And I think that's the thing I always tell young people coming up in our organization. I was never looking for the next job.

JEFF GREENFIELD

You weren't?

TOM RYAN

No, I was ambitious, and I knew I just didn't want to stay in that job, but I was always focused on doing the best I could in my existing job and I was fortunate to be in the right place at the right time. You know there is some of that luck obviously.

JEFF GREENFIELD

Was meeting Stanley Goldstein –

TOM RYAN

Yes. Well at this time I was 29 and we had just started the pharmacy business at CVS really. So they were going out searching for a maven with gray hair to head this pharmacy business up. And I guess they had someone from Eli Lilly actually, and he turned them down at the last minute and so, Stanley said to my boss, who at that time, was running store operations, said, "Who's that kid, Ryan, you got over there?" And he said, "Well he's as green as something, I won't repeat it." And he said "Well let's give him a try."

JEFF GREENFIELD

As you were moving up, did you look across and see people who you regarded as potential competitors for the next step up? Was that ever part of how a young person rising in the business thinks?

TOM RYAN

That's natural, yeah. I think it's healthy. You know, you should be ambitious. You should be ambitious. You should take the initiative and at the end of the day, we talk about CVS, how you get ahead at CVS. We call it WIRED. Everything has to have an acronym in business it seems, but ours is WIRED. Means walk the talk, walk the values, you take initiative. You show some initiative to get something done. You focus on results and you have high energy.

JEFF GREENFIELD

When I need something, shampoo or toothpaste, I don't say –

TOM RYAN

Go to CVS. (laughter)

JEFF GREENFIELD

I had a feeling you might say that. (laughter) So you've given me the opportunity. That's not what I say. I don't say I'm going to Duane Reed, I'm not going to Walgreens. I'm going to the drugstore. It's not like people who will line up at Starbucks but not at a different coffee shop. So what do you do?

TOM RYAN

Now that's a great question. We talk about it in our company all the time. Because I mean you can rattle off the drugstores that were here and have gone. I mean the ones we've acquired and others we haven't. And there is a drugstore on every corner. And we always say we're not going to win selling Tagamet and toothpaste. Our issue is trying to be the easiest pharmacy and retailer for customers to use. And it's about our people. We think about being easy. We want you to think about CVS as I can go in, I can get out. I can get good service, good price, and by the way, if I want to spend time and talk to the pharmacist about some issues, I can talk to that pharmacist.

JEFF GREENFIELD

So when you want to have a store where the pharmacist takes time to talk to people, how do you communicate that down from where you are, all the way down through those many many many, what thousands of stores?

TOM RYAN

Our people in the stores are great. Our colleagues in our stores are great. They know how to take care of the business. We need to make sure that we help them so they don't have to jump over the hurdles and put too many hurdles in front of them about around customer service. So, that's what we focus on and that's actually what we have as part of our incentive.

JEFF GREENFIELD

Let me ask you one specific question, because CVS puts a lot of emphasis on, I'm not sure it's the phrase, but you're not a drugstore but a health –

TOM RYAN

Right.

JEFF GREENFIELD

Okay. So let me ask you an impolite question. Why should a health store be selling cigarettes at all?

TOM RYAN

That's the great question. One that I'm not going to answer. (laughing) No. We'll do \$37 billion dollars in revenue as a company and cigarettes represent about 4% of our sales. And a fair amount of it in ancillary sales. We don't promote cigarettes. We don't put cigarettes out in front. It's not self service. We have a special program making sure that we train our store colleagues so they card people, making sure they're a certain age, but you know, the interesting, you can imagine at cocktail parties, everyone has a story about I love your stores, but...there's this one particular cashier who is a problem. Or – so any time you go to a neighborhood party or an industry event, someone will say to me, "You should stop selling cigarettes." My

question to the person is, “If CVS stops selling cigarettes, would you change your shopping patterns and come to CVS?” And the answer is invariably “No.” So we need – we’re not trying to promote it, we’re not trying to extend it, but we need to find a way to differentiate ourselves and until we do, we can’t –

JEFF GREENFIELD

Just competitively, you can’t?

TOM RYAN

Competitively, we just can’t stop.

JEFF GREENFIELD

It sounds, if I may say, that it makes you a little – this is not – this is a little uncomfortable.

TOM RYAN

It is uncomfortable because it’s an issue that our people have talked about and it’s an issue you know I was a former smoker and I’d like to try to be able to get out of it, but we haven’t found a way yet, to be quite honest.

JEFF GREENFIELD

I appreciate the candor. I do. Now once again we’re going to turn to our audience, take a question or two from the students and other members of the audience.

FROM THE AUDIENCE

Good evening, my name is Ryan Graves and I’m a sophomore accounting major within Howard University School of Business, residing at Fort ____, MD. And my question is, with CVS being the leader in retail prescriptions and having revenue exceeding \$37 billion dollars, what was the most important innovative approach in your opinion that your corporation has used to gain such a competitive advantage over the more traditional pharmacy businesses and corporations?

TOM RYAN

Well I think we recognize, I guess, the convenience niche first in retail pharmacy. And in addition to that, we have what we call...it’s a pharmacy benefit management company. So in addition to our retail stores, we also have a \$3 billion dollar business that specializes in specialty pharmacy, which would be drugs for organ transplant, multiple sclerosis, unique diseases with unique drugs. And then we also have a mail order business. So, in other words, I’ll give you an example. We take care of all the prescriptions for all Daimler Chrysler employees. We take care of all prescriptions for Lockheed Martin employees. In addition to having stores in the area. So we try to

have an integrated approach to pharmacy. And you know, to Jeff's point earlier, that's our business. That's our DNA. We don't think about groceries and we don't think about produce. We think about pharmacy and that's our business.

JEFF GREENFIELD

Thanks for the question. I think we have one more.

FROM THE AUDIENCE

My name is Sonya Alice [...]. I'm the Human Resources Director for SES America, located in McClean, VA. My question tonight is on workforce management. With you being the 7th largest retailer in the United States, with approximately 150,000 employees, a huge diverse workforce, how do you manage that workforce in support of your corporate mission?

TOM RYAN

Great question and to add to that 150,000, about 40% of those are part timers. So the challenge that we have as an organization, is to ensure that all our folks understand our mission. Understand what we're trying to do. And the CVS Easy as our folks call it now, is the filter that people use. What can we do to make the shopping experience easy for our customers? So that can be right down to a cashier, it can go to a pharmacist, it can go to the head of IT. They have to be using that kind of mission statement as a filter for what they do every day.

JEFF GREENFIELD

Thank you. Ken Lewis will rejoin us in a few minutes, but first, let's get a guided tour of the Howard University School of Business with MBA students, LaTanya Clark and Jermal Moody.

SCHOOL TOUR PACKAGE

(music) Hi, my name is LaTanya Clark. Hi, and I'm Jermal Moody. And we're MBA students here at the Howard University School of Business.

We are so excited to have CEO Exchange with us here today.

So come and join us as we take a tour of one of the most prestigious, historically black colleges and universities in Washington, DC. (music)

Howard School of Business was formally established in 1970. At that time, the school's faculty consisted of 12 members and now Howard's School of Business boasts of over 80 distinguished and published doctorate members.

Several top business publications have ranked the Howard School of Business at the top of their list, including the *Princeton Review*, which ranked our MBA program #1

for greatest opportunities for minority students, and #5 as having the most competitive students. Howard maintains a very diverse and multicultural campus. A high percentage of international students hail from the Caribbean, Latin America and Africa.

One of our crowning jewels is our simulation, learning and research laboratory, designed to give our students an intellectual advantage in areas of finance and financial engineering.

I can sum up my experience at Howard University in one word – that word is opportunity. Opportunity to build relationships with students and opportunity to build relationships with Fortune 500 companies all around the globe.

Well that's our tour. Thanks for joining us today.

Hey, it's 3 o'clock, I got to get to class. I'll see you later.

Gotta go.

JEFF GREENFIELD

Let's thank LaTanya and Jermal, along with the Howard School of Business with a round of applause.

APPLAUSE

JEFF GREENFIELD

So with their banks and drugstores popping up on corners seemingly overnight, Bank of America and CVS are all about convenience. So for your convenience, we've got both CEOs here together. So Ken Lewis, please come back and join Tom Ryan this time.

APPLAUSE

JEFF GREENFIELD

Welcome back. Thanks for sticking around. You're both CEOs with Fortune 100 companies and you both pursue an acquisition strategy, but there's another comparison that we've talked about, that these folks might want to know about, which is these folks are going for an MBA and the last time I checked, neither of you pursued that course, so is your advice to these people drop out and start working? (laughter)

KEN LEWIS

Actually, when I joined the bank, I had no idea of what I wanted to do. And people said, well a bank is a good place to go, when you don't know what you want to do. (laughter) And secondly, I planned to stay about two, three years, and then go get my MBA. Now 37 years later, I haven't done that, but that was my intention. No, I

wouldn't tell somebody that. I would in this day and time, particularly in the financial services industry and particularly in some segments, investment bank, and wealth and investment management, that's in many cases, a ticket to get to the party. And so you need the MBA.

TOM RYAN

Yeah, I'd certainly agree with Ken. You know, some of this, you're not the master of your own fate, and you don't have a road map. I was married in college, my fourth year of a five-year program. So when I went out, I went to work and made money and I always thought about going back to get my MBA but I never did. But I certainly would encourage my children. I would encourage students who were in the MBA program to certainly pursue that.

JEFF GREENFIELD

Okay so everybody can stay put for a while. (laughter) In terms of acquisition, it strikes me that both of your companies may be running up against certain limits. In your case Ken, there are regulatory limits in terms of what you can do. I think 10% of U.S. deposits. And in your case, I think of the line that Alexander the Great wept, because he had no more worlds to conquer. Where do you go from here to keep growing?

KEN LEWIS

But if you think about Bank of America, we have 55 million consumer customers. And many of them only have one product with us. And so our opportunity for growth is not necessarily an acquisition or even building new branches. It's the embedded opportunity to do more with our existing customer base and so that's the huge opportunity for us. And by the way, you can grow through that 10% cap. You just can't acquire through it.

TOM RYAN

We have about 15% of the prescription market in the country today and it's a fairly fragmented market, the pharmacy industry. If you looked at two top competitors together, it's only 30% share. So there are enormous amount of opportunities. You know, we talk about acquisitions. We certainly acquire, but we also open up our own stores and we open up about a store every 36 hours, a brand new store, one that we didn't acquire. So we're on an organic growth mode and acquisition mode and I'll give you fact: there's 50% of the U.S. population lives within two miles of a CVS. And I don't know why it can't be 75 or 80%. (laughter)

JEFF GREENFIELD

I know one person in that population. She lives within 300 feet of about five CVS stores. But that's a different story. (laughter) Some people have talked about the Pac-Man approach to business. But surely there are, there are particular kinds of judgments you make about whether an acquisition is right. So I'm wondering under what circumstances, even in this mode, have either or both of you said, "No not that one."

TOM RYAN

I say "No" a lot. I mean the old adage that some of the best deals you do are the ones you don't do. It has to be – we look at acquisitions, we don't look at acquisitions for growth. We look to grow acquisitions. It's different than in plugging a business on. If we can't grow that business, the Eckert acquisition, we bought in Florida and Texas, obviously Florida and Texas has huge population growth, huge senior population growth. The issue for us was to get into that market, but then grow it. So we don't – we really look at acquisitions, it has to be in the right market and it has to have the right price and we have to be able to improve it.

KEN LEWIS

This will be hard for people to believe, but we have turned down a lot of deals also. And it varies. It has to be a strategic fit, obviously, just to begin with. Secondly, price is always an issue and then sometimes, we just haven't liked the culture of the company that we were looking at and if we can't have the combined company have our culture, then we won't do it.

JEFF GREENFIELD

The baby boomers -- the first one is hitting 60 years old now.

TOM RYAN

We love that. (laughter)

JEFF GREENFIELD

And as I can testify at that point, certain things require medicine. All kinds of things require medicine. So in some sense, isn't your growth problem solved by all those folks that had babies between 1946 and 1964?

TOM RYAN

Well we're certainly in a growth industry. I mean the demographics are in our favor and the wind's at our back, as they say. Well we're certainly in a growth industry. I mean the demographics are in our favor and the winds at our back as they say, but at

the end of the day you have to execute. Because the wind was at the back of the companies that we acquired. And listen, in this business, Ken's business, you have to take care of your customers and take care of your people. Just to your point, you go into that store that's 300 yards away, you don't care that we have 6,000 stores. That's our challenge.

KEN LEWIS

There are two winds at our back. One is the demographics just as Tom was describing. In our case, it's the opportunity for our wealth and investment management group. That is, to get more investments and more retirement packages into the company, serving our customers. The second one is, 80% of Hispanic population is in our foot print, and that's going to be the fastest growing segment. And it's ours to lose because we still – we bank about 50% of the Hispanic population as we speak and so, that's a big, big focus for us and we know that if - we will not get the growth rates that we want if we don't serve that market well.

JEFF GREENFIELD

I want to turn to a couple of questions. One now from our audience.

FROM THE AUDIENCE

Hi, my name is Kelly Osborne and I wanted to know as we move to a more information age, what you guys are doing besides the things that are regulated and mandated by the U.S. government to ensure that the virtual information that you have on your customers is being protected?

KEN LEWIS

Trust is everything. I mean that's one of our competitive advantages against others. Other industries is that our customers trust us. Best in class is not, is not – can't be what we strive for. Perfection is what we have to strive for in this regard.

TOM RYAN

We envision a world where you're walking around with a little card that has all your healthcare information on it. I mean right now if you were hurt and you walked into the hospital, they wouldn't know what drugs you were taking, what disease states you had, what you were being treated for, which is ridiculous. I can walk into bank and they know exactly what I have, but I can't walk into an emergency room. So at the end of the day, to Ken's point, I mean, to be a trusted healthcare advisor, is what we focus on. It's the paramount issue that we deal with. But it's going to be tougher as we go forward and we're going to have work on that.

JEFF GREENFIELD

It seems to me that both of your companies, in some sense, are held hostage to forces that you have nothing, you can't possibly control. I mean the obvious one with you- and I know you know-it's called the cost of prescription drugs. I know you are heartily sickened about talking about the Canadian drug import question, because you've been asked about it 700 times, but it was kind of interesting that you did kind of break ranks and say this might be a good idea. So let me broaden it. If this prescription drug program produces widespread confusion among, particularly among seniors, it seems to me they take it out at the place where they go get the drugs. They don't fly to Washington and yell at the FDA or the H whatever, they yell at you guys right?

TOM RYAN

Right.

JEFF GREENFIELD

Now is there anything that you can do about this?

TOM RYAN

Well, we spend a lot of time trying to help the seniors cope with it. When the Medicare program was put in place, one of the first calls I got was from my 85 year old mother. And I said, "Well what are you going to do with the program?" And she says, "I was waiting to talk to you." Seniors are just totally confused on the program. At the end of the day, was government was a classic case of government at work. They were trying to do the right thing but it went – when it went from legislation to regulation, it just got kind of lost and our main goal is, instead of wringing our hands, we're trying to help seniors. We're training our pharmacists. We have PCs in each one of our stores, where seniors can come in and give us their list of medications and we can recommend, tell them which are the best plans. But typically, as the government would do, we cannot tell them they should use this plan. Because the government says you can't do that as a pharmacy which I'm not quite sure why.

The government with the Medicare program will be the largest payer of prescription drugs now in the country. And when – any time the government gets into your business, I worry. And you know we grew up in a business that was regulated. It was the pharmacy business so you had the FDA and the Boards of Pharmacy and the DEA, so that was not a problem. They understand our business. It's when people and government get into your business that don't understand your business, so that worries me.

JEFF GREENFIELD

But in that realm, and I suppose to some extent, this is inevitable, as your companies have grown, you've had your problems with public authorities. There have been civil suits, there have been settlements. You've had to disgorge money or pay back fines. The argument that people like New York Attorney General Elliott Spitzer would make, is look, I'm all for capitalism, but we exist to enforce a level playing field and fair rules. We want to make sure huge companies don't take advantage of people who clearly are not in an arm's length position to deal with you. Is that a misplaced notion?

TOM RYAN

No, I don't think it's a misplaced notion. I think it's – I just look at some of these suits and some of these cases that are brought with a little jaundiced view. To me it's not coincidence that a fair amount of the Attorney Generals that are bringing cases are running for higher office.

JEFF GREENFIELD

Okay. Fair enough. (laughter) Would you like to assent to that, Mr. Lewis?

KEN LEWIS

No, I'm trying to separate my chair from – (laughter). My issue personally, and I guess my company, in many cases, is we have so many regulators, and what bothers us is for one regulator or one entity to get into somebody else's domain and so, you know, we have the OCC, the Federal Reserve and the FDIC regulating us, and then we have a city attorney or state attorney coming and having their opinion of things, and I think that has to be straightened out, and that's the biggest issue that we have and kind of along those lines, we're a national bank. And so we don't mind tough laws. We just want one.

JEFF GREENFIELD

If someone were to say, look, one of the things the government can do is to use its bargaining power, which the current law forbids it to do, to keep prices down, use the volume that it has, like any other purchaser, and I guess in your area, I can hear people say, look, one of the things the government ought to be doing is, for instance riding hard on a bank that say redlines. That won't extend credit to individuals or businesses because they're in minority areas. Does that now – that doesn't strike me --either is unreasonable in either of those points.

KEN LEWIS

Yeah, I agree. I mean there's certain things as a bank that we should be doing and certain things that we should not. And actually I, the CRA our CRA activities and the law itself I think is a great thing.

TOM RYAN

And I think the government – I think free enterprise in the marketplace works. I think if the government is buying the largest volume of prescriptions, they should be able to negotiate.

JEFF GREENFIELD

You do?

TOM RYAN

I have no issue with that at all.

JEFF GREENFIELD

Got another question?

FROM THE AUDIENCE

My name is [Howard student] and I am junior finance major from [...]. And Ken, my question is centered on China. Do you see the Chinese government allowing foreign investors to acquire controlling stakes in both the regional and national commercial banks? And secondly as well, do you guys intend to get a broker/dealer license considering that your major competitor has just done so?

KEN LEWIS

Yeah the broker/dealer license we probably will not do. We have an agreement with China Construction Bank, the bank that we have a 10% interest, that we will not compete with them directly particularly on the consumer side. But with regard to the ownership, I think it is probable that some of the smaller banks, that here will be – the government will allow them to have 100% or have foreign entities on 100%.

JEFF GREENFIELD

Thank you. Is international something that that is, beckoning in a big way?

KEN LEWIS

No, I think China was just the obvious opportunity, because it's China and and we saw a good opportunity to invest in a bank, and we thought at a very early stage and hopefully make a lot of money, and then also, I have a strategic relationship with them.

JEFF GREENFIELD

We have one more from the audience on this go around. Please.

FROM THE AUDIENCE

Thank you. Good evening. My name is [...]. I am a junior information systems major from [...] here at Howard University School of Business. As the trend of overseas outsourcing grows, I wonder what in your opinions the responsibility for maintaining employment opportunities here in the U.S. Does that responsibility lie with your employees? In terms of constantly enriching their skill base? Or does it lie with the employers in terms of job enrichment and job enlargement? Or does it lie with the government in terms of legislation? To protect jobs here at home?

APPLAUSE

TOM RYAN

I think it lies with the first two. Not the third. (laughing)

JEFF GREENFIELD

Were you surprised? (laughter)

TOM RYAN

At the end of the day if you're with a winning company and a profitable company, that's the best career you can have that creates opportunities. So whether it's – whether companies are looking to outsource certain pieces of their operation so that they can grow other pieces, that's just a fact of life. And we have to compete globally. And at the end of the day you want to be with a successful organization.

JEFF GREENFIELD

If I were to call Bank of America with a question, will I get somebody in Bangalore? Am I likely to?

KEN LEWIS

Not likely, Not likely, but it's possible.

JEFF GREENFIELD

So how much do you outsource?

KEN LEWIS

We have about 2000 people now in India and I look at it holistically and if you do that, then you can see some give and take. We're opening a hundred branches

probably this year. We're adding some two or three hundred premiere bankers. We're adding to our IT staff in the U.S. And we may outsource a thousand jobs to India. But in net, because we're able to do that, and save money we can invest in our other businesses and grow those businesses. So if you look at the net, the 1000 people investment in India, allows us to do so much more because we can do it more cheaply and more effectively there. So always when you look at these things don't just isolate them but look at the whole picture and it really becomes a pretty good picture.

JEFF GREENFIELD

We're going to wrap this up with an effort to kind of expand everybody's horizons and we call this the lightning round because these are very short questions that require short answers that are almost free association. So, here we go. When was the last time you got really angry and what, if anything, did you do about it at work?
(laughter)

TOM RYAN

Actually this afternoon before I flew down here. It was an internal situation and got angry and went in my office, thought about it and then went back out and was still angry. (laughter)

KEN LEWIS

Not that long ago, I had wanted to come to a conclusion on an issue and have a decision made and we were still meeting on it and that engendered bureaucracy and big is bad kind of things and that really bothered me.

JEFF GREENFIELD

And you handled it how?

KEN LEWIS

A decision was made very quickly. (laughter)

JEFF GREENFIELD

Okay do you ever call in sick? Can a CEO do that? It's a beautiful spring day and you say I love my job, I love my work I'm devoted. Today I just want to enjoy it. Can you do that?

TOM RYAN

You can do it. Who would I call into? (laughter)

APPLAUSE

JEFF GREENFIELD

This is why I'll never be a CEO. (laughter)

KEN LEWIS

For 37 years, I've had the privilege of getting up every day and wanting to go to work .I mean I love what I do and ...

JEFF GREENFIELD

A place that you've been to, a vacation that really sticks in your mind as one of the most memorable places you've ever seen?

TOM RYAN

My wife and I went to China with Ron Zeigler, who was Richard Nixon's press secretary. And so we saw China a little different than some others. So that was a memorable experience because Nixon was revered in China because he opened it obviously up to the West.

KEN LEWIS

Cap Ferat, South of France.

TOM RYAN

The bathing suits? (laughter) Was it the bathing suits?

JEFF GREENFIELD

I'd like you to try and finish the sentence: "Before I get too old or infirm, I really want to _____."

TOM RYAN

Break 70 on the golf course. (laughter)

JEFF GREENFIELD

I should have known that.

KEN LEWIS

Enjoy golf. (laughter)

APPLAUSE

JEFF GREENFIELD

And if you had one last meal, what would it be and where would you like to eat it?

KEN LEWIS

Pepperoni pizza, South of France. (laughter)

TOM RYAN

Um, KFC with my family. (laughter)

JEFF GREENFIELD

I'm expecting these nine course meals at Televant, or Per Se and I get hot dogs, pepperoni pizza, and KFC, which may be more insight into the mind of a CEO than anything else I've heard (laughter). I don't know. Or they just figure it's one last meal, the hell with the cholesterol. That's my theory. (laughter) Anyway, as much as we'd like to follow your lead and acquire another hour or so, PBS doesn't work that way. So we have to close our doors for the day. My deep thanks to both of you gentlemen, Ken, Tom, from the Bank of America and CVS for sharing these new developments on Main Street with us. And if this meeting of the minds has helped contribute in any way to the world's marketplace of ideas, that's the business of CEO Exchange. I'm Jeff Greenfield. Thanks so much for watching. Appreciate it. Take care.

APPLAUSE

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