MAN 4633 Homework 6

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> 1. Live Nation operates music venues, provides management services to music artists, and promotes more than 22,000 live music events annually. The company merged with Ticketmaster and acquired concert and festival promoters in the United States, Australia, and Great Britain. How has the company used horizontal mergers and acquisitions to strengthen its competitive position? Are these moves primarily offensive or defensive? Has either Live Nation or Ticketmaster achieved any type of advantage based on the timing of its strategic moves?

- The Live Nation and Ticketmaster merger is a horizontal merger to create a monopoly through vertical integration. By merging, the same company now controls the stadiums and therefore the listed ticket prices (Live Nation), and the method of ticket sales (Ticketmaster). These moves are primarily offensive as any move to create a monopoly is offensive. However, they could be interpreted as defensive as a way to protect both companies' market position. I do not know if either company has achieved an advantage because of these moves but as I said before, it can be speculated that the vertical integration allows both companies to cut down on operating costs.

> 2. Kaiser Permanente, a standout among managed health care systems, has become a model of how to deliver good health care cost-effectively. Illustration Capsule 6.4 describes how Kaiser Permanente has made vertical integration a central part of its strategy. What value chain segments has Kaiser Permanente chosen to enter and perform internally? How has vertical integration aided the organization in building competitive advantage? Has vertical integration strengthened its market position? Explain why or why not.

ILLUSTRATION CAPSULE 6.4

Kaiser Permanente's Vertical Integration Strategy

Kaiser Permanente's unique business model features a vertical integration strategy that enables it to deliver higher-quality care to patients at a lower cost. Kaiser Permanente is the largest vertically integrated health care delivery system in the United States, with $56.4 billion in revenues and $3.1 billion in net income in 2014. It functions as a health insurance company with over 10 million members and a provider of health care services with 28 hospitals, 619 medical offices, and nearly 18,000 physicians. As a result of its vertical integration, Kaiser Permanente is better able to efficiently match demand for services by health plan members to capacity of its delivery infrastructure, including physicians and hospitals. Moreover, its prepaid financial model helps incentivize the appropriate delivery of health care services.

Unlike Kaiser Permanente, the majority of physicians and hospitals in the United States provide care on a fee-for-service revenue model or per-procedure basis. Consequently, most physicians and hospitals earn higher revenues by providing more services, which limits investments in preventive care. In contrast, Kaiser Permanente providers are incentivized to focus on health promotion, disease prevention, and chronic disease management. Kaiser Permanente pays primary care physicians more than local averages to attract top talent, and surgeons are salaried rather than paid by procedure to encourage the optimal level of care. Physicians from multiple specialties work collaboratively to coordinate care and treat the overall health of patients rather than individual health issues.

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One result of this strategy is enhanced efficiency, enabling Kaiser Permanente to provide health insurance that is, on average, 10 percent cheaper than that of its competitors. Further, the care provided is of higher quality based on national standards of care. For the seventh year in a row, Kaiser Permanente health plans received the highest overall quality-of-care rating of any health plan in California, which accounts for almost 8 million of its 10 million members. Kaiser Permanente is also consistently praised for member satisfaction. Four of Kaiser's health plan regions, accounting for 90 percent of its membership, were ranked highest in member satisfaction by J.D. Power and Associates. The success of Kaiser Permanente's vertical integration strategy is the primary reason why many health care organizations are seeking to replicate its model as they transition from a fee-for-service revenue model to an accountable care model.

Note: Developed with Christopher C. Sukenik.

Sources: "Kaiser Foundation Hospitals and Health Plan Report Fiscal Year 2013 and Fourth Quarter Financial Results," *PR Newswire,* February 14, 2014, **www.prnewswire.com**; Kaiser Permanente website and 2012 annual report; J. O'Donnell, "Kaiser Permanente CEO on Saving Lives, Money," *USA Today,* October 23, 2012.

- Kaiser Permanente has achieved vertical integration through the ownership of both insurance services and healthcare services. Through its ownership of both markets, Kaiser Permanente has been able to make itself more efficient and allowed them to lower costs. By focusing its doctors on preventative care, when the insurance does need to pay out, it costs less than paying for the care involved had it been an emergency. The decreased consumer costs have given it a competitive advantage and high consumer satisfaction scores.

> 3. Perform an Internet search to identify at least two companies in different industries that have entered into outsourcing agreements with firms with specialized services. In addition, describe what value chain activities the companies have chosen to outsource. Do any of these outsourcing agreements seem likely to threaten any of the companies' competitive capabilities?

A quick question, what separates outsourcing from a service or goods purchasing contract?

1. https://ezinearticles.com/?The-Nissan-and-IBM-Outsourcing-Agreement&id=868446
   In 1992, a failing Nissan entered into an agreement with IBM to outsource their IT infrastructure. This allowed Nissan to focus back onto auto manufacturing while reducing IT operating costs by leaving the management to the specialists. By outsourcing to IBM, Nissan also had a more specialized workforce available rather than needing to hire people for their skills on a case-by-case basis.
2. https://www.mbta.com/news/2020-06-15/fmcb-approves-4-year-extension-commuter-rail-contract-keolis-through-june-2026

   The Metro Boston Transit Authority (MBTA) contracts with Keolis, a multinational transit management company, to manage its commuter rail lines. Not only does Keolis manage and operate the commuter rail lines, they are also contracted for all mechanical, transportation, and engineering services. Like Nissan with IBM, outsourcing these services allows the MBTA to cut down on costs because Keolis has a ready supply of people for those positions who can work at any transit service so MBTA employees can remain focused on the core services and aspects of the commuter rail.

- For both Nissan and IBM and the MBTA and Keolis, the outsourced positions were both for services rendered rather than anything that would pose a real threat to either companies competitive capabilities.

> 4. Perform a thought experiment whereby two popular specialty food stores, Trader Joe's and Whole Foods, join forces in a strategic alliance in the near future. Conduct some research on the market niches that these food stores operate in to determine whether there might be an opportunity for some kind of fruitful partnership. Explain the nature of the proposed partnership, along with its potential advantages and disadvantages and what hurdles the two companies might need to overcome in order to benefit from the strategic alliance.

- Whole Foods' focus is on the organic, all natural, and environmentally conscious foods while Trader Joe's focuses on a limited selection of low-cost and high quality foods. Unfortunately, both business practices are almost at odds with each other with the exception off offering high quality products. I do, however, see potential in the larger store, Whole Foods, offering Trader Joe's branded products in its aisles. Obviously, the advantages would be that consumers no longer need to visit two grocery stores. The downside is that Trader Joe's would get less foot traffic and this would most likely lead to a national treasure going out of business. Overall, I think this is a bad idea as both companies serve their niche very well, even if there is a lot of customer base overlap between the two.