

BAIN & COMPANY

Global

Penetration:

Growth and

Competitive

Advantage

Health Care Viewpoint

Number 6



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.

leading **global** penetration and consolidation

Most major pharmaceutical and medical device companies understand that R&D scale demands global sales. However, markets continue to be fragmented country by country. Declining profitability of the U.S. market due to managed care and FDA constraints; falling trade barriers (GATT) and regionalization (NAFTA, Europe); and the opening and growth of the Far East, Eastern Europe, the Former Soviet Union and Latin America are creating opportunities for those companies that can lead the penetration and consolidation process.

Global Penetration: Growth and Competitive Advantage

Historically, competition and success were primarily determined market by market. The U.S. was the most attractive market, followed typically by Germany, Japan, France, and the U.K. Today, managed care, product regulation, and falling trade barriers are fundamentally changing relative market attractiveness, competitive boundaries, and the requirements for profitable growth.

Manage the Product/Market Portfolio Globally

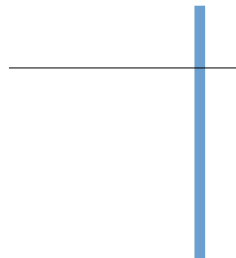
The U.S. is no longer automatically the highest priority market for new product introductions and existing product penetration. Prioritizing global rollout and penetration—to be first to market; to build market acceptance, sales and clinical experience; and to generate profitability—is critical for outperforming competitors across markets. Companies with superior capability to manage this new global product/market matrix will win over players who focus only on historically successful country positions and products.

Share Best Practices and Market Learning

Participating in a broad array of markets creates the opportunity to share best practices and learning. Products designed to meet the low feature/price points in emerging markets may be applicable to more developed markets facing new cost constraints. Managed care- and therapy-focused product systems, services, and practice data developed in the U.S. may hold real potential in European markets moving from government rationing toward managed care. By tailoring products and services to each stage of market development, companies can optimize their returns.

Prioritize and Build Emerging Market Positions

Although eighty percent of the world's population lives in emerging markets, these countries currently consume less than twenty percent of world health care resources. The opening and development of these markets will drive exponential growth in health care demand for the next twenty years. Few companies have the resources to pursue all these new market opportunities. On the other hand, entering these markets after they have developed will likely be prohibitively expensive, as competitors will have become entrenched. The key is to prioritize market segments carefully, based on your potential for competitive advantage and availability of fast track entry paths. It may also be valuable to invest in building low-cost export manufacturing platforms that can serve multiple regions.





Optimize Organic Growth vs. Joint Venture vs. Acquisition

The classic new country market penetration model starts with importing through a local distributor, followed by building local sales offices, establishing local product variations, manufacturing, and eventually creating direct distribution. But, this approach may be too slow given the rate of market changes today. In addition to exploring accelerated organic market penetration options, companies should explore joint venture, alliance, and acquisition options to jump-start market position. These options obviously need to be considered carefully for fit, price, and control considerations.

Create a Management Process to Balance Local Penetration and Global Leverage

Success will require management processes that are simultaneously “local” (focused on meeting local country requirements) and “global” (focused on leveraging global scale and learning). Multiple successful organizational models exist. Each company must create organizational structures and management processes that are effective in balancing the global vs. local trade-offs.

Summary

Global dynamics in the health care industry are creating not only new imperatives for competitive success, but also tremendous opportunities for growth. Companies that understand these forces and how they will play out in their product markets can lead the penetration and consolidation process. They will be able to experience strong profitable growth, despite constraints in individual markets.

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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