

BAIN & COMPANY

Turning Industry
Turbulence
to Advantage—
Lessons From
Other Industries

Health Care Viewpoint

Number 7



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.

turbulence in the health care industry

All players, whether suppliers, distributors, providers, or payers, in all geographies, are being forced to re-examine their customer offerings and sources of competitive advantage.

Although the health care industry is unique, there are important lessons that can be learned from other industries that have experienced turbulence.

Lessons from Other Industries

Differentiating Performance and Overturning Leadership

Historically, health care companies have shown relatively narrow differences between top and bottom performers. Other industries that enter turbulent periods with similar profiles emerge with lower average returns and much higher differentiation between the top and bottom performers.

Furthermore, turbulence frequently overturns industry leadership, driving changes in both the industry structure and the dimensions of competitive advantage. Often, the leader who has the assets to win, and therefore the most to lose, does not drive the new competitive paradigm.



Redefining the Basis of Competitive Advantage and Superior Returns

Health care is experiencing fundamental industry turbulence. Pharmaceutical companies, physicians, and high technology medical device companies, all of which have traditionally experienced superior returns, are restructuring.

The traditional vertical value chain (supplier, distributor, provider, payer) is being challenged by new horizontal models. And, as best practices and capabilities are transferred globally, the traditional country boundaries and industry structure models are being rethought.

Health care turbulence will shift sources of superior return, increase differentiation of return, and require new competitive models in all segments.

Turning Turbulence to Advantage, a Five Step Process

Studies of winners vs. losers during turbulent periods indicate management can influence a majority of the success factors; external forces and the constraints of initial business positions are not sole determinants.

Winning management teams tend to share a number of characteristics: an external focus, an innate dissatisfaction with the status quo, an organization preconditioned to rapid redeployment, and a long-term horizon.

To create an organizational culture that will thrive during turbulence, management teams should work as a group to:

- 1) Understand the likely impact of future trends on their current business position;
- 2) Develop a proprietary view of future markets, identify opportunities for competitive advantage, and monitor critical uncertainties;
- 3) Creatively develop 3–5 major strategic options;
- 4) Select a strategic course based on a rigorous evaluation of today's starting points and future market scenarios; and
- 5) Create and clearly communicate a strategic migration path that focuses actions, responds to market changes, and builds organizational capability and commitment.

High Payoff From Turning Turbulence to Advantage

Industry turbulence drives huge changes in shareholder value, both upward and downward. Dramatic swings are already occurring in health care, with significant future upside for those who apply the lessons learned by winners from other industries during turbulent times.

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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