

Internal and external analysis of cardinal health, inc.



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Cardinal Health, Inc.

Cardinal Health is a multinational technology industrial company focusing on providing healthcare services and medical products. Their pharmaceutical segment distributes generic, specialty, and over the counter medication. The medical segment of Cardinal Health produces medical devices and products which are sold in markets worldwide. Cardinal Health was incorporated in July 1982, in Ohio (Mergent., n. d.). The headquarters for Cardinal Health is currently located Dublin, Ohio. As of 2018, Cardinal Health has 7, 817 shareholders (Mergent., n. d.).

External Analysis:

When conducting an external analysis for the company, the center of attention will be on one of the major industries Cardinal Health participates in, medical devices. The company sells products that are medical related, surgical tools, and items found in laboratories. In Appendix A you will be able to find an in-depth analysis of Porter's Five Forces for the medical device manufacturing that is found within the industry. When looking at the manufacturing industry within the medical device sector, the biggest threats to the company participants within the industry include the threat of rivalry and the bargaining power of the buyers within the medical device industry. To gain more control over others within the same industry, larger businesses take over businesses that are smaller. The result of this takeover is the idea that the industry is becoming consolidated and is condensing. This raises awareness and focuses on a possible concern that medical devices are becoming an industry that sees substantial growth as the years pass.

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The bargaining power of buyers is looked at as a threat to this industry due to the fact that corporations that are large are able to use their power to bargain prices that are lower than they are found to be for the original market pricing. This is found to be an issue when looking at the manufacture of medical devices and the way that the devices are processed within the industry. One thing that is growing in the medical device industry is the demand. This is due to the idea that medical needs are on the rise and this leads to the increase in need of medical devices. When it is brought to our attention that there are very few small corporations making a way through the industry, we are reminded how the large took over the small. When having a small company takeover, it is doubtful that the buyers who appear to be the most important within the industry will be able to enter.

A strategic group is known to be a group of various companies who all have an alike business model or business strategies for how their business operates. Small companies are ones who have less than 20 employees (Curran, 2018). We find small companies to be the most common in smaller areas where they specialize in the development of technology. In order to grow and expand their company, larger operations take over these smaller companies. An advantage for the larger companies is the idea that depending on which company they take over, they may inherit new technology that they might not have had before. Taking over smaller companies has not always been the case. In fact, medium size operators are now being taken over. This helps us form the relationship between the larger the company, the higher the revenue within the company. While this may continue throughout the future years, we will find a higher competitive

advantage when it comes to smaller operations (Curran, 2018). When looking at Cardinal Health and seeing how many individuals are employed through them, I believe it is safe to say that their company is a large operation. Cardinal Health is an employer for approximately 50, 200 individuals (Mergent., n. d.).

One of the major macro-environmental trends for this industry is the fact that there are regulations. These regulations are set by either governmental agencies or various international groups. One of the most important regulating officials is the Food and Drug Administration (Curran, 2018). The FDA has laws in place that regulate a variety of different factors that go on in the development, production, and marketing sectors. They have regulations set on how testing is conducted, how the products are labeled, as well as how they are marketed. We can also consider the health care reform to be a major macro-environmental trend. As stated previously, the medical device industry is on a rise. The demographics are changing within the United States, as well as all around the world. Keeping this in mind, the idea of having a rise in this industry is creating an advantage.

Internal Analysis:

The return on invested capital (ROIC) for Cardinal Health is 13. 25% as of March 2019. The companies ROIC has seen a been following an increasing pattern over the last five to seven years (Cardinal Health Inc., n. d.). Cardinal Heath have found themselves to have a competitive advantage within the market. The products that the company have to offer is helping them make a statement within the industry. These medical products are in high demand

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for the industry as medical devices, surgical tools, and laboratory products are things we need daily in hospitals and other medical offices. The products that Cardinal Health are producing have been exceeding all of the expectations that consumers have set for them.

We can infer that Cardinal Health finds their strengths through their ability to have advanced technology on the market. This is helping pave a way to help solve some of the world's largest complications when it comes to medical issues. Another strength is that the products they are producing are valuable. With the idea that they are involved in multiple industries, their impact has no limitations on the world today. The revenue for Cardinal Health as of June 2018 was \$143, 520, 000, 000 (Mergent., n. d.). Since they have markets anywhere from medications to medical devices, they are easily able to influence the markets. The products that are being produced are non-substitutable, which is another factor for the company. There is no way out of purchasing these products if you are a company who would use them in your business. While there are cheaper options to buy through bargain purchasing power, you will not be able to replace the product. With the new and somewhat rare medical conditions that are being found today, this is an industry that is increasing at a steady rate.

With strengths, come weaknesses for Cardinal Health. One weakness for this company is the fact that their total stockholders' equity has decreased over the years. In 2017, the company had a stockholder's equity of \$6, 828, 000 which decreased to \$6, 059, 000 in 2018 (Mergent., n. d.). That is a \$769, 000 decrease from one year to the next. Another weakness for Cardinal Health is the idea that their products are easy to replicate. There isn't
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anything that sets the products that Cardinal Health makes apart from any other company as it is not impossible to produce a copy of the devices.

Business Level Strategy: Cardinal Health is able to make their company stand out from others in this industry by acquiring various subsidiaries in the market and increasing the differentiation. They can grow as the demand in the various industries are growing, which helps them have a competitive advantage. The various subsidiaries under Cardinal Health spread over 12 countries, while they serve over 100, 000 different businesses. While acquiring these subsidiaries are come with a cost, it is necessary when trying to increase the number of products they are able to produce. When considering the position of the company on the efficiency frontier, Cardinal Health has higher costs which places them on the left side of the efficient frontier curve. They also are considered to have differentiation which would place them on the on the far-left side of the efficient frontier curve.

Cardinal Health is primarily focused on the pharmaceutical segment within the company. This segment of the company is where they receive the largest part of the company's revenues that they take in every year. When looking at data from 2011 to 2018, the pharmaceutical sector's annual revenue has been significantly higher than the medical sector's revenue each year. In 2018, the pharmaceutical side of the company received \$121. 24 billion, while the medical side only received \$15. 58 billion (Cardinal Health annual revenue, 2018). The business level strategy found within the company primarily focuses on differentiation, with the idea that they are able to provide unique features in their medical devices and provide high quality

medicines in the pharmaceutical segment. They are always finding new innovations and providing high customer service within the company.

One key trade off that Cardinal Health imposes is the idea that they have more of a focus on their pharmaceutical costs that they do investing in the medial. In order to continue being the second largest pharmaceutical dealer that is located in the United States, they have to limit the variety of products that they produce in the medical device industry. While they are able to make enough products to supply their customers, their range and variety of products that they produce are limited. They also have to impose the idea that in order to keep up with the new medical discoveries that are being found today, they will need to consider newer applications of the drugs they are producing. With the idea of having something new come about in the company, they will either have to invest more in their costs or eliminate older medication that they have been making and not selling as much of. With this, comes the suggestion that they will need to trade off the older medication and implement newer ones.

One business level strategy suggestion for the CEO of Cardinal Health is to focus on one specific kind of medicine. They need to either focus on looking for the newest ways to cure diseases and create medicines that nobody else on the market have created or continue to produce the medicines that they have been successful with and discover better ways to improve the already formulated medicine. Another business level strategy suggestion for the CEO would be to expand on the medial devices industry. The medical device industry is one that is increasing in its demand. While this is also true for the pharmaceutical industry, if they would have a better handle on this industry, <https://assignbuster.com/internal-and-external-analysis-of-cardinal-health-inc/>

their company would excel more than they already have. We need medical devices in order to accurately prescribe the pharmaceutical drugs, giving us a cause an effect situation. The better the equipment we use, the better the medicines that are prescribed can be.

Corporate Level Strategy:

Appendix A:

Risk of Entry When dealing with fixed costs and taking them into consideration, it is estimated that purchasing is the largest expense in the industry taking up 35% of the costs. When looking at the net fixed asset ratio for Cardinal Health, the ratio was 3.42% (CAH | Cardinal Health Inc. Profile, n. d.). It is important to highlight the fact that economies of scale is a significant factor in this industry since the medical devices that are being used are prominent. The companies in this industry do not have to worry about brand loyalty because it is uncommon for a business to only buy one brand of products. Typically, they will buy the best quality for the cheapest price they can get their hands on. It is also uncommon for an individual who is being treated at these businesses to choose a particular doctor because of the equipment that he/she uses. Switching costs is something that companies do not usually worry about due to the fact that if a price is higher now, they will go back to using the previous product. You can also infer that the risk of entry into this industry is low. Simply because the regulations set by the government is not something you can work your way around.

Whether your business is ten years old or you are just looking to enter the industry, you must follow these guidelines that the government has set. Each

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of the medical devices that are produced are required to pass a series of tests. These tests include making sure the marketing is correct, the item has proper labeling, and having to monitor the performance of the device (Curran, 2018).

The Threat of Rivalry There are a few companies for which Cardinal Health views as their key competitors in this industry. Those competitors are Johnson & Johnson (5.88%), McKesson Corporation (3.6%), and Covidien LTD (5.15%). Cardinal Health's market share is 7.13% for the quarter (CAH's Competition, n.d.). With the growing population size, it is only expected that the demand for this industry will also rise. This industry was once viewed as an industry that was fragmented, although is now seen more as a consolidated industry. Companies have chosen to consolidate to put themselves in a more cost-efficient place in the market.

Bargaining Power of the Suppliers In order to purchase supplies, you have to find manufacturing companies who sell medical devices. These suppliers are not relying on just the medical device industry as their main source of revenue. Since the medical device industry is larger than many others, they are not limited to selling only certain products. Cardinal Health is able to purchase an abundance of products from their key suppliers. There have been various suppliers who have decided to enter this industry.

Bargaining Power of the Buyers It is important to consider hospitals and distributors key buyers in this industry. The single largest market for this industry in particular is hospitals, they make up 35.9% of the share themselves (Curran, 2018). This is something that will never really fade,

since the demand for hospitals is increasing and the size of the hospitals are growing. Main buyers are able to enter the industry due to that fact that they can improve their company while lowering their expenses.

Substitutes and Complements Finding perfect substitutes for this industry is not easy, especially when you are dealing with a variety of high-tech devices. Each device has their own purpose which makes it hard to cut corners. At the end of the day, hospitals and doctors' offices need this equipment. In return, this makes the threat of substitutes for this industry to be low.

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