

BAIN & COMPANY

**Managing for
Leadership
During Industry
Consolidation**

Health Care Viewpoint

Number 3



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.

business **profitability** will increasingly depend on leadership

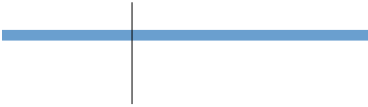
The historic profitability and growth of the health care supply industry have allowed even followers to earn attractive returns. Global market dynamics are likely to lead to much more differentiated profitability and to continue to create pressures for consolidation.

In the future, superior returns will go to the competitor that has established business segment leadership. Lessons from other turbulent industries indicate that the winners will be those companies that proactively manage their business portfolios to create leadership in the businesses on which they choose to focus, and to exit those businesses that cannot be driven to leadership.



Managing for Leadership During Industry Consolidation

The health care supply industry has historically enjoyed profitability and growth of over twice the average of all other industries. In many industry segments, four to six (or more) companies have earned their cost of capital or better. As competitive forces accelerate, health care supply will likely perform more like other industries, with the market leader earning returns greater than cost of capital, the number two position earning its cost of capital, and all others realizing inferior returns unless they have a sustainable niche leadership position. Most multi-business health care companies have mixed portfolios: they earn the majority of their profits from their leadership businesses yet have historically been able to garner satisfactory growth and profitability from a number of non-core businesses.



New Leaders Will Emerge

Lessons from other industries that have gone through fundamental restructuring indicate that industry consolidation is not a linear or economically efficient process. History is filled with leaders that lose their position as the rules of the game change. An analysis of consolidation economics indicates there are dramatic swings between a company’s operating value and the market price of its market share.

Classify the Portfolio

To grow sales and profits under increasing pressure, multi-business companies should go through a proactive portfolio screening process. Step 1 is clearly defining what businesses you compete in, how the new competitive dynamics are likely to change business boundaries, and the current and potential role of each business’ contribution to corporate capabilities and strategy. Step 2 is screening each defined business based on its competitive position, business segment attractiveness, financial performance, and role in the corporate portfolio. Step 3 is utilizing this screen to classify each business into one of three categories:

- a) core leader,
- b) follower with no path to leadership: clear exit, and
- c) follower with potential for leadership as industry consolidation occurs.

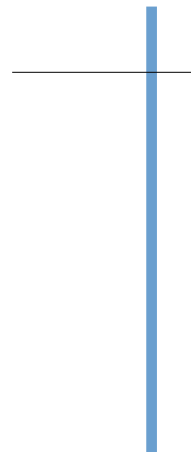
Maximize the Business Value

Categories a and b have relatively clear action implications. For category c businesses, objective exploration of segment consolidation options will allow you to make the right decision about buying, selling, or partnering. Know the value of the business, the value of a target partner, the potential synergies, and then let the pricing discussion drive the decision.

For the businesses that are retained, it is critical to formulate full potential strategies that will drive leadership in the new environment. For the businesses that are sold, seek buyers who can realize the highest potential synergies and manage the timing of exit in order to achieve the most favorable pricing.

Summary: A Proactive Approach

Companies that proactively manage their business portfolios during the current change period should not only be able to create sustainable leadership and a high return portfolio, but also drive the best value out of exits, partnerships, and acquisitions.



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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