

Diplomat – From Family-Owned Community Pharmacy to NYSE IPO!

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By Phil Hagerman, Chief Executive Officer & Chairman of the Board, Diplomat Pharmacy

Diplomat's transition from a family-owned corner drugstore to public company traded on the New York Stock Exchange (NYSE) took place over many years, yet at times it feels like it happened in the blink of an eye.

The first point of note is that for the majority of my time as CEO, being a public company was not a part of our plan. That said, it is surprising how well our business plan and strategy set us up to be what we believe will be a long-term, successful public company.

My goal as Diplomat's CEO has always been to build a company that could make a difference. I believed if we stayed focused on the patients, we would create opportunities that would support our growth. As we grew, we began to recognize and identify areas beyond traditional specialty pharmacy distribution where we could grow. This was a critical step in our evolution. As our capabilities grew and expanded into retail, hospital and pharma services, we recognized we could fill a significant void in the industry. The void existed because there had not been a publicly traded specialty pharmacy that was not part of a larger company (pharmacy benefit manager, chain and wholesaler) since Medco acquired Accredo in 2005.

Even with this recognition of the void in the industry, we did not make any quick decisions about becoming a public company. What we did decide was that if we ever wanted to go down the path of an IPO, we would have to continue to grow and in some areas to reinvent ourselves. In a business class I had previously taken, I learned of and believed in a business concept of "ceilings of complexity." It taught that as companies grow, they reach levels where their current processes and people will not support continued growth. At this point, growth will slow or stop unless the company "reinvents itself" by finding new methods or processes. For Diplomat, that "reinvention" mostly came in the way of new people.

By finding business leaders who had been in diverse health care organizations and bringing them into Diplomat, we could break through the ceilings of complexity and continue rapid growth. We did this over and over. To create this reinvention and continue to grow nationally, we had to also look nationally for the talent to engineer the ongoing reinvention. Today, our executive team goes well beyond the core of our home state of Michigan. Our executive leadership team comes from Michigan, Dallas, Houston, Los Angeles, San Francisco, Minneapolis, Bentonville, Chicago, New Jersey and Wisconsin. We are growing proof that people are the key to continued success.

Talent and Culture Fit

But the search for leadership was not just about talent; it was equally about culture and fit. Talent alone will not move a business forward, and I continue to believe bringing in great talent that does not fit your company's personality and culture often can do more harm than good. This is not easy and no one I have met gets it right 100% of the time. So it must become an ongoing effort and often requires hard choices to ensure continued success.

In the journey to find talent and cultural fit, I believe CEOs must look beyond their own comfort zone and skills set. It is easy to let the status quo remain the bar. It is what we know. But bringing in deep content experts in areas of great opportunity is what makes reinvention successful. During a recent meeting, a friend and business leader spoke of "the gravitational pull of the status quo." It is hard to break away from and rise above the status quo, and the job of new leadership is to create a new status quo, a reinvented state. At Diplomat, we continue to look at each leadership area as an opportunity to gain traction and market share. This process at Diplomat, over five to 10 years, is what prepared us to become a public company. But once we made the decision to launch an IPO, we did not stop the process. We did just the opposite and worked extensively just before and after the IPO to augment our team. We do not intend to stop reinventing ourselves!



An important part of our business journey came about two years ago when we first started talking to banks and advisors about our long-term company goals and whether launching an IPO was the right move. Some of the best advice we received was that organizations that are best positioned for long-term success as a public company have multiple options and an IPO is only one of them. We realized we needed to always focus on the core belief that got us here – take great care of patients, one patient at a time.

This discipline to stay focused on our core capabilities, along with expanded offerings around the core services, created exciting choices for us. We were positioned so that we did not need to make any financial moves to continue to grow. We could remain a private company. We were also well positioned to bring in investors or even sell to a strategic buyer. But we felt that ultimately becoming a public company offered the greatest future potential. Emerging trends in the industry also help drive our timing for the IPO. The expanding biotech drug pipeline, emergence of small biotech as a major player, the increasing cry for more transparent business models and the need for new technology solutions created a perfect storm of opportunities that helped to drive our decision to pursue the IPO.

Moving forward, we are thrilled with our position as the only public specialty pharmacy that is independent of larger company ownership. We are committed to never forget what got us here-focusing on one patient at a time. Ultimately, our success will continue to be driven by the continued process of leadership acquisition and reinvention.

Specialty Pharmacy is a ride I look forward to every day!