Cardinal Health Corporate Strategy

Cardinal Health traces its roots back to 1971, when it began as Cardinal Foods, a food distribution firm. Cardinal recognized limited prospects for growth in food-distribution early on, and after a series of mergers consolidated the industry in 1979, the firm sought to diversify. Cardinal Foods acquired a small Ohio drug distributor that year, planting the seed for a pharmaceutical distribution segment of its business that was to grow wildly and ultimately dominate the food-distribution wing of Cardinal’s business. In 1988 Cardinal Distribution turned its full attention to its pharmaceutical distribution segment, and grew from a strategy of diversification and acquisitions into an industry leader with $65 billion in revenues by 2004. It renamed itself Cardinal Health in 1994 to reflect its new focus.

Born of acquisition, Cardinal Health has at various points in its history depended heavily on a strategy of acquisition. Its history may be divided into three different periods of growth: early growth by acquisition, growth by diversification, and a second period of intense acquisition.

Its early growth period carried Cardinal Health through the 1980s with a strategy characterized by concentration and consolidation. During this period Cardinal acquired “more than a dozen drug distributors,” thus concentrating its presence in its core business segment.¹ These acquisitions made Cardinal Health a national presence with $6 billion in revenues by 1994. The firm had grown significantly, but its scope had not yet widened.

This was followed by a middle period characterized by a strategy of diversification. During this second growth spurt, beginning around 1998 and lasting until 2000, Cardinal Health made efforts to widen its scope by focusing on new business segments like cardinal.com, its online services segment. It was also during this period that Cardinal
Health made its first ventures into biotech with the development of its pharmaceutical technologies segment.

Most recently, Cardinal has entered a period of intense acquisition. The firm went on a corporate spending spree in 2001, acquiring 13 companies for $13 billion. Among them was Bindley Western, a wholesale distributor that also provides nuclear pharmacy services nationally, with three sites in North Carolina. The strategy spilled over into 2002. Thus this latest period of growth has been different from earlier periods in terms of both quality and scale. Where the first two periods focused on distinct strategies of either consolidation or diversification, during this period Cardinal made a series of acquisitions that accomplished both. It was also vastly greater in scale than any of Cardinal’s other expansions, bringing in 19 companies over a period of only three years. Just days before this corporate profile was written in December 2004, Cardinal combined with two subsidiaries—Alaris and Pyxis—to form the Cardinal Health Clinical Technologies and Services Group.

Currently, Cardinal Health is organized into four major segments: pharmaceutical distribution, pharmaceutical technology, medical products, and back office and information services. The new clinical technologies business will add a fifth element. The pharmaceutical distribution segment remains its largest and most profitable, though its growth rates have slowed compared to other segments. Additionally, its acquisition strategy over the last decade has looked increasingly to enlarging segments other than distribution.

A look at Cardinal Health’s revenue structure reveals its most competitive segments. Pharmaceutical distribution accounts for a whopping 84%, while pharmaceutical...
technology and development accounts for less than 4%. However, the pharmaceutical technologies segment grew the most in 2004, at 25%, thanks to the most recent spate of acquisitions and strong sales. This indicates that while the role of biotechnology may remain small, it is rapidly growing in importance. The recent biotech acquisitions also suggest that biotechnology has become a core aspect of Cardinal’s growth strategy for the future.

North Carolina fits into Cardinal Health’s corporate strategy in a number of segments. The firm maintains a rather diverse presence in the state, including staffing services, nuclear pharmacies, and a biomanufacturing plant in Raleigh. This presence is actually quite recent, and has grown over the last few years as Cardinal has expanded its pharmaceutical technologies division. The firm gained a 75,000 square foot biomanufacturing facility and separate pharmaceutical development facility in Research Triangle Park as recently as 2002 when it acquired Magellan Laboratories, Inc., a major contract pharmaceutical development organization. Compared to its global employee population of 55,000 workers, however, only 380 of Cardinal’s employees are located in North Carolina. About 42% of Cardinal’s employees are outside the United States, and its various business segments are headquartered in cities around the U.S., including Houston, San Diego, and Dublin, Ohio.

Cardinal Health located portions of its organization in North Carolina because it pursued a strategy of acquiring some of the top firms in biopharmaceutical and pharmaceutical development, products, and services during its last two growth spurts. As Cardinal Health continues to expand into biotech through its pharmaceutical technologies business segment, North Carolina will continue to be attractive for its benefits as a
biotech cluster—established infrastructure, specialized workforce, and organizational
synergies. If Cardinal continues its pattern of growth by acquisition, the best way for
North Carolina to attract more of Cardinal’s business is to continue facilitating the
development of smaller, innovative companies already in the state.

References


2 Ibid.

3 Website accessed 12/01/04: http://www.cardinal.com/aboutus/history/index.asp#Timeline

4 “Cardinal Health Alaris Products; Maker of software for drug delivery systems combines resources, changes name.” Biotech Week. Atlanta: Dec 1, 2004. p. 145

5 Datamonitor (fn. 1)

6 Ibid.

7 Ibid (p. 10)

8 Website accessed 12/01/04: http://www.cardinal.com