

BAIN & COMPANY

Winning

Globally

in the New

Health Care

Marketplace

Health Care Viewpoint

Number 1

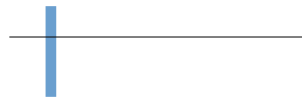


Bain health care expertise

As the year 2000 approaches, the health care industry is still turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.



the
world is changing

Market forces in the U.S. continue to drive change in local health care delivery. Outside the U.S., national health care systems are imposing significant price and utilization constraints. Research innovation is increasingly centered in Europe and Japan. New emerging markets are opening up with tremendous long-term potential.

This changing environment is forcing companies to rethink every element of their strategies and business processes.



The New Paradigm:

Five Imperatives

1 Business Segment Leadership

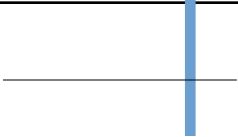
The historic profitability of the health care supply industry has allowed even followers to earn attractive returns. However, turbulence changes the rules of the game. The health care industry is likely to emerge from this fundamental restructuring with lower average returns and a wider spread between the performance of leaders and followers. Superior returns will go to the competitor that has established segment leadership. Winners will aggressively screen their business portfolios and either exit non-leadership businesses or make acquisitions or alliances to establish leadership.

2 Re-focusing R&D

Changing regulatory and market requirements continue to shift the basis of competition in new products from features and clinician relationships to system-wide costs and outcomes. The focus of new product introduction is moving from the U.S. to Europe and even to Japan. R&D investment dollars should be aggressively shifted to winning the time-to-market race for products that can deliver lower costs and better outcomes. Market introduction dollars should be shifted toward Europe and Japan, with the objective of demonstrating superior outcomes and economics.

3 Global Penetration

Most major pharmaceutical and medical device companies understand that R&D scale demands global sales. However, most markets continue to be fragmented country by country. Declining profitability of the U.S. market, regionalization (NAFTA, Europe), and the opening and growth of the Far East, Eastern Europe/FSU and Latin America are creating opportunities for those companies that can lead the penetration and consolidation process.



4 Re-inventing U.S. Sales and Distribution

The penetration of managed care in the U.S. is fundamentally changing both the buyer and the decision criteria for all health care products. The traditional model – product detailer calling on clinician – is losing power to the payer, the distributor, the consumer and the purchasing group network. Fundamentally new sales and distribution approaches are required. These approaches must be tailored to a company's product portfolio and customer strategy.

5 Re-engineering the Cost Structure

The historic price insensitivity of the clinician decision-maker has allowed health care product manufacturers to grow earnings while increasing costs and prices substantially above inflation. The first rounds of announced restructurings have targeted the easy cost excesses. Becoming the low-cost supplier will be increasingly critical and will require companies to zero-base all business processes and costs.

Summary:

With the changes occurring globally in health care, it is easy to focus on the challenges. The reality is that for those companies that take a leadership role in identifying and realizing the opportunities that exist within the global dynamics, the future can be a period of tremendous growth, resulting in rewards for shareholders, customers and employees.

Bain is one of the world's leading global business consulting firms. Its 2,400 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 26 years, covers a complete range of critical business in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customized strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

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