

competitors combined. It handled prescription benefits for nearly three million individuals and provided automated pharmaceutical deliveries to four million patients a day. These new businesses generated a huge revenue stream with profit margins far greater than those in Cardinal's core business, but they also reinforced and bolstered the core business and gave Cardinal the best distribution margins in the industry. Between 1992 and 2002, Cardinal's revenues, operating profits, and market value grew at double-digit rates, far outpacing its closest competitor.

## ACQUISITION HISTORY: BUILDING LAYERS OF COMPETENCE

- 39** Cardinal's history is one of aggressive growth through acquisitions. They grew primarily through acquisition and absorbed fifty-plus companies beginning in 1980, more than half of these between 1998 and 2002. Exhibit 5 shows Cardinal's acquisition history. During 2000 and 2001, Cardinal averaged an acquisition once every six weeks. Cardinal's strategy had been the acquisition of well-run companies in adjacent markets. The first venture into the pharmaceutical industry began with the acquisition of a local pharmaceutical distributor, Zanesville, in 1980, and a name change to Cardinal Distribution, Inc. Cardinal soon expanded nationwide by swallowing other distributors, including two pharmaceutical distributors headquartered in New York and a Massachusetts-based pharmaceutical and food distributor. Given the extensive consolidation in the food industry, Cardinal executives decided to narrow the focus of their business exclusively to distribution of pharmaceuticals. By 1988, Cardinal had sold its food group, including Midland Grocery Company and Mr. Moneysworth, Inc., to Roundy's (hoovers.com).
- 40** Drug distributors joined the rest of the pharmaceutical industry in the rush toward consolidation during the 1990s. Cardinal's acquisitions in those years included Ohio Valley-Clarksburg in the mid-Atlantic region, Chapman Drug in Tennessee, PRN Services in Michigan, Solomons Co. in Georgia, Humiston-Keeling in Illinois, and Behrens in Texas. One of Cardinal's most important acquisitions during this period was its cash purchase of Whitmire Distribution in 1994. Whitmire was the U.S.'s sixth largest pharmaceutical wholesaler; the purchase bumped Cardinal into the position of third largest. At that time, the company changed its name to Cardinal Health, and Melburn Whitmire, Whitmire's former president, became Cardinal's vice chairman. Cardinal Health had become the primary wholesaler for top drugstore chains, such as industry leaders CVC, Walgreen's, Kroger, and Kmart.
- 41** While the traditional pharmaceutical distribution business would remain their core, Cardinal then began incremental geographic expansion and growth into the larger health care industry, of which pharmaceutical distribution is a part. In 1995, Cardinal made its biggest acquisition up to that time when it purchased St. Louis-based Medicine Shoppe International, the largest franchiser of independent retail pharmacies. At the time of the purchase, Medicine Shoppe had 987 U.S. outlets and 107 abroad. A 1996 stock swap brought the company Pyxis, which provided hospitals with machines that automatically distributed pills to patients. Pyxis also provided pharmacy management services to hospital pharmacies. More than 90 percent of the hospitals in the U.S. used Pyxis' point-of-use systems to dispense more than four million prescriptions a day. This was an example of Cardinal's focus on higher-margin services when compared to its closest rival, McKesson. Cardinal was also the largest manager of hospital pharmacies in the U.S. (Gallagher). Later that year, Cardinal bought PCI Services, a pharmaceutical packaging company. In 1997, Cardinal acquired Owen Health Care, a provider of pharmacy management services. They tried to acquire Bergen Brunswig—later acquired by competitor Amerisource—but the deal was blocked by the Federal Trade Commission (hoovers.com).

- 42 Cardinal continued to expand beyond marketing and distribution when it acquired R. P. Scherer, the world's largest maker of softgels. They also bought an idle Schering-Plough plant in hopes of attracting biotechnology firms needing product development assistance and clinical supplies production and large pharmaceutical companies looking to outsource their product manufacturing business. Geoffrey Fenton, Cardinal's public affairs vice president, commented, "We're not in the business of pharmaceutical research, but we see the contract manufacturing of biologics as a rapidly growing area, and the purchase will certainly make Cardinal a better upstream partner" (West).
- 43 In 1999, Cardinal bought Baxter's Allegiance division, the largest manufacturer and distributor of medical, surgical, and lab supplies such as instruments, disposable surgical gloves, and gowns. This acquisition made Cardinal the leading distributor of surgical devices (with a market share of more than 30 percent) and increased its value as a one-stop shop for health providers. As a result, Walter—who demanded that his businesses must be number one or number two in the marketplace and the low-cost producer—commented, "When we go to a hospital, we can offer a broader array of services than our competition, and each is a market leader." Cardinal also announced plans to buy Automatic Liquid Packaging (ALP), which packaged liquid pharmaceuticals for companies such as Pfizer. ALP was successfully acquired. Then, in 2000, Cardinal announced plans to start an online health products marketplace called [newhealthexchange.com](http://newhealthexchange.com) with McKesson, AmerisourceBergen, Fischer Scientific, Owens, and Mino (West). A key rival was taken out of commission in February 2001 when Cardinal acquired Bindley Western Industries, one of the bigger regional firms that had rivaled the Big Three.
- 44 Walter outlined his core strategy and vision for the future in the 2001 Annual Report. "Strong internal growth combined with meaningful acquisitions and significant partnerships all contributed to the strong growth of last year. Every manager at Cardinal understands that opportunities are found in all three areas. First, we expect our businesses to outgrow its respective market by 50 percent each year. . . . Second, we spent nearly \$3.0 billion on 13 acquisitions. Each acquired company met our standard of being outstanding by itself, fitting closely into our strategy, and making Cardinal collectively stronger for the future. And third, we created long-term partnerships with providers and manufacturers and created incremental value for both partners."
- 45 The June 2002 acquisition of Syncor made Cardinal Health the largest pharmaceutical wholesaler in the U.S. The Syncor acquisition gave Cardinal Health a leading position in the nuclear pharmacy business, which was growing as radiopharmaceutical techniques were used more frequently in diagnosing diseases. Syncor had more than half of the nuclear pharmacy services market and also had medical imaging, manufacturing, and radiotherapeutics operations. In addition, they compounded and dispensed nuclear medicines used in diagnostic and therapeutic uses for heart diseases and cancer. Syncor had a network of more than 120 U.S. and 20 overseas nuclear pharmacy service centers (Tanzer; [hoovers.com](http://hoovers.com)).
- 46 The Syncor acquisition came on the heels of the acquisition of Magellan Laboratories, a pharmaceutical research and analytical firm, in a string of acquisitions that were integrated into an outsourcing services business covering all steps in dosage formulation, from early analytical stages through commercial-scale manufacturing for oral and sterile systems (Mullen; Morse). Richard Shaw, a health care industry analyst at A. M. Best Company, commented, "They're doing the same thing that managed care did several years ago. They're accumulating critical mass and leverage over all the other players they deal with" (Mullen).
- 47 Cardinal's pattern of growth through acquisition had not been haphazard—their acquisitions had been guided by Walter's clear vision of future possibilities and uncanny ability to recognize strategic inflection points. First, Cardinal built wholesale distribution competency in the food industry. This was followed by incremental expansion of the

**EXHIBIT 5 Cardinal Acquisition History 1980–2007**

Acquisition Date	Company Name	Operating Sector
05/12/80	The Bailey Drug Company	Rx Distribution <sup>1</sup>
09/14/84	Ellicott Drug Company	Rx Distribution
01/20/86	John L. Thompson Sons & Co.	Rx Distribution
04/30/86	James W. Daly, Inc.	Rx Distribution
01/20/88	Marmac Distributors, Inc.	Rx Distribution
06/18/90	Ohio Valley-Clarksburg, Inc.	Rx Distribution
10/15/91	Chapman Drug Company	Rx Distribution
04/01/92	Medical Strategies, Inc.	Rx Distribution
05/04/93	Solomons Company	Rx Distribution
12/17/93	PRN Services, Inc.	Rx Distribution
02/07/94	Whitmire Distribution	Rx Distribution
07/01/94	Humiston-Keeling, Inc.	Rx Distribution
07/18/94	Behrens, Inc.	Rx Distribution
11/13/95	Medicine Shoppe International, Inc.	Rx Distribution
05/07/96	Pyxis Corporation	Automation <sup>2</sup>
10/11/96	PCI Services, Inc.	PTS <sup>3</sup>
03/18/97	Owen Health care, Inc.	Rx Distribution
02/18/98	MediQual Systems, Inc.	Automation
05/15/98	Comprehensive Reimbursements Consultants, Inc.	PTS
08/07/98	R.P. Scherer Corporation	PTS
02/03/99	Allegiance Corporation	Medical-Surgical P&S <sup>4</sup>
04/01/99	Surgical Instrument Repair Services	Medical-Surgical P&S
05/20/99	PHARMACISTS: PRN, Inc.	Rx Distribution
05/21/99	Pacific Surgical Innovations, Inc.	Medical-Surgical P&S
06/04/99	The Enright Group, Inc.	Medical-Surgical P&S
06/25/99	Pharmaceutical Packaging Specialties	PTS
06/30/99	AutoValet Systems Intl—product line purchase	Automation
07/12/99	MedSurg Industries, Inc.	Medical-Surgical P&S
08/25/99	Herd Mundy Richardson Holdings Ltd.	PTS
09/10/99	Automatic Liquid Packaging, Inc.	PTS
11/18/99	Trimaras Printing Company	PTS
12/30/99	HelpMate Robotics, Inc.	Automation
01/21/00	Contract Health Professionals and Pharmacists-Ance, Inc.	Rx Distribution
07/19/00	Rexam Cartons, Inc.	PTS
07/26/00	Dermatology division from Advanced Polymer Systems, Inc. (Enhanced Derm Technologies Inc.)	PTS

**EXHIBIT 5 Cardinal Acquisition History 1980-2007 (Continued)**

Acquisition Date	Company Name	Operating Sector
08/16/00	Bergen Brunswig Medical Corp.	Medical-Surgical P&S
09/01/00	ENDOlap, Inc.	Medical-Surgical P&S
11/01/00	Ni-Med kit manufacturing (from Oak Medical Inventories LLC)	Medical-Surgical P&S
11/01/00	CurranCare, LLC	Medical-Surgical P&S
12/15/00	Manufacturing facility in Humacao, Puerto Rico from Alcon (Puerto Rico) Inc.	PTS
12/22/00	VegiCaps from American Home Products Corp.	PTS
01/02/01	International Processing Corporation	PTS
02/14/01	Bindley Western Industries, Inc.	RxDistribution
02/26/01	Astra-Zeneca Plant in Corby, UK	PTS
03/16/01	Critical Care Concepts	Medical-Surgical P&S
03/23/01	American Threshold	Medical-Surgical P&S
03/28/01	FutureCare	Medical-Surgical P&S
06/29/01	SP Pharmaceuticals, LLC	PTS
10/23/01	Purchase of Manufacturing facility in Raleigh, NC from Schering-Plough Animal Health Corp.	PTS
11/15/01	Professional Health-Care Resources	Medical-Surgical P&S
01/07/02	Eon Media, Inc.	Automation
04/15/02	Megellan Laboratories	PTS
06/26/02	Boron, LePore & Associates, Inc.	PTS
8/15/02	Atlantes Services	PTS
11/05/02	KVM Technologies	PTS
1/01/03	Syncor International Corporation	PTS
10/01/03	Gala Biotech	Biopharmaceuticals
10/29/03	The Intercare Group	Pharmaceutical Mfg.
12/02/03	Medicap Pharmacies	RxDistribution
02/17/04	Beckloff Associates	Biopharmaceuticals
07/07/04	ALARIS Medical Systems	Medical-Surgical P&S
05/23/06	Denver Biomedical	Medical-Surgical P&S
06/01/06	The F. Dohmen Company	RxDistribution
07/18/06	MedMinded, Inc.	PTS
06/28/07	VIASYS Health care	PTS

<sup>1</sup>Pharmaceutical Distribution and Provider Service<sup>2</sup>Automation and Information Services<sup>3</sup>Pharmaceutical Technologies and Services<sup>4</sup>Medical-Surgical Products and Services

distribution competency into the pharmaceutical industry. Cardinal built critical mass as a wholesale distributor of pharmaceuticals in the U.S. and then expanded internationally. They also gradually expanded their value chain position in both directions, partnering with both suppliers and customers to incrementally add value for both. Cardinal had anticipated the *tsunami* of change in the health care industry and positioned itself to meet health care customer and supplier needs at the higher-margin end of the business. The company had changed so dramatically since it first came into Walter's hands that when he looked around for someone from the early days to toast the firm's 25th anniversary, there was no one left. Walter, a press-shy, modest fellow, commented, "I had a beer by myself to celebrate" (Morse).

## CARDINAL'S FUTURE

- 48 Walter knew that the long-term future for the company he had built was far from certain. There were many unanswered questions. What could cause Cardinal's incredible growth to slow? Would customers or suppliers migrate into their market niches? What obstacles would Cardinal encounter as they continued to pursue international expansion? Would their business model work in other countries? Would they have collaboration opportunities with suppliers from low-cost countries? Would India—with low-cost suppliers and world-class IT services—pose a threat? Would their business model continue to be sustainable in the face of global competition? Was their "even better future" within grasp, or was it elusive? Walter wondered if Cardinal would have to reinvent itself one more time, and if he would stay around to guide the transformation. As he took the podium, Bob Walter told his managers, "We are builders, and we aren't done yet" (Speer).

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