GLOBAL HEALTHCARE INDUSTRY STRUCTURE & STRATEGY

UHG-CLASSROOM SESSION OCTOBER 5 2015

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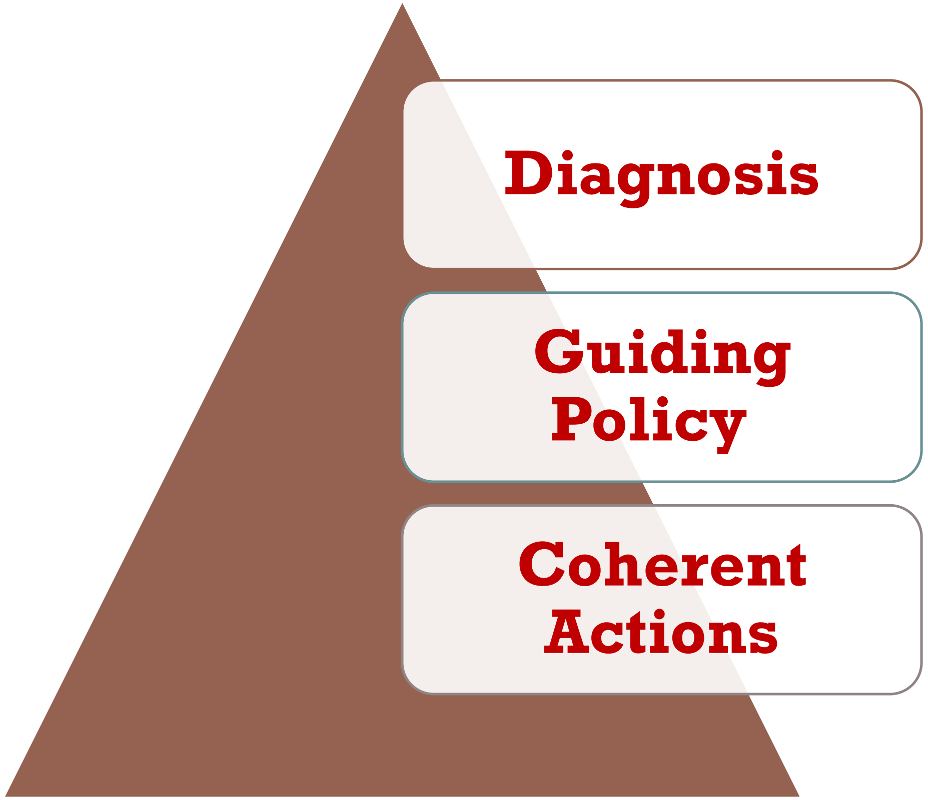
WHAT IS STRATEGY?

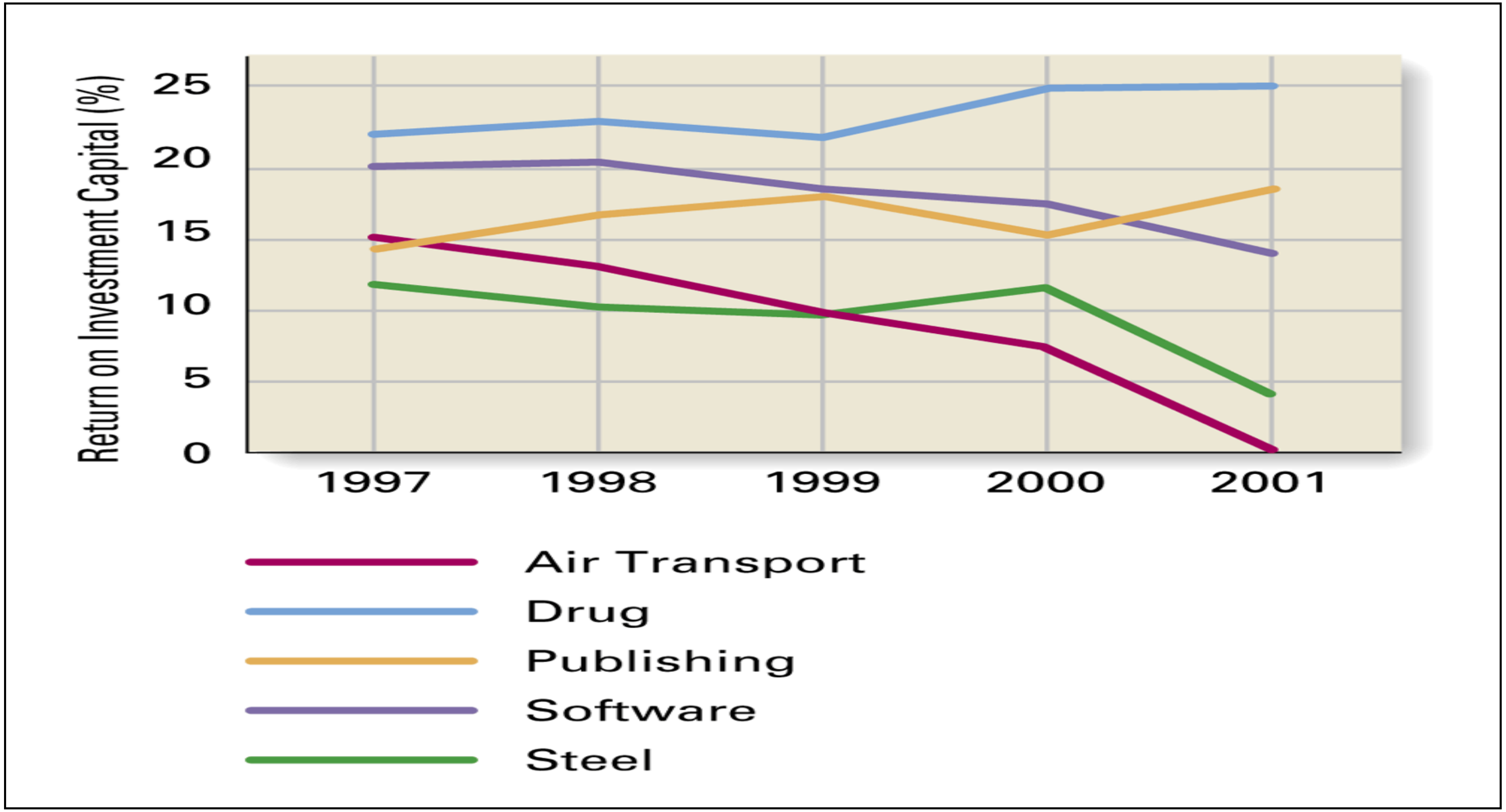
THE KERNELS OF GOOD STRATEGY



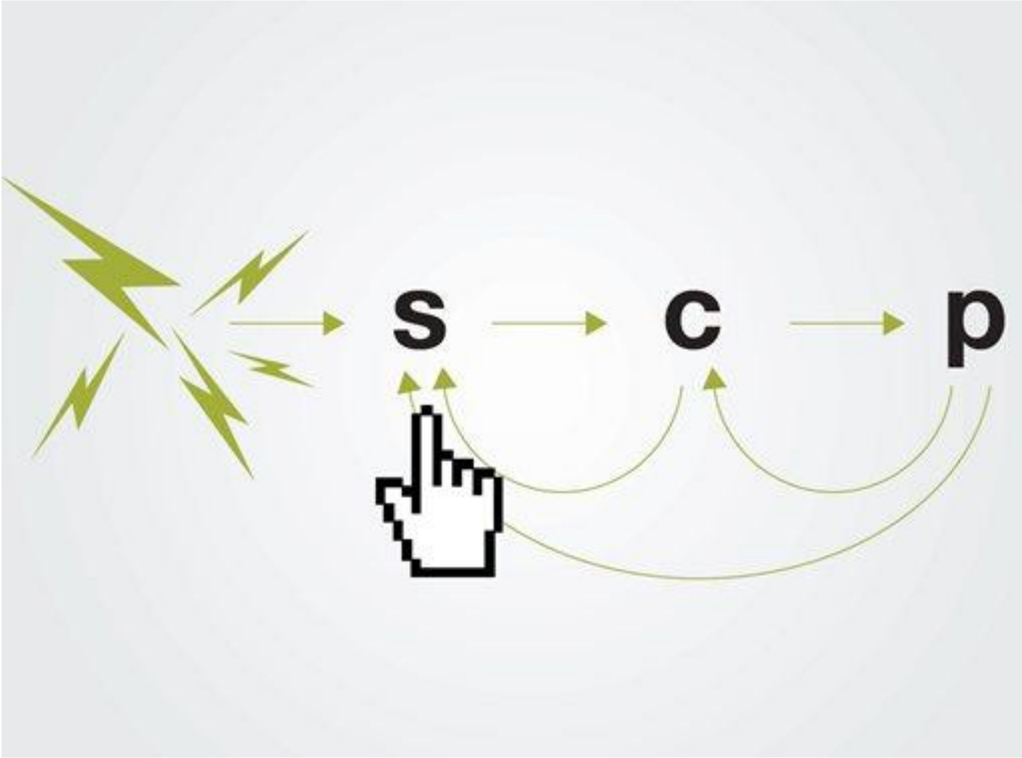
THE ORIGINS OF MODERN STRATEGY

- Strategy is about positioning an organization for *COMPETITIVE ADVANTAGE*.
- Involves making choices about *which* industries to participate in, *what* products and services to offer, and *how* to allocate corporate resources.
- Primary goal is to create value for shareholders and other stakeholders by providing customer value.

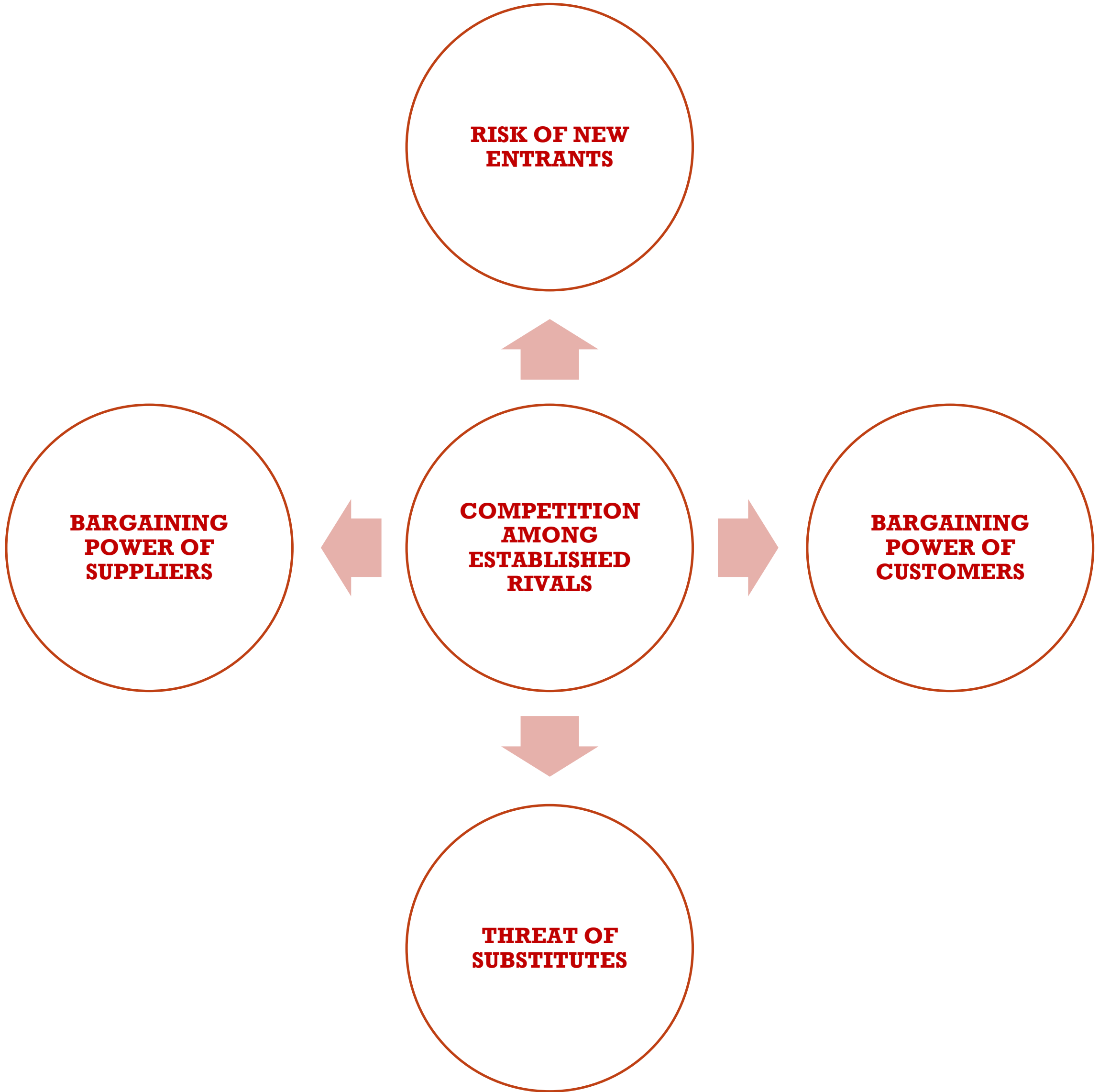
UNDERSTANDING INDUSTRY STRUCTURE



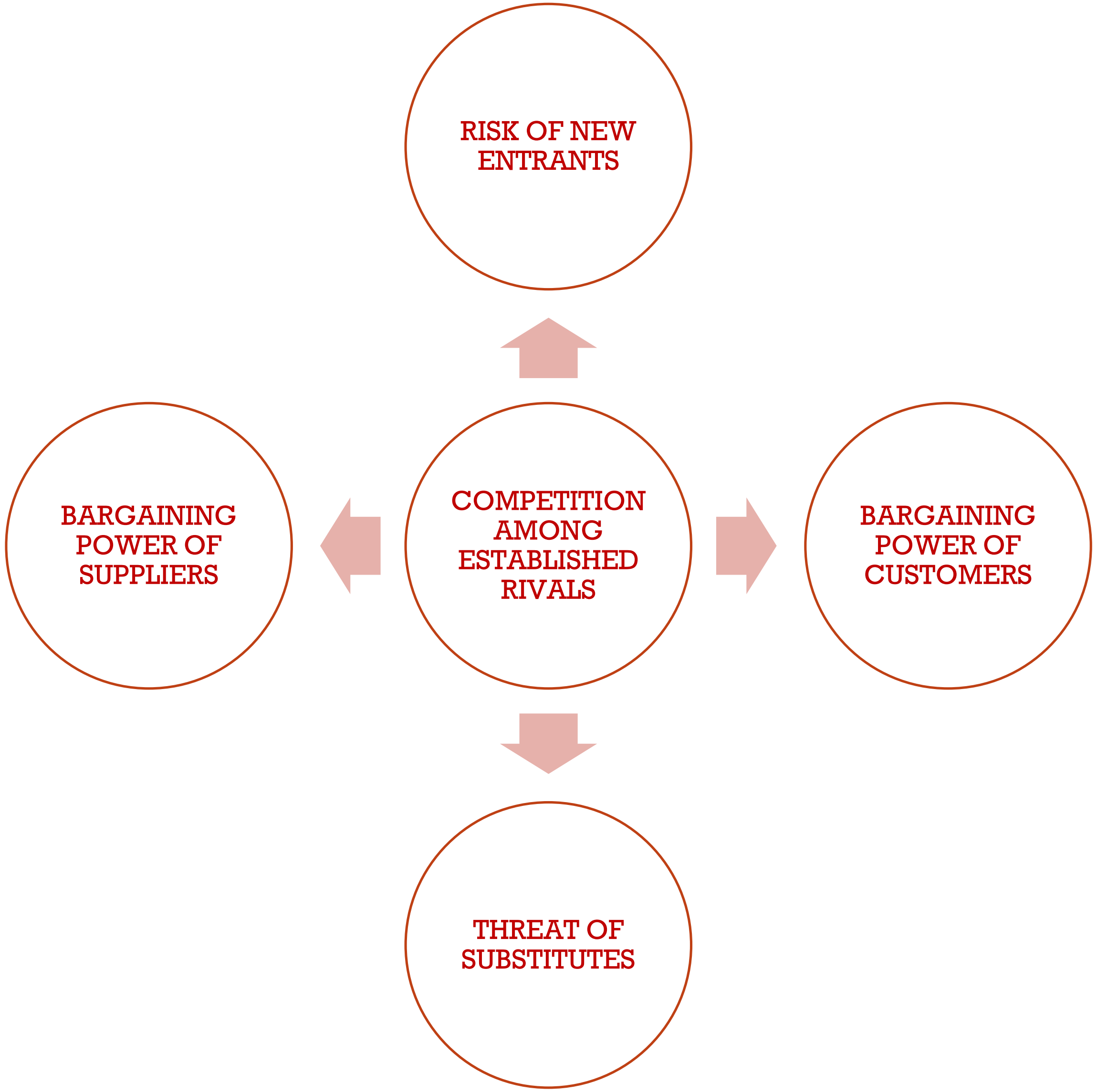
WHY ARE SOME INDUSTRIES SO PROFITABLE?



PORTER'S 5 FORCES



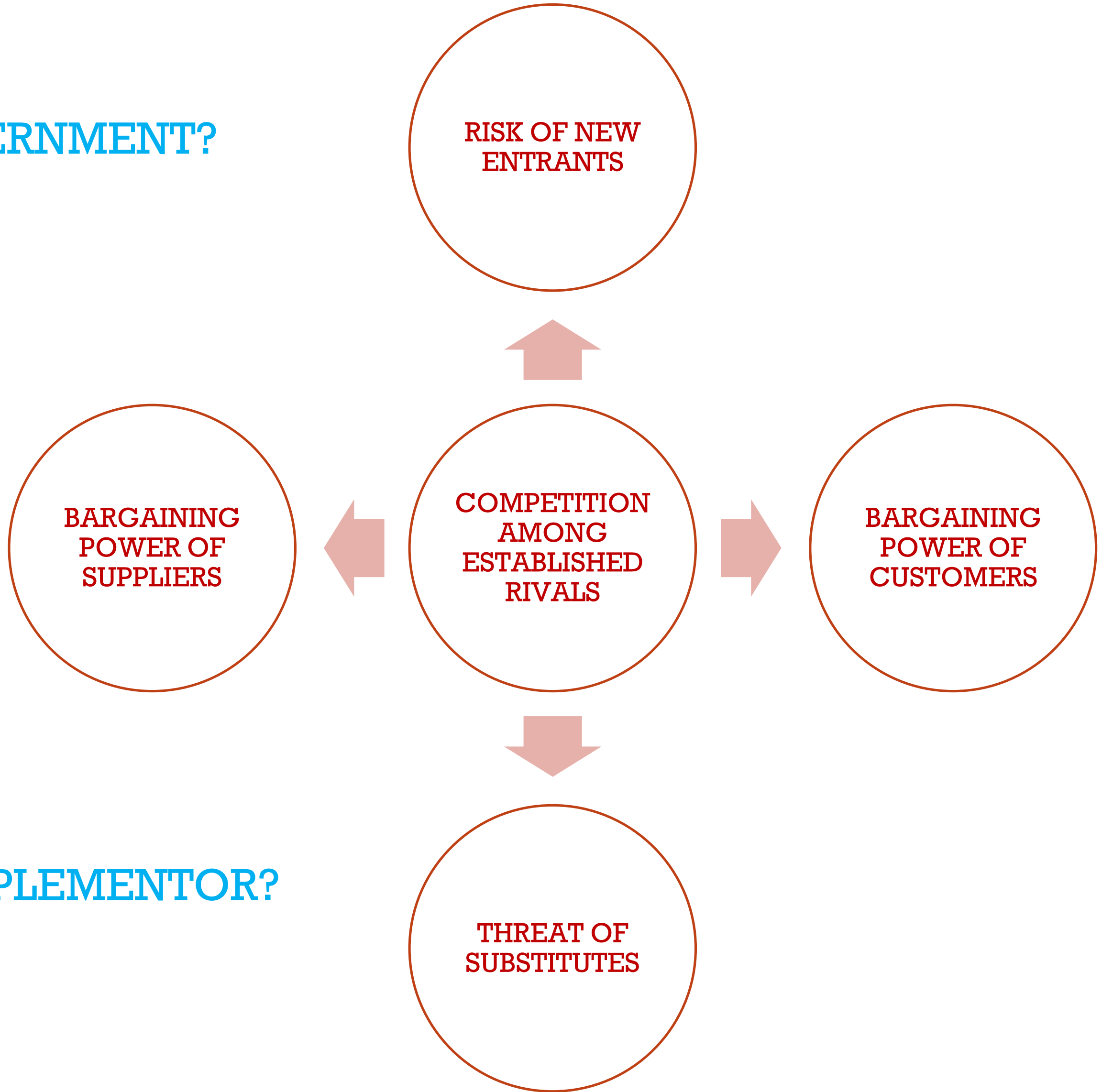
YOUR INDUSTRY ON PORTER'S 5-FORCES?



- ❑ Which Industry are you In?
- ❑ Who are your Rivals? How is the competition?
- ❑ Risk of New Entrants?
- ❑ Threat from Substitutes?
- ❑ High/Low/Medium Bargaining Power:
    - ❑ Of Customers?
    - ❑ Of Suppliers?

ANY OTHER FORCES?

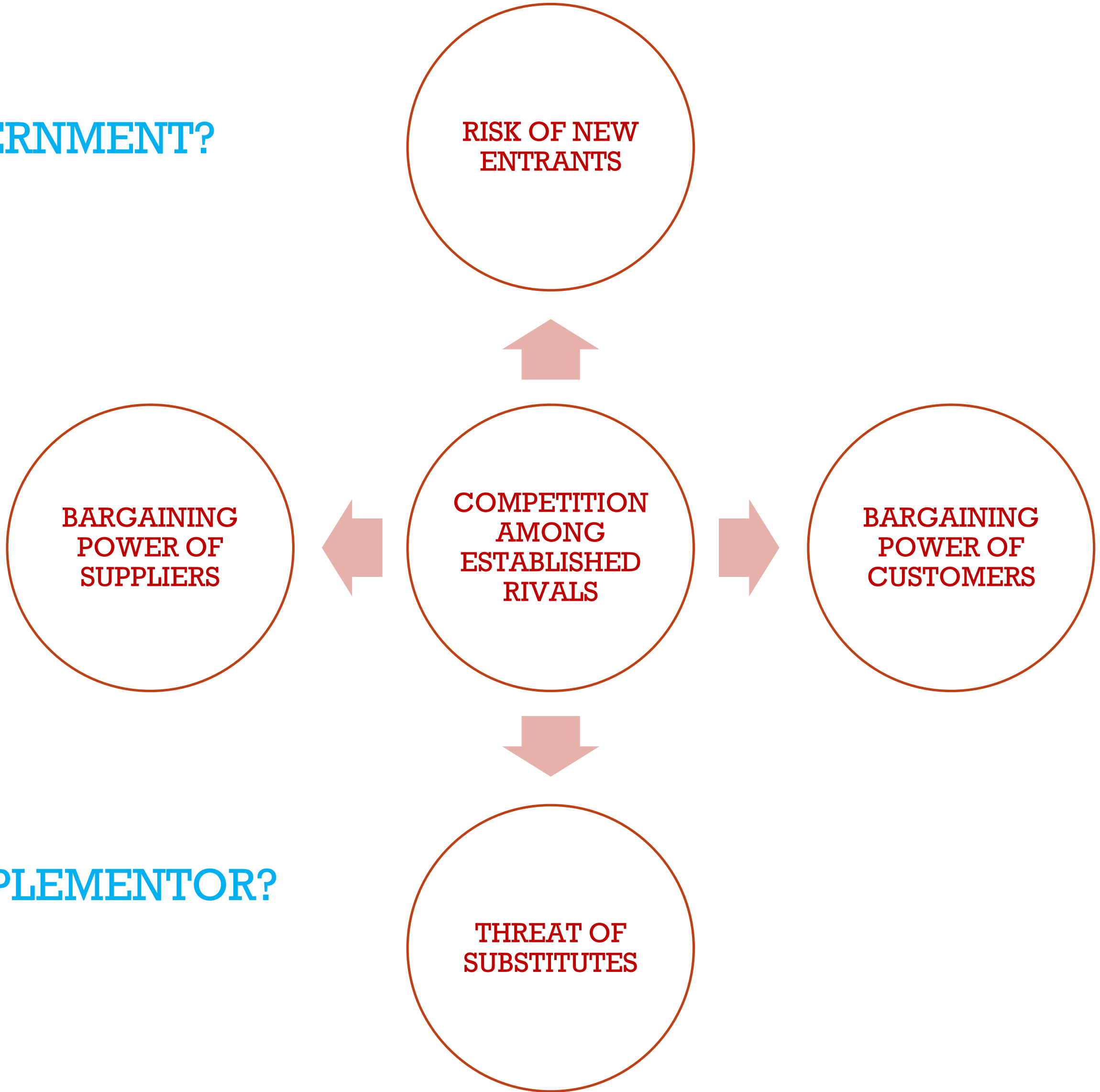
MR.
GOVERNMENT?



MR.
COMPLEMENTOR?

ANY OTHER FORCES? – PORTER'S 6TH/7TH FORCE

MR.
GOVERNMENT?



MR.
COMPLEMENTOR?

AN IDEAL INDUSTRY?

MR. GOVERNMENT?

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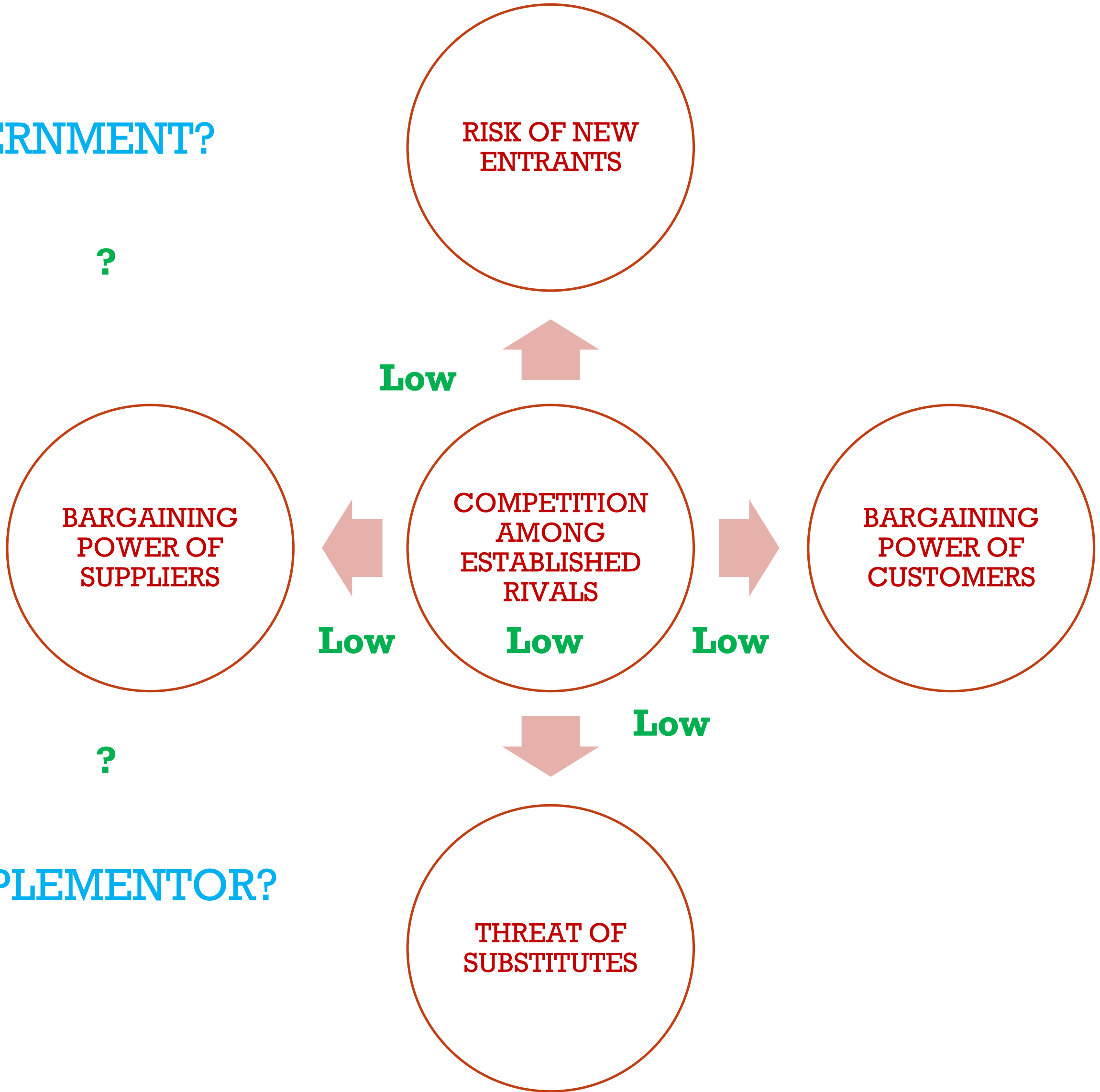

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MR. COMPLEMENTOR?

ASIDE UNDERLYING THE PORTER'S FORCES

New Entrants

Entry Barriers:

Economies of scale
Brand identity
Capital requirements
Proprietary product differences
Switching costs
Access to distribution
Proprietary learning curve
Access to necessary inputs
Low-cost product design
Government policy
Expected retaliation

Suppliers

Sources of Bargaining Power:

Switching costs
Differentiation of inputs
Supplier concentration
Presence of substitute inputs
Importance of volume to suppliers
Impact of inputs on cost or differentiation
Threat of forward/backward integration
Cost relative to total purchases in industry

Industry Competitors

Factors affecting Rivalry:

Industry growth
Concentration and balance
Fixed costs/value added
Intermittent overcapacity
Product differences
Brand identity
Switching costs
Informational complexity
Diversity of competitors
Corporate stakes
Exit barriers

Buyers

Bargaining Power of Buyers:

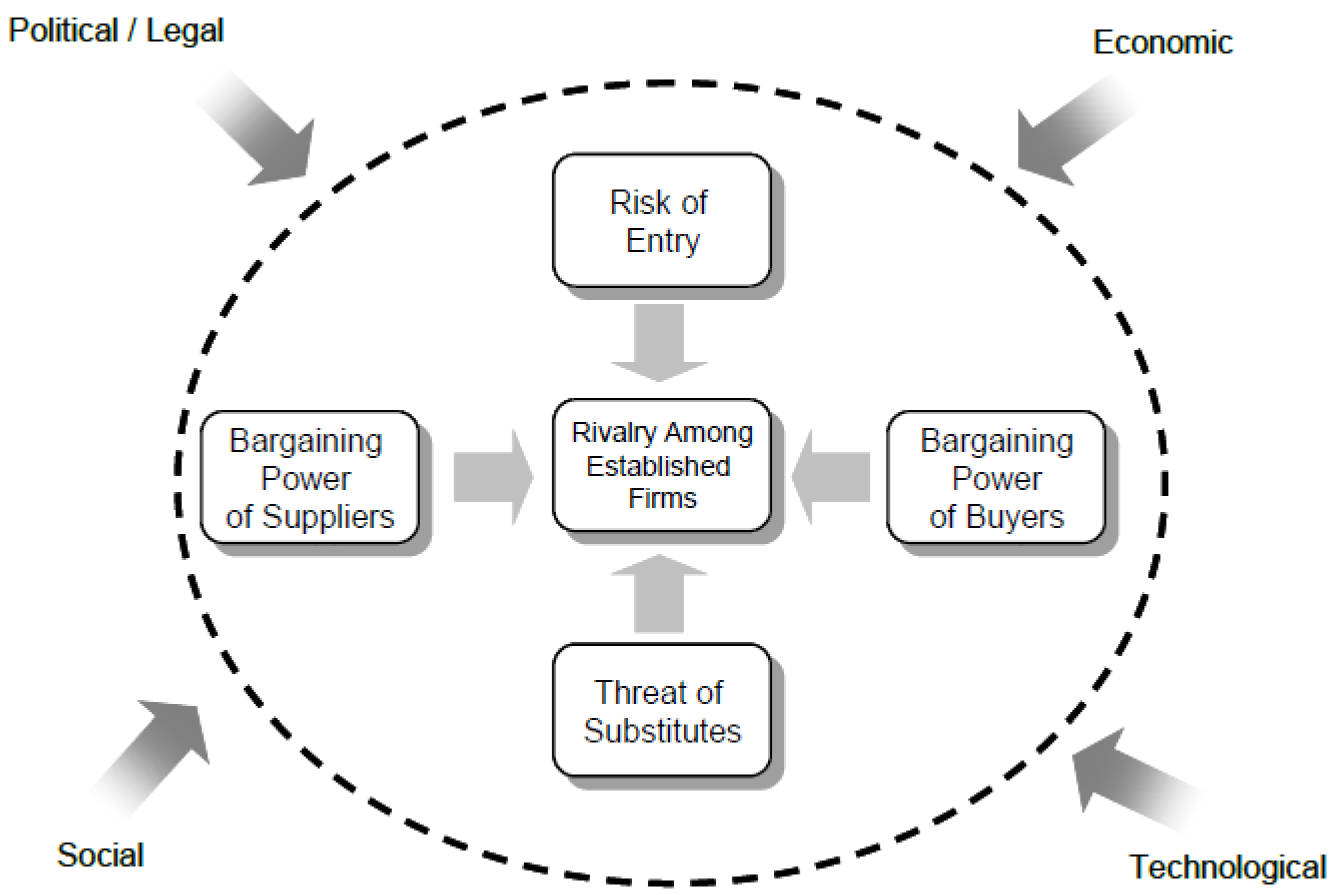
Buyer concentration
Buyer volume
Switching costs
Buyer information
Buyer profits
Substitute products
Pull-through
Price sensitivity
Price/total purchases
Product differences
Brand identity
Ability to backward integrate
Impact on quality/performance
Decision makers' incentives

Substitutes

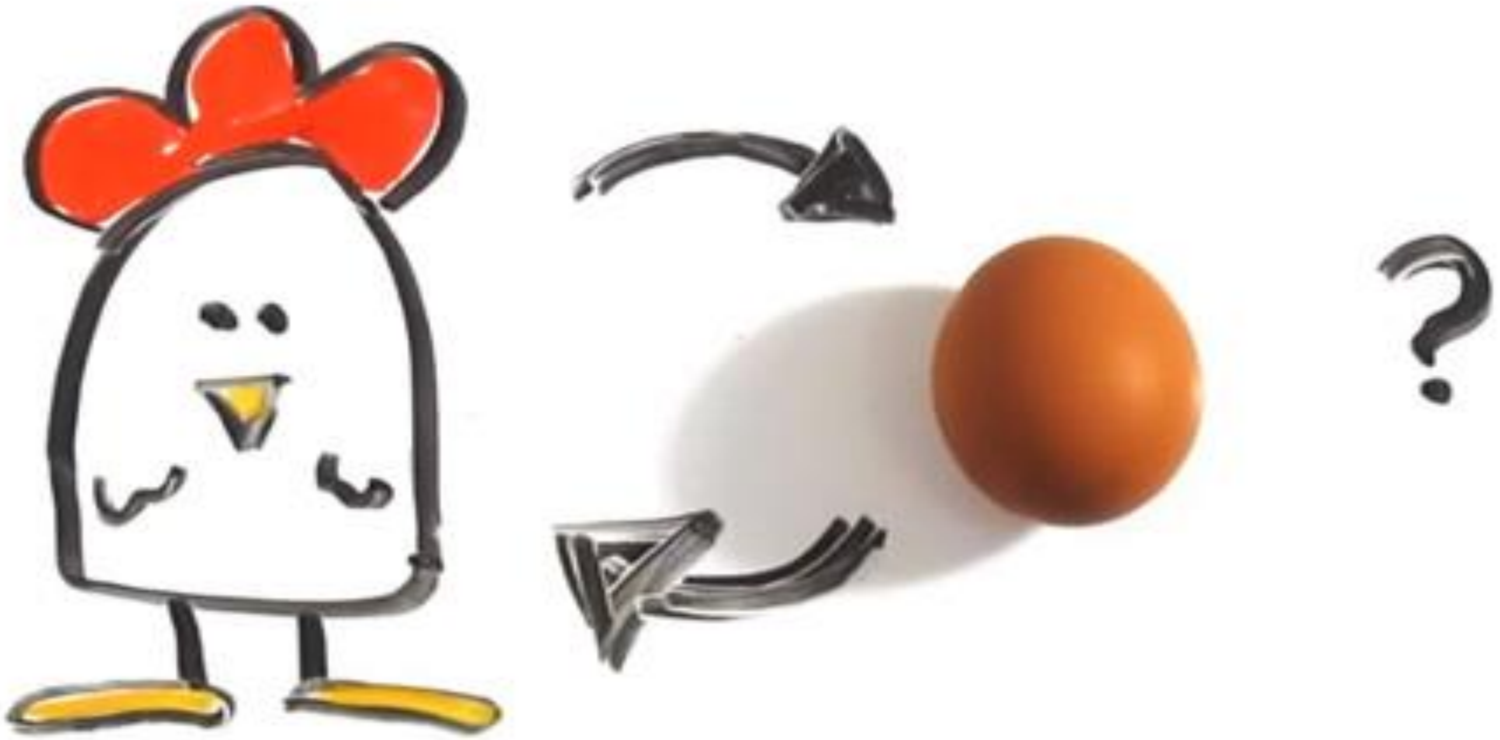
Threat determined by:

Relative price performance of substitutes
Switching costs
Buyer propensity to substitute

THE PEST FRAMEWORK – AN ALTERNATIVE

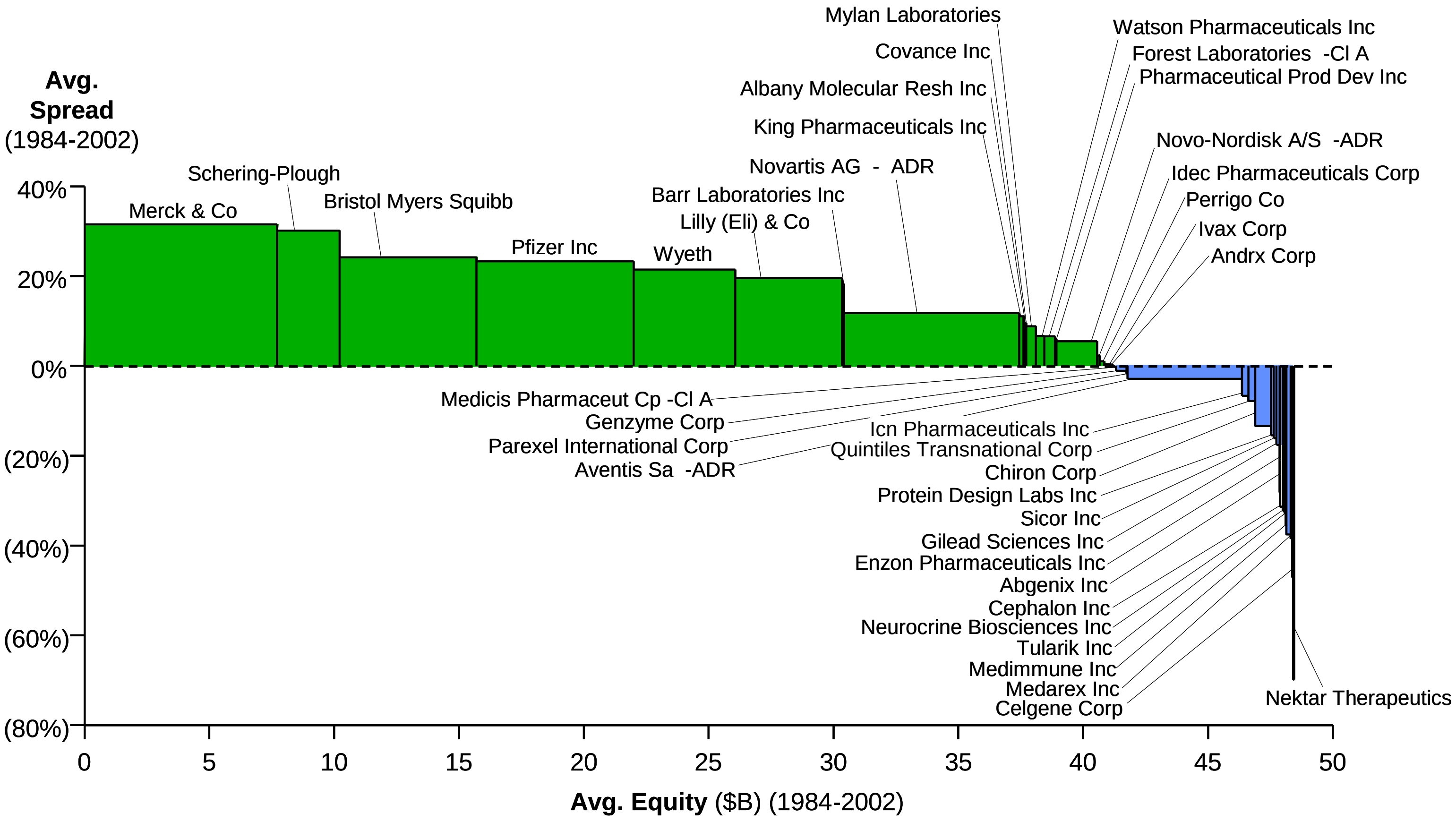


BUT IF IT'S ABOUT INDUSTRY – WHAT ABOUT FIRMS?



WITHIN INDUSTRY – WHY SOME FIRMS >> OTHERS?

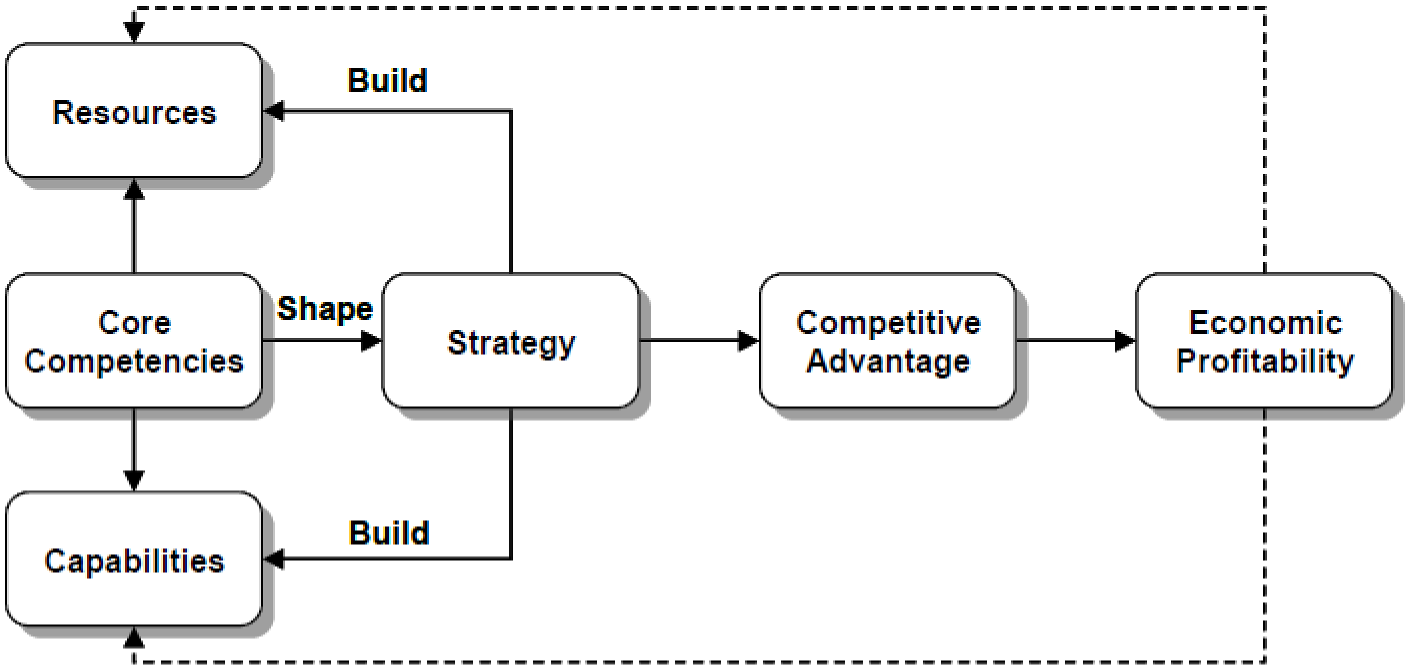
Average Economic Profits in the Pharmaceutical Industry, 1984-2002



Ghemawat (2006)

THE ANSWER LIES IN RBV – RESOURCE BASED VIEW OF FIRMS

CORE COMPETENCIES



RESOURCE BASED THEORY OF THE FIRM

Firm resources

Tangible resources

- Land
- Buildings
- Materials
- Money

Intangible resources

Relational resources

- Relationships `contracts'
- Reputation `brands'

Capabilities

- Knowledge (CI, mkt insight)
- NPD (R&D, Mkt Res, IBS)
- Mindset

THE RESOURCE BASED VIEW

RBV argues that.....

the heterogeneous market positions of close competitors arise from each firms unique bundle of resources and capabilities

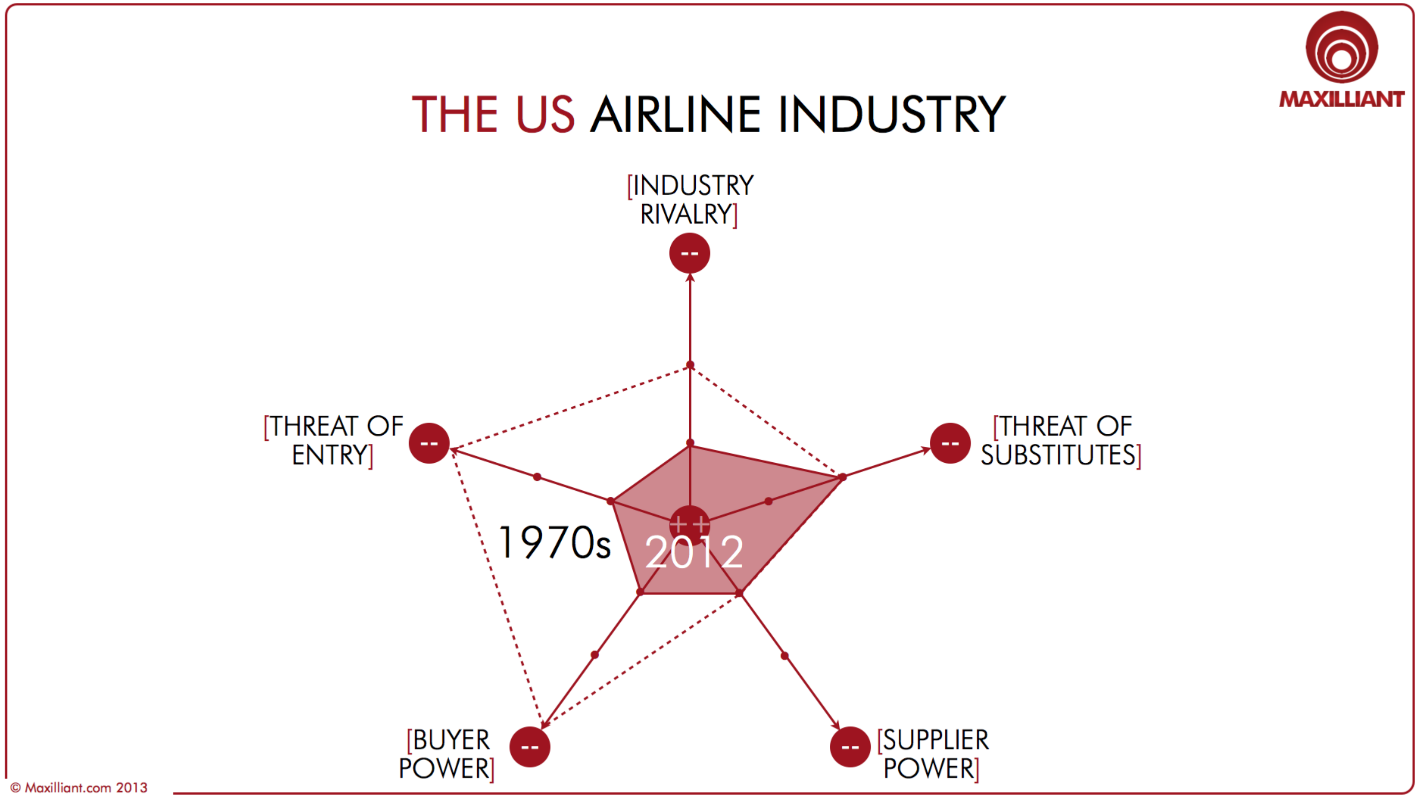
(Source: Hoopes, Madesn and Walker, 2003)

THE VRIO TEST FOR RESOURCES

Is a Resource…

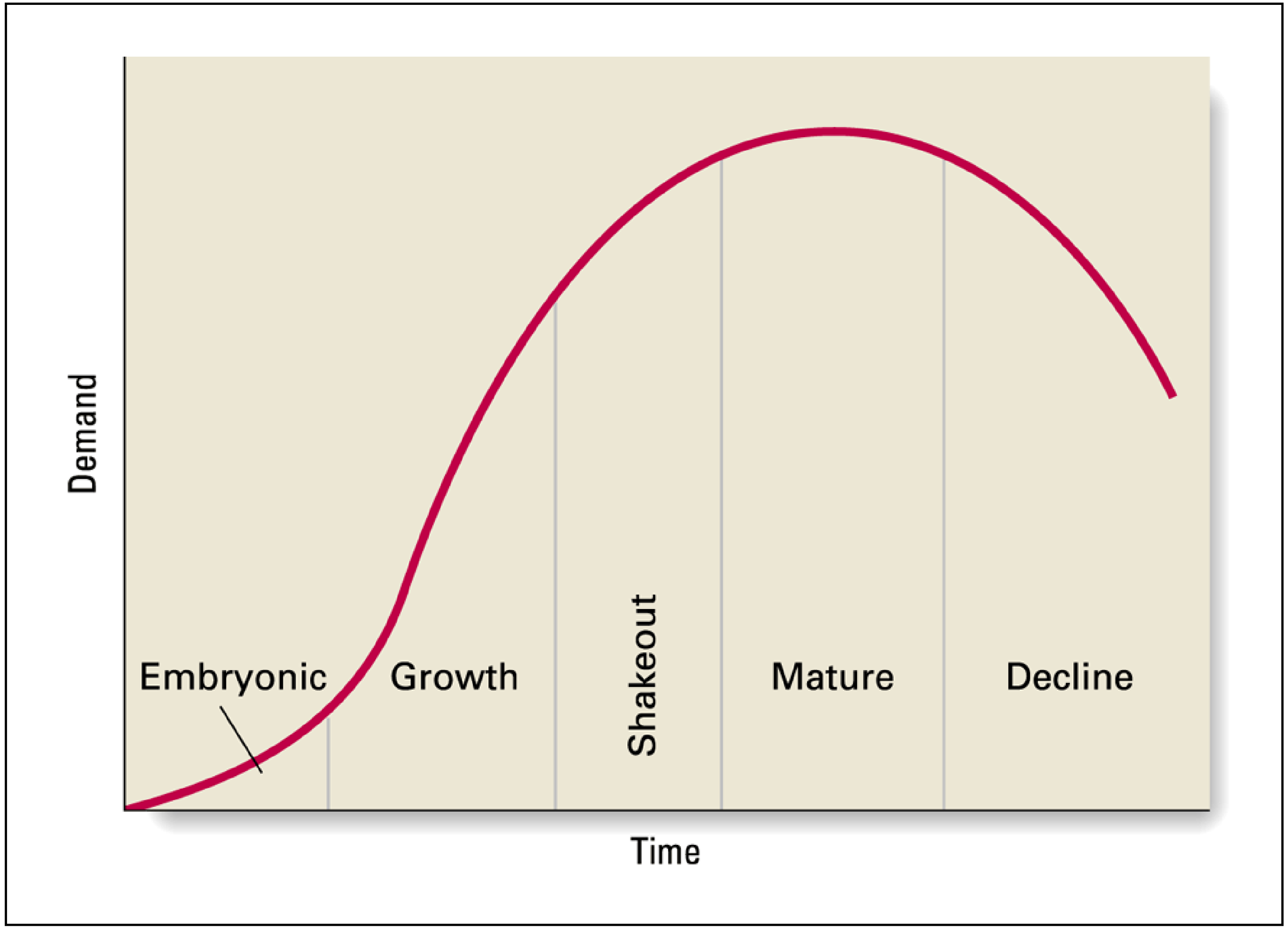
Valuable	Rare	Difficult to Imitate	Without Substitutes	Implications for Competitiveness
No	No	No	No	Competitive disadvantage
Yes	No	No	No	Competitive parity
Yes	Yes	No	No	Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustainable competitive advantage

SOME RELATED CONCEPTS

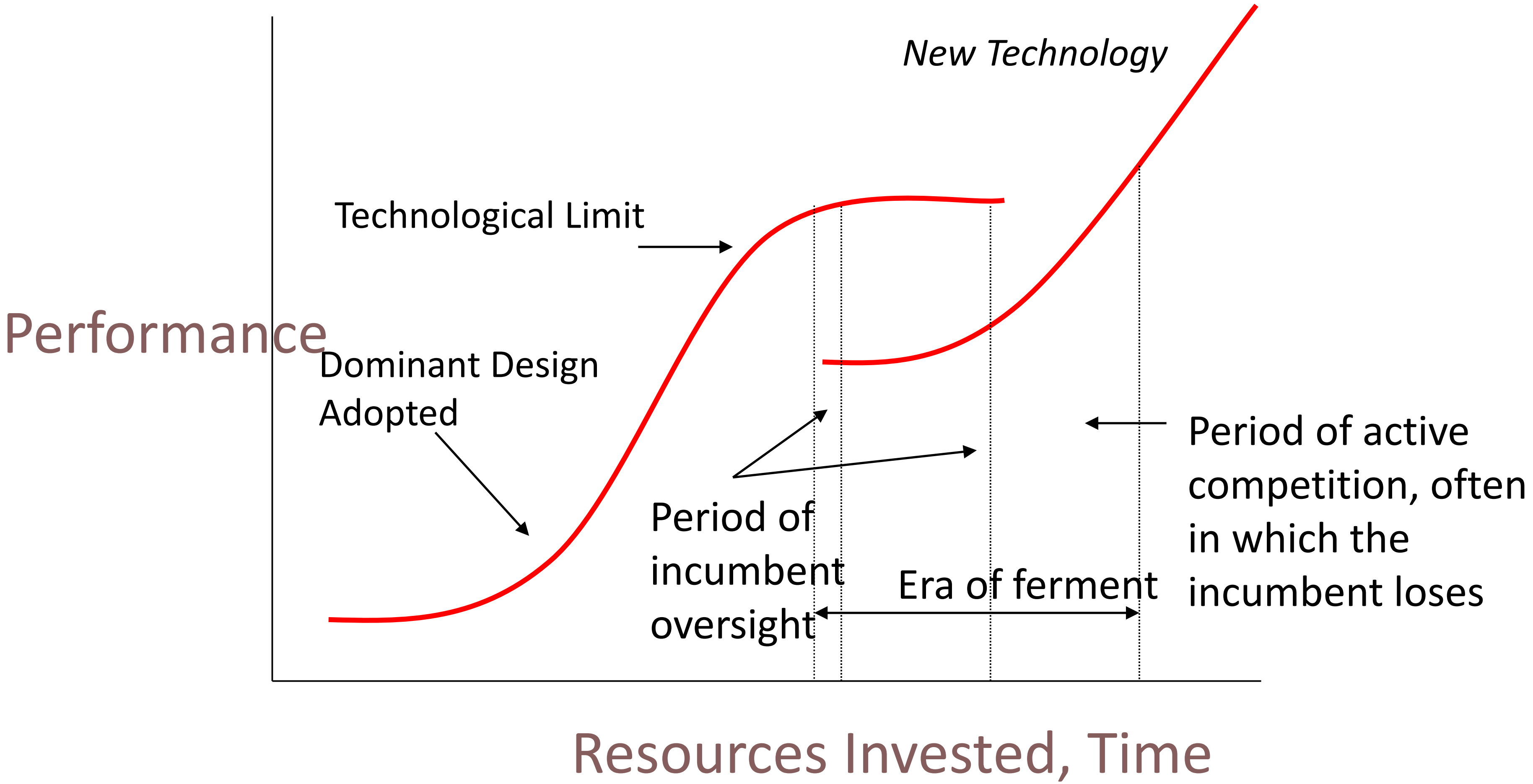


(Source: Maxilliant)

DYNAMICS IN STRATEGY

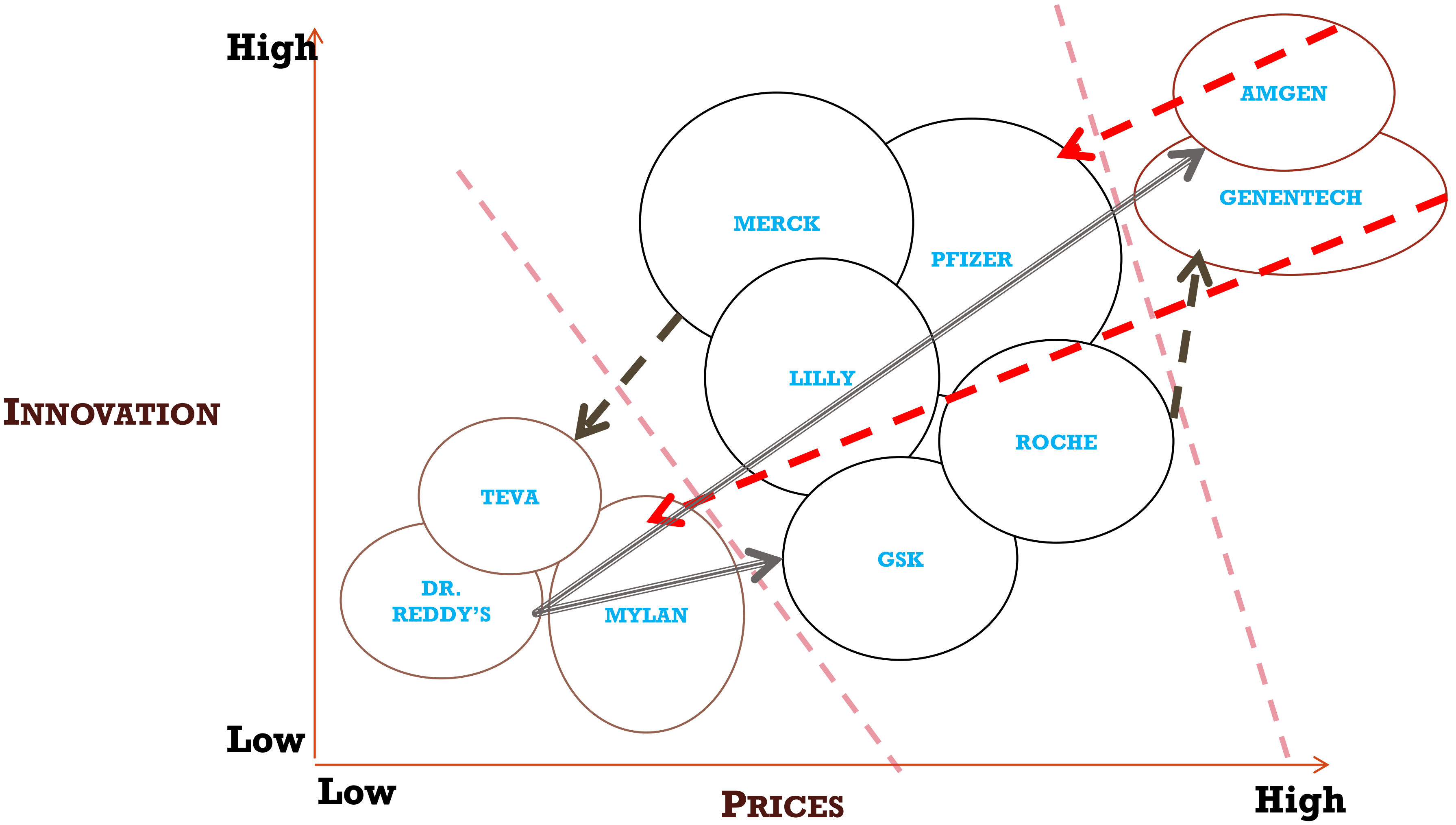


S-CURVES

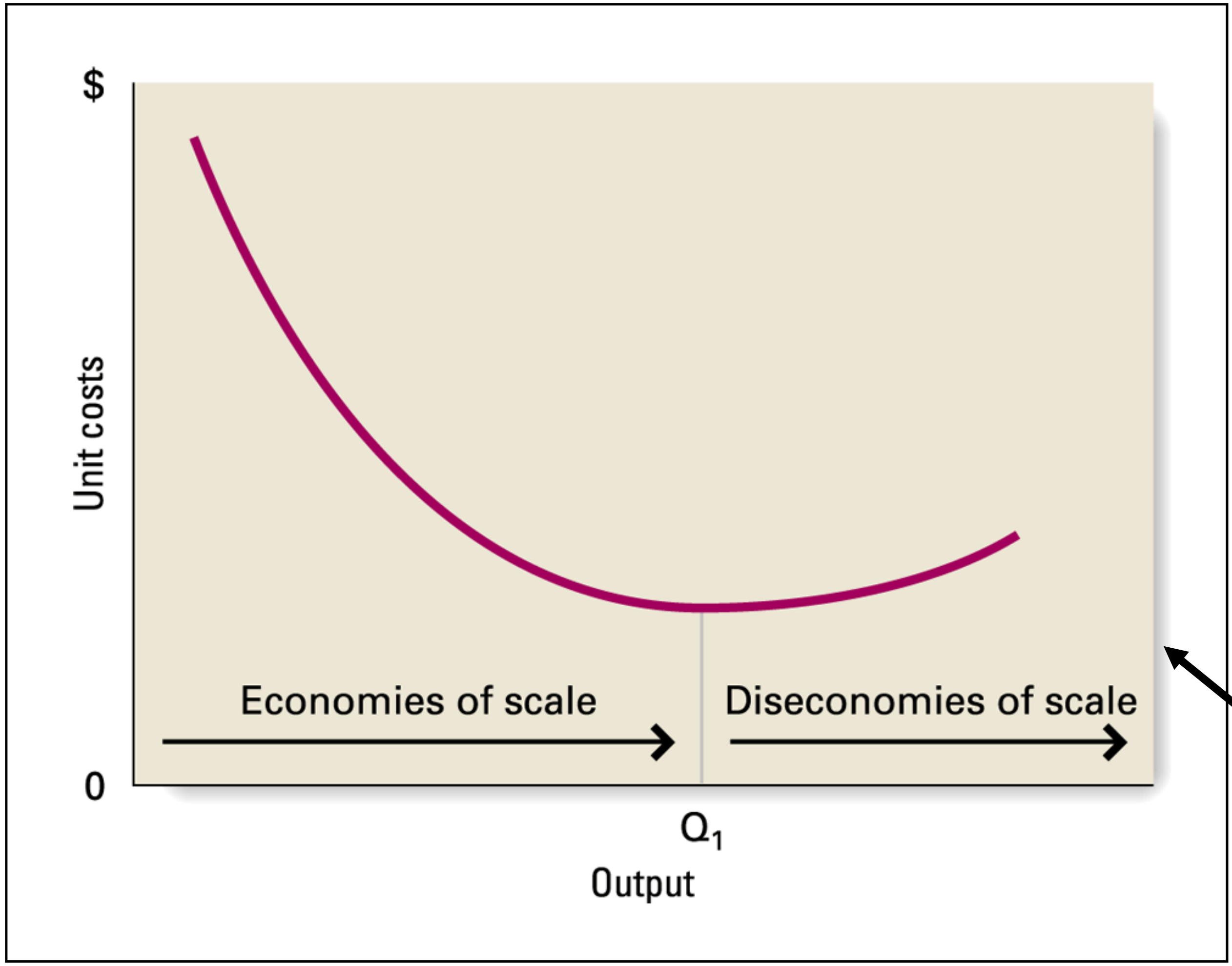


Adapted from research by Clay Christensen and Jim Utterback

STRATEGIC GROUPS & MOBILITY BARRIERS

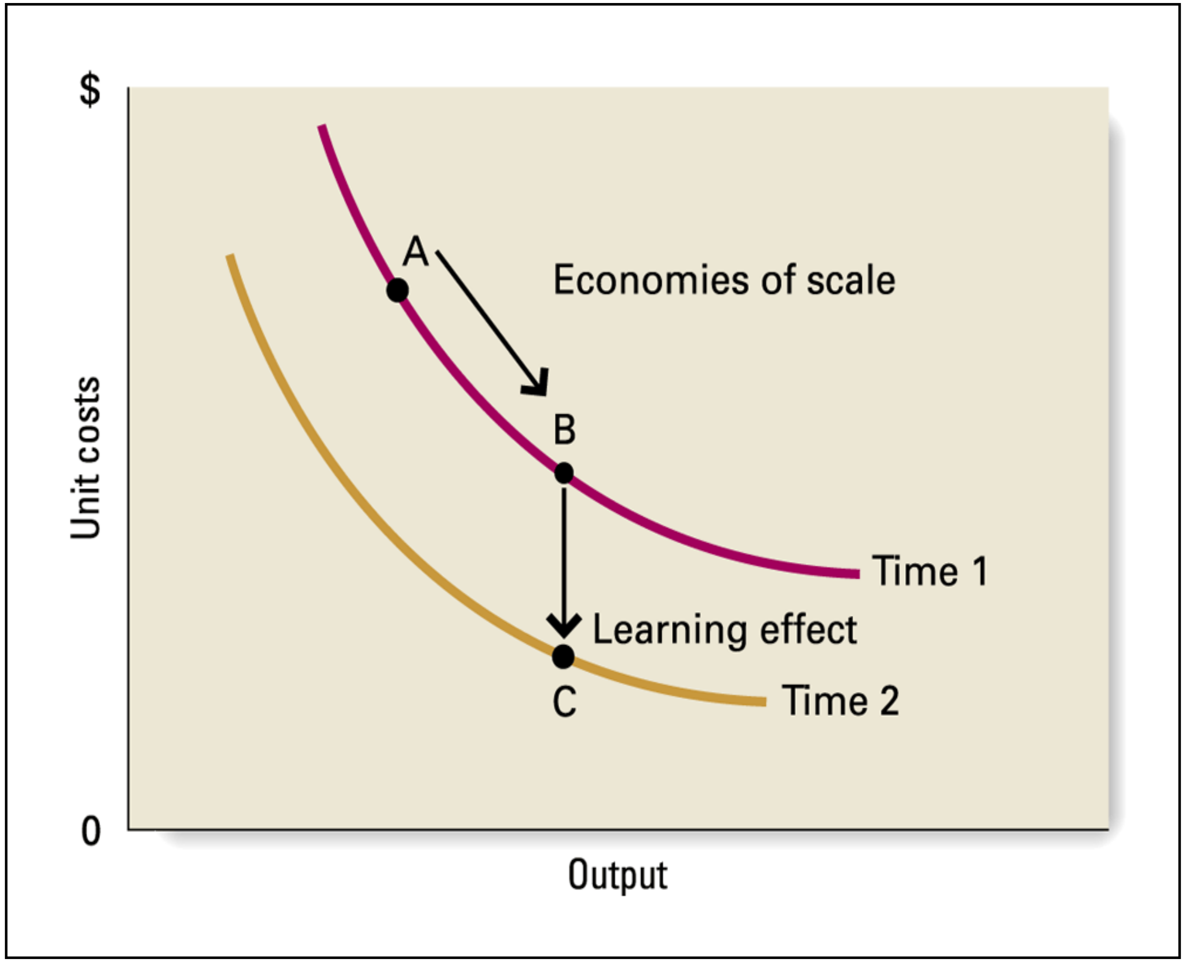


ECONOMIES/DISECONOMIES OF SCALE

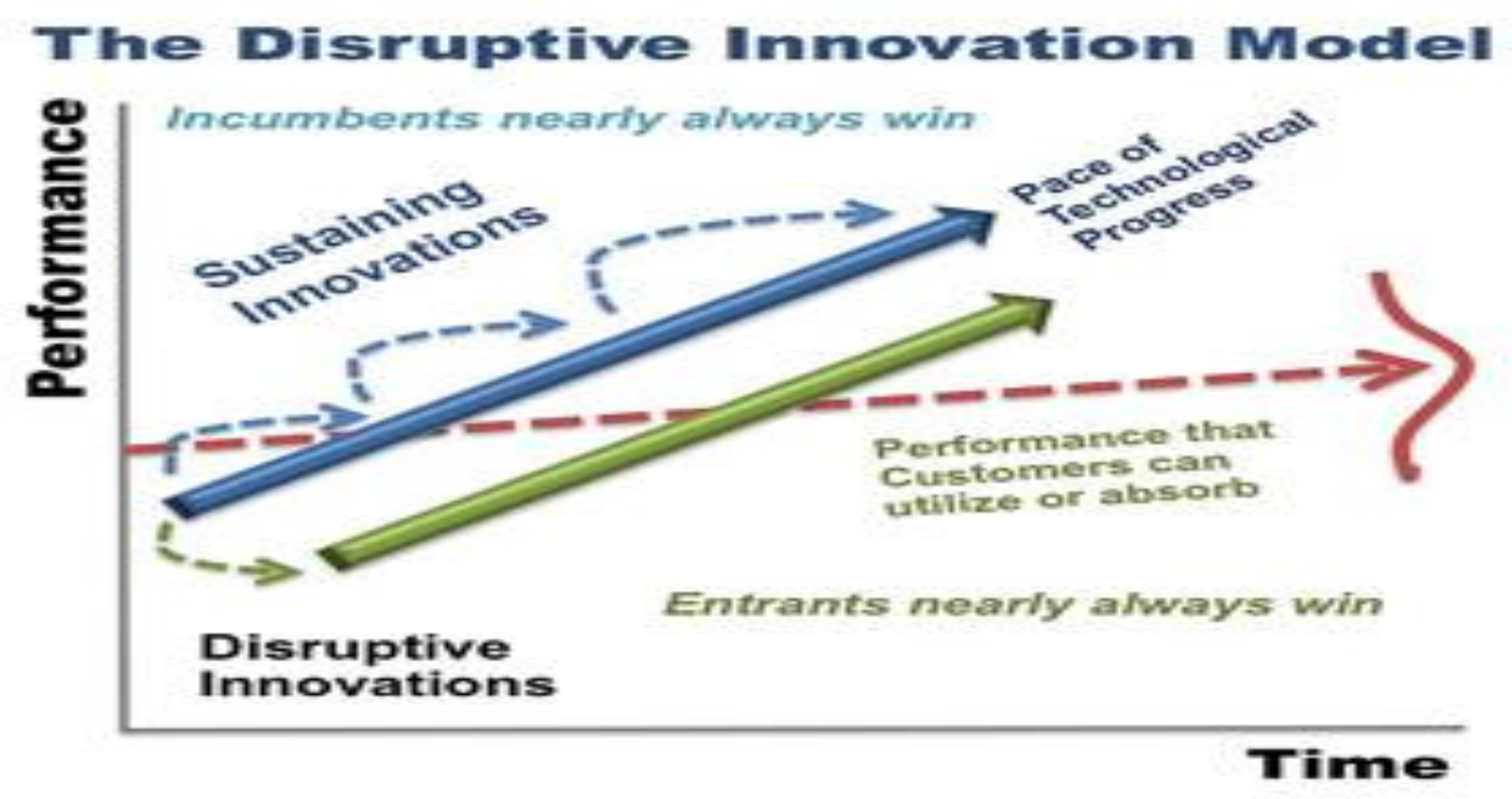


Example?

LEARNING ECONOMIES



DISRUPTIVE INNOVATION



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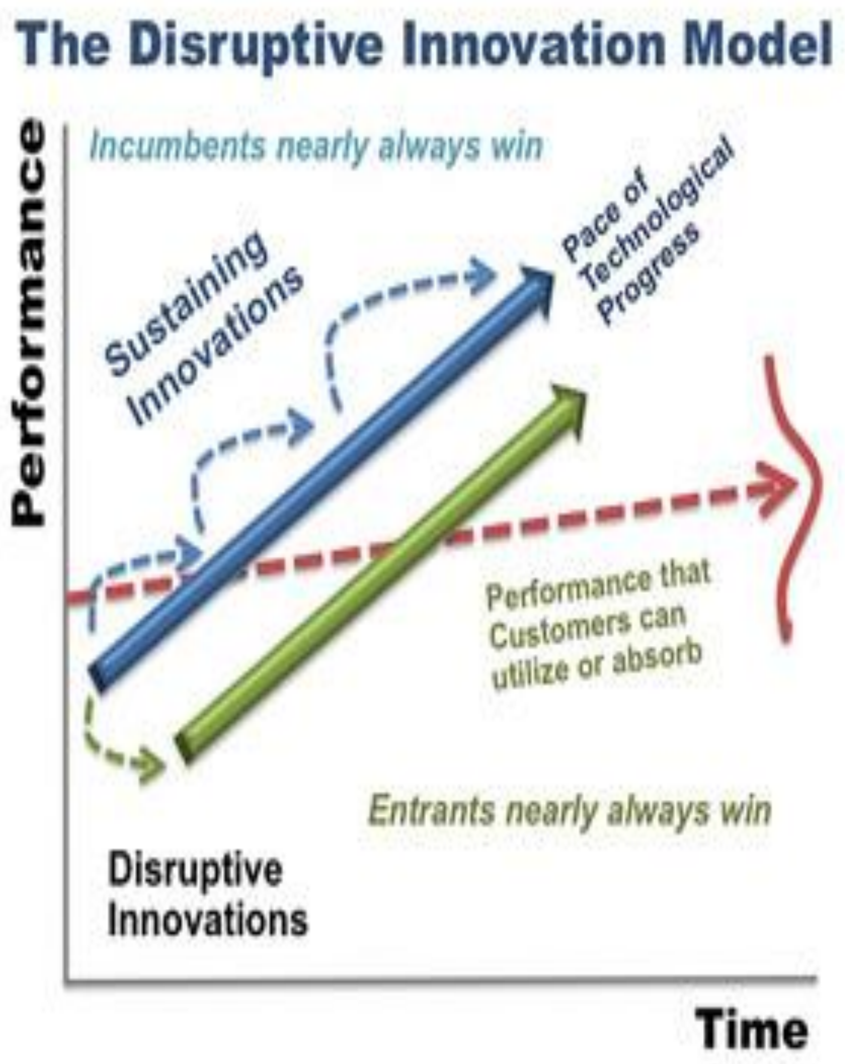
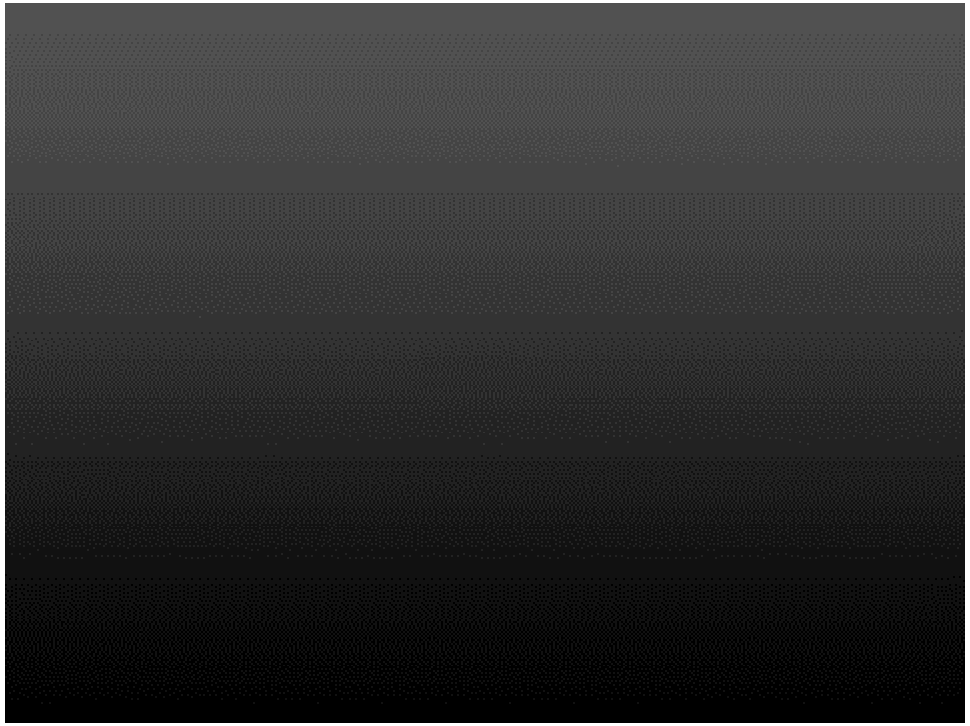
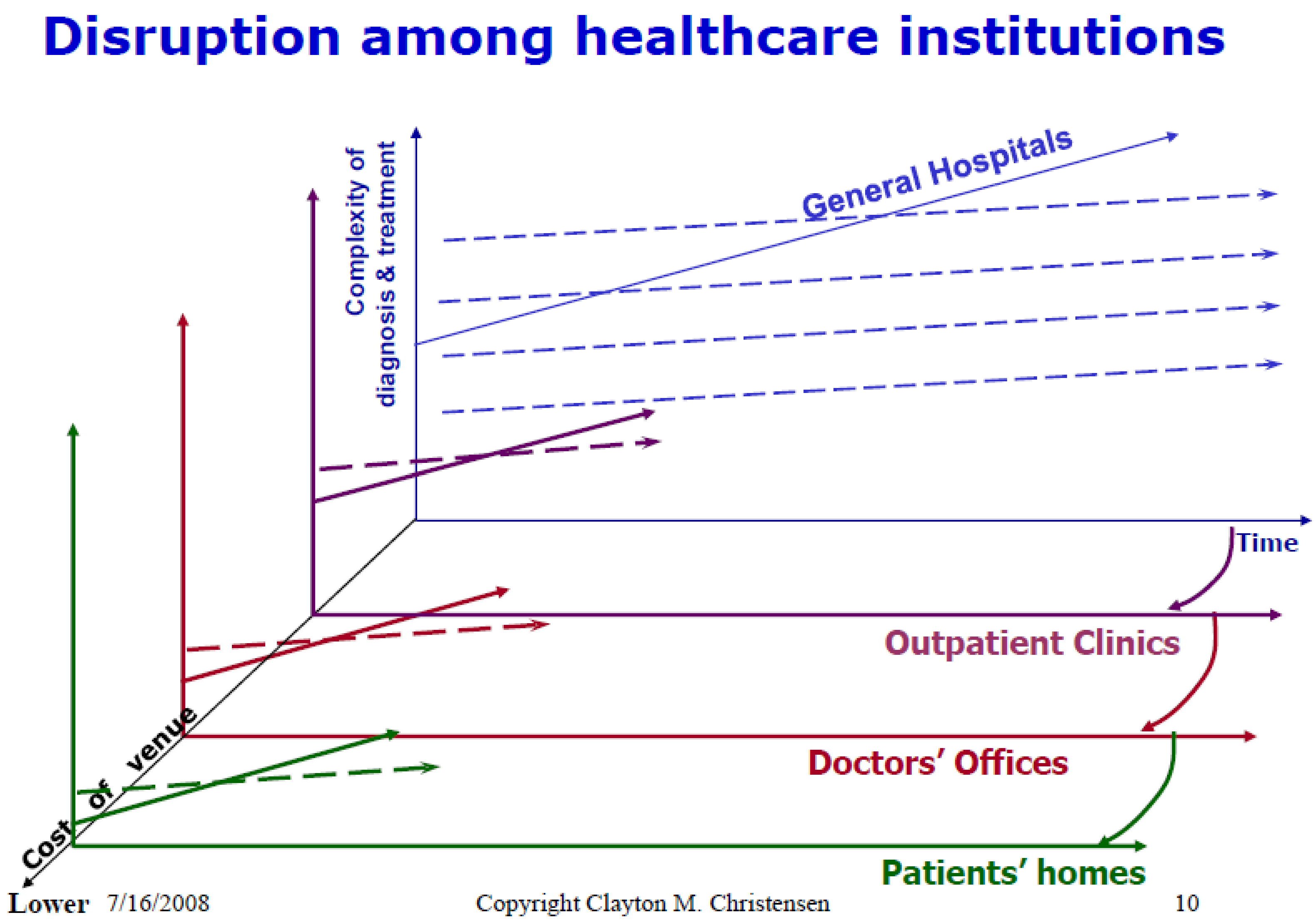


DISRUPTION DESI STYLE !

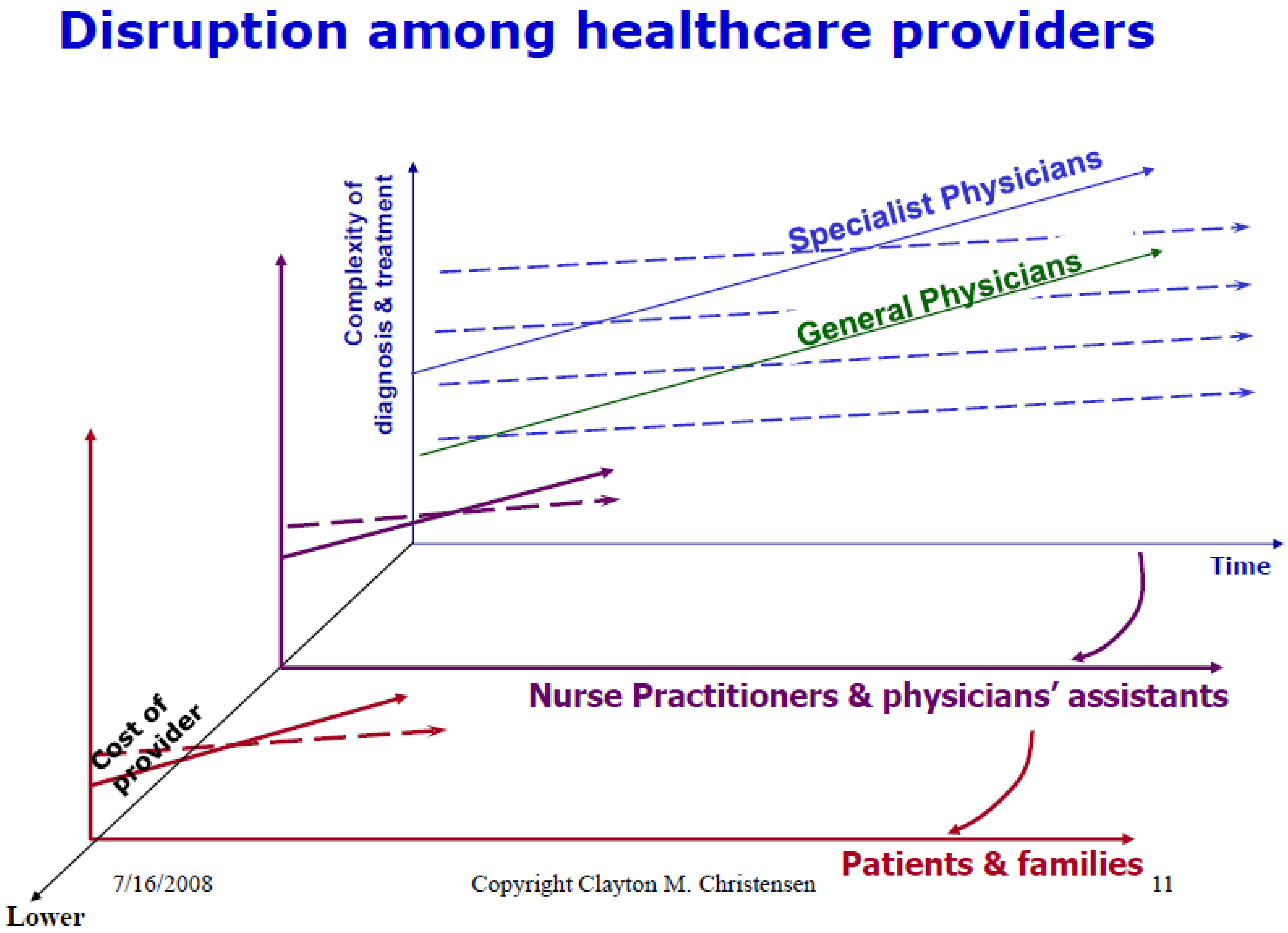
INNOVATOR'S PRESCRIPTION



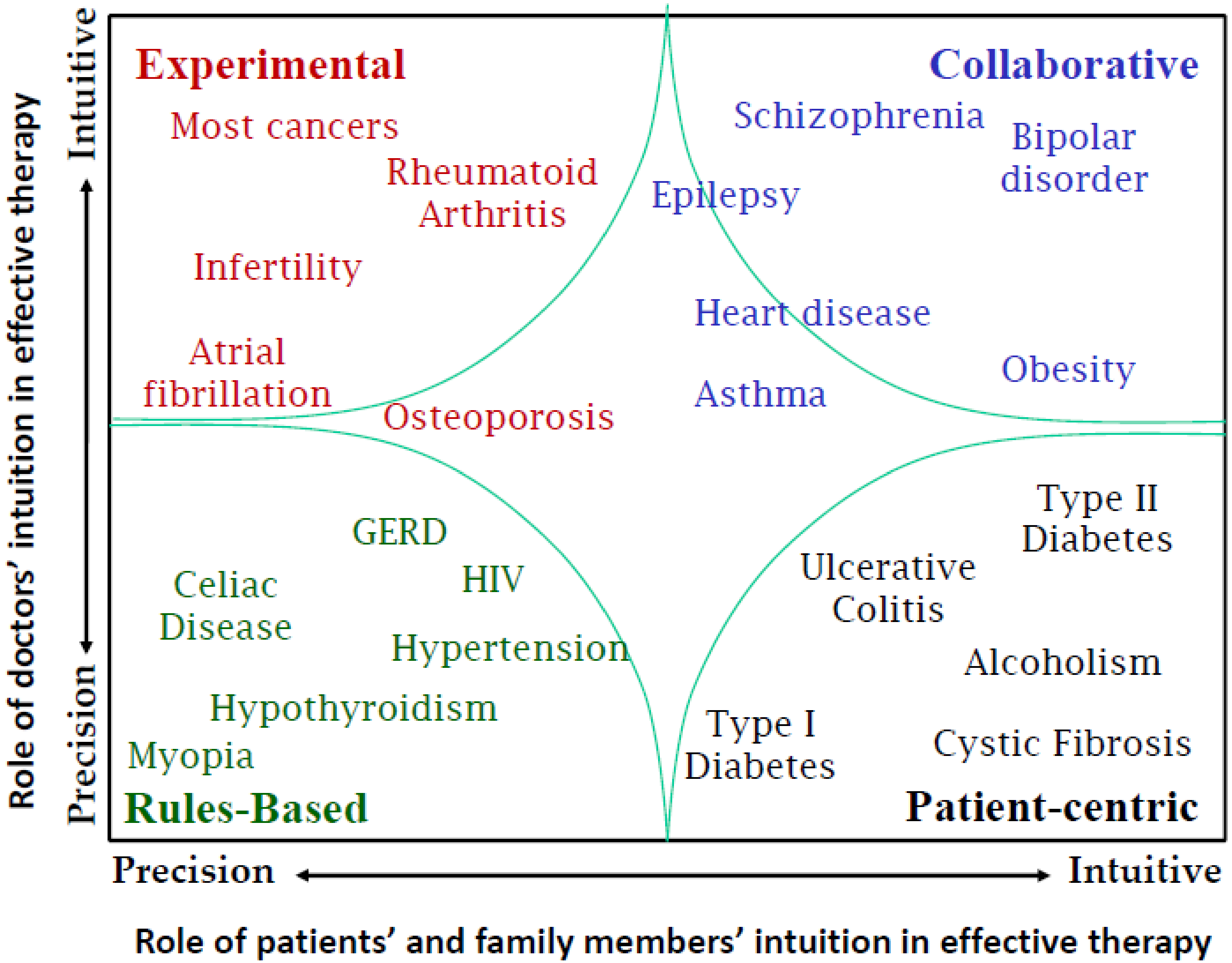
THE ORGANIZATIONS ARE CHANGING



THE AGENTS ARE CHANGING



CONSUMER PROVIDER ENGAGEMENT MODELS



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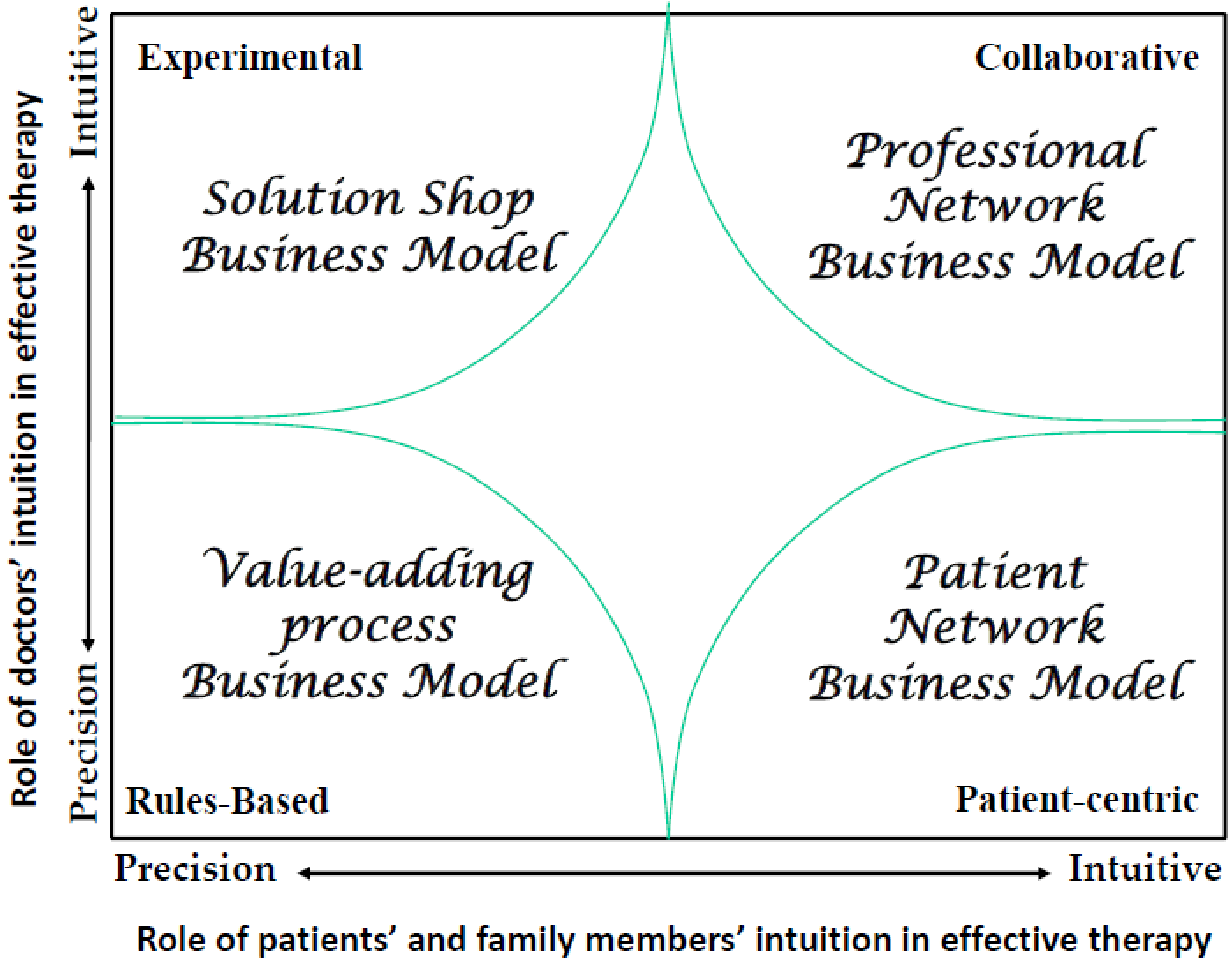
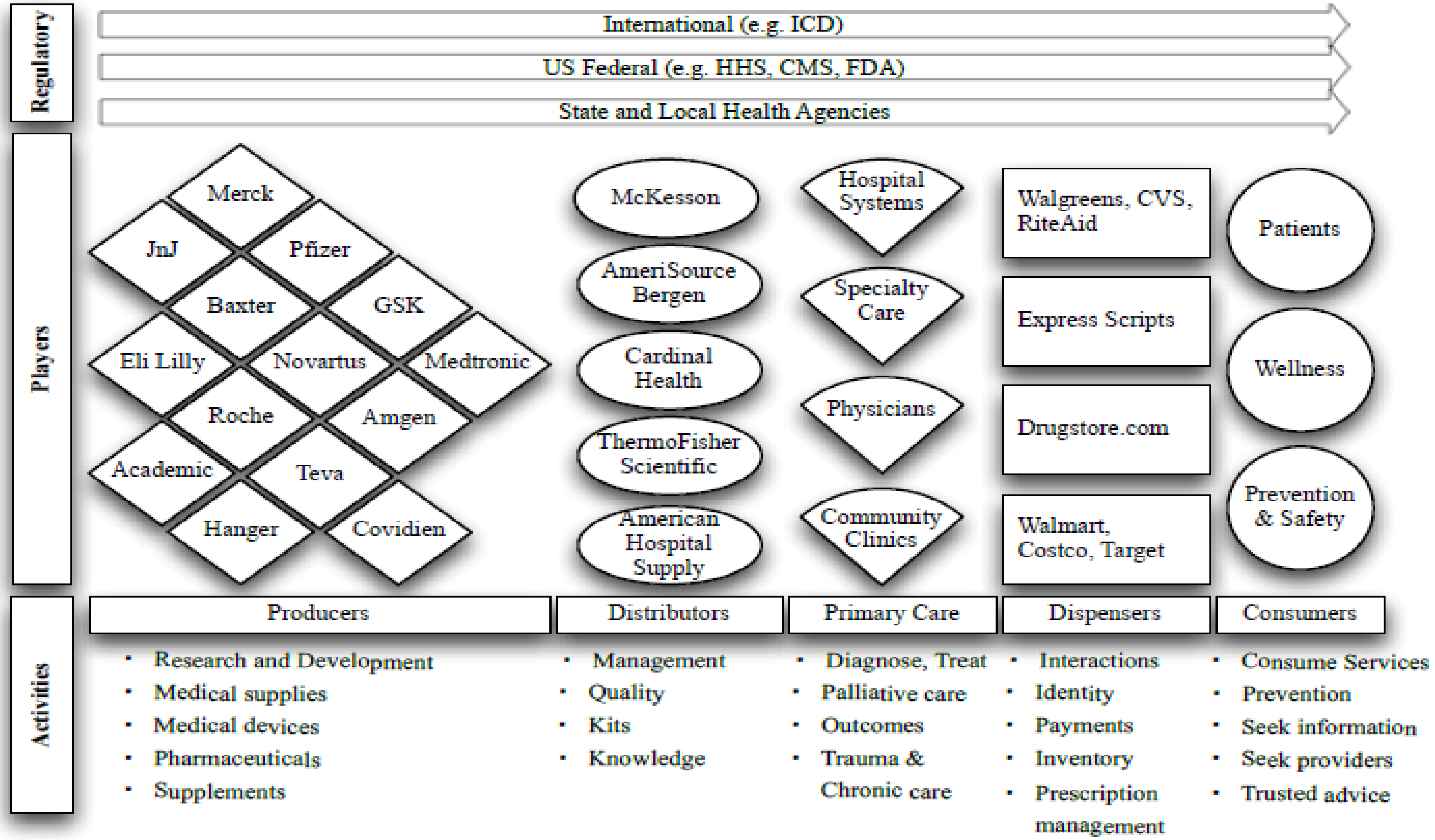
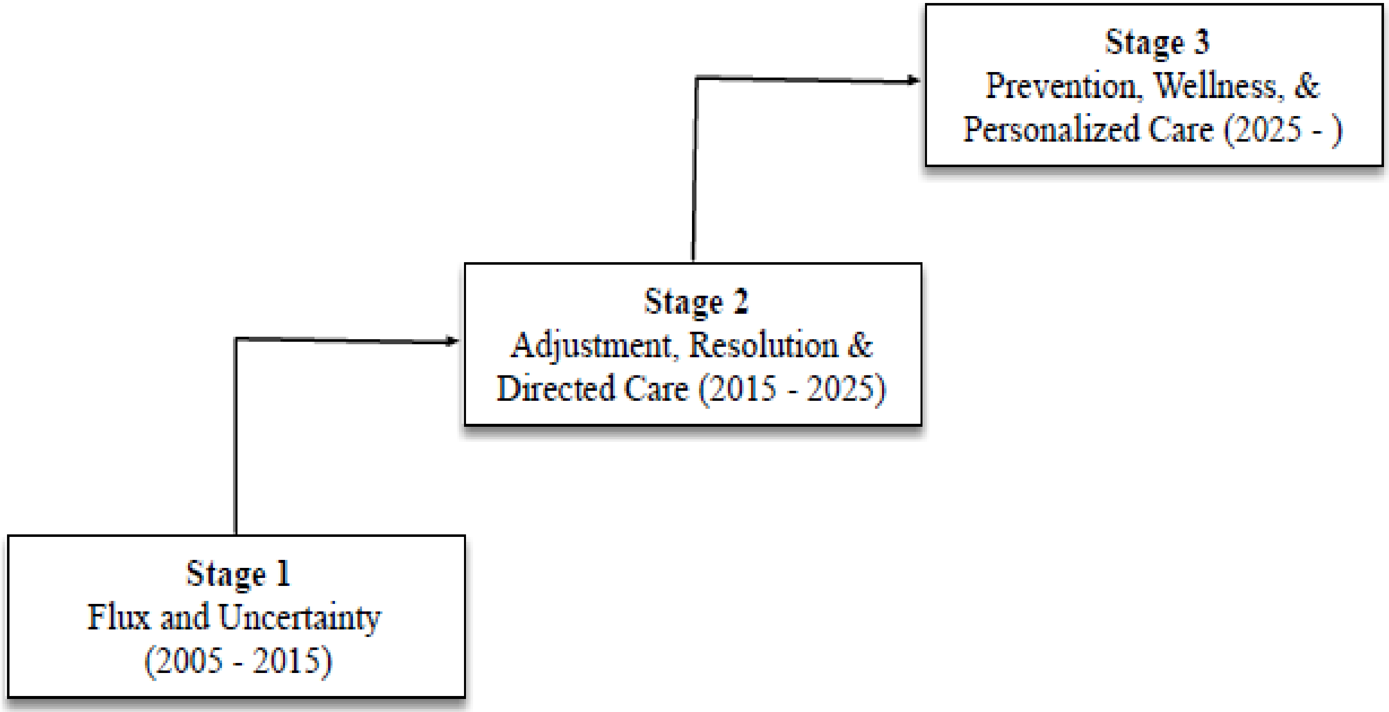


TRADITIONAL VALUE CHAIN IN US HEALTHCARE



Source: http://merage.uci.edu/ResearchAndCenters/CDT/Resources/Documents/N%20Vitalari%20A%20Prospective%20Analysis%20of%20the%20Healthcare%20Industry.pdf

STAGES IN US HEALTHCARE



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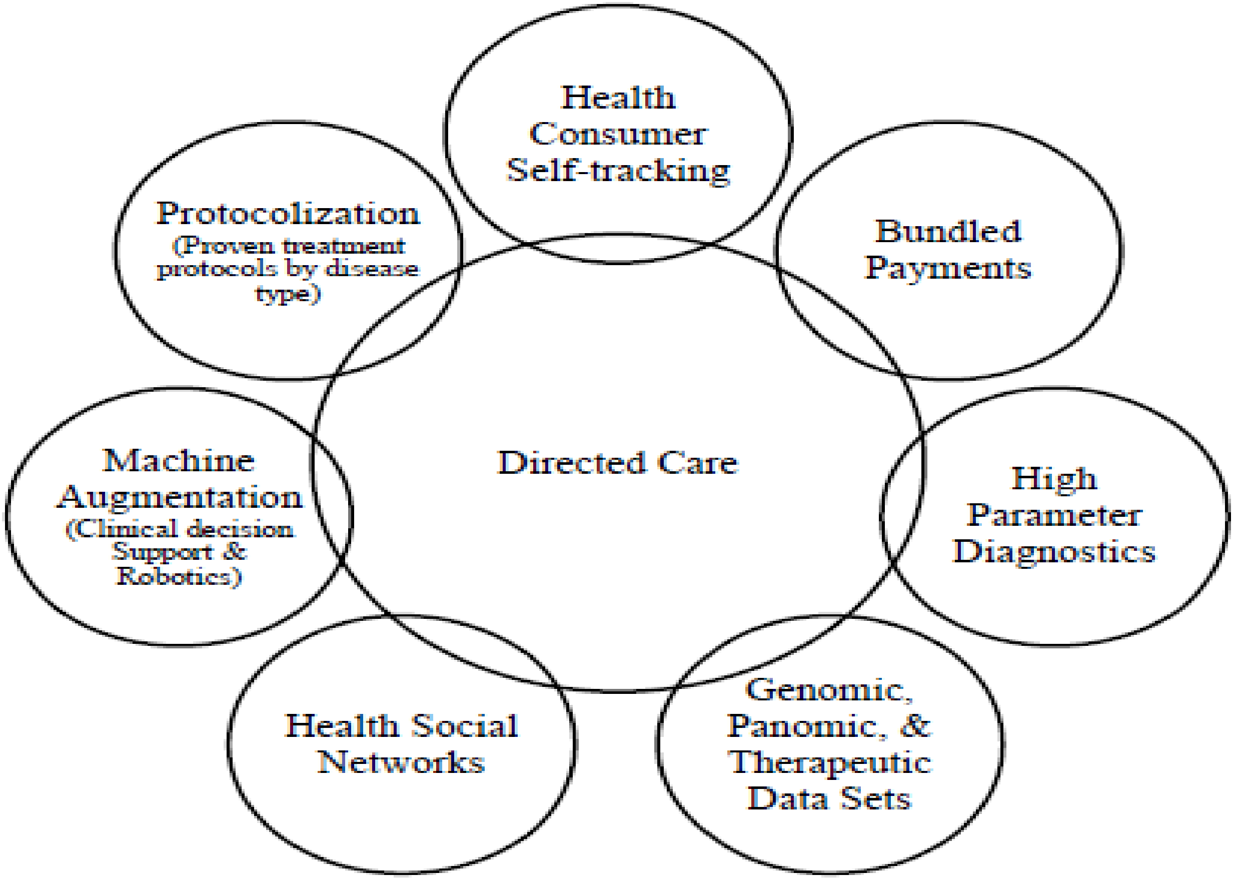
EVOLVING ECOSYSTEM IN US HEALTHCARE



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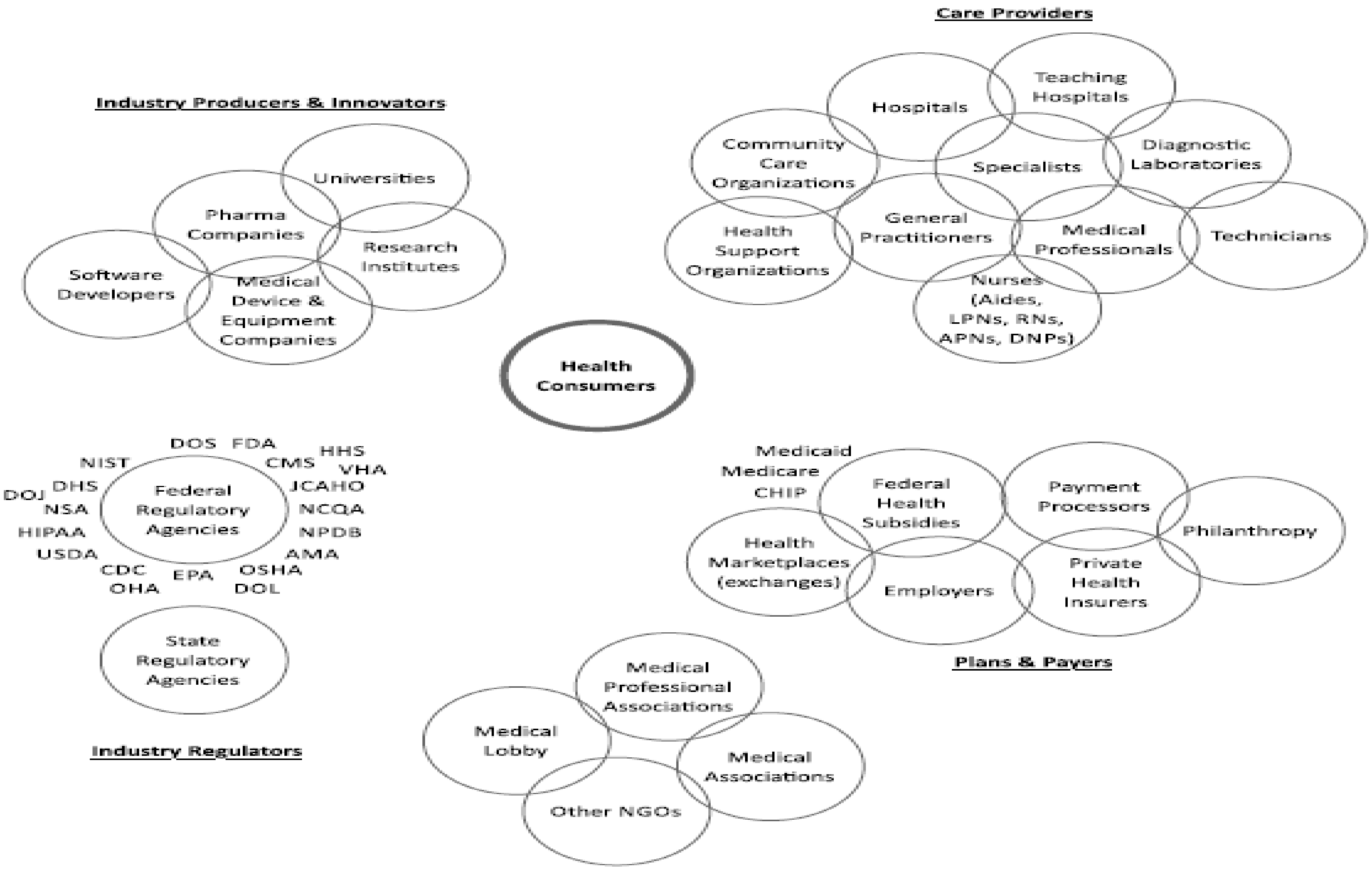
COMPLEXITY IN US HEALTHCARE



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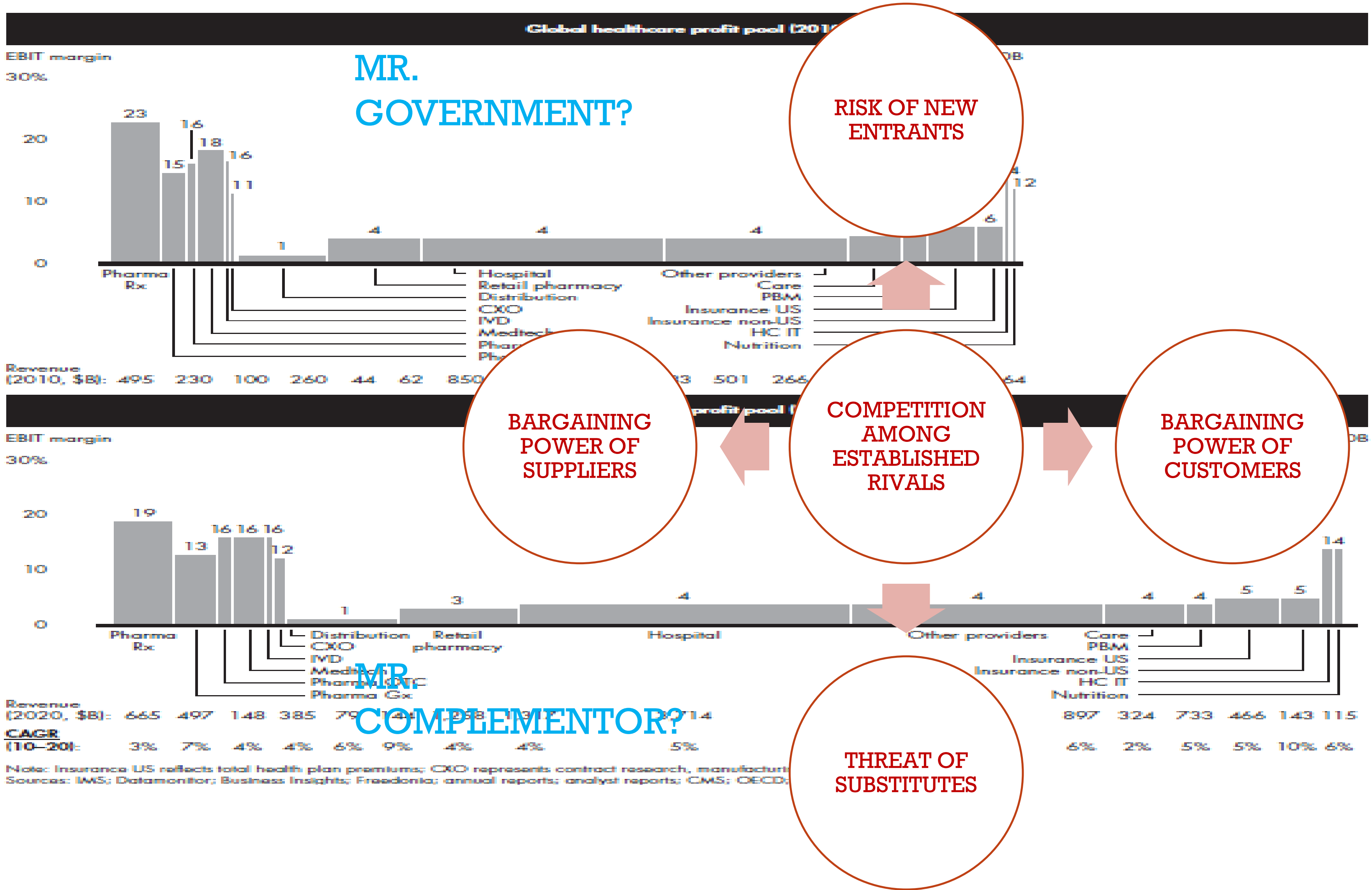
FINAL THOUGHTS ON CLIENT SELECTION



Source: Bain Consulting

STRATEGY IS COMMON SENSE