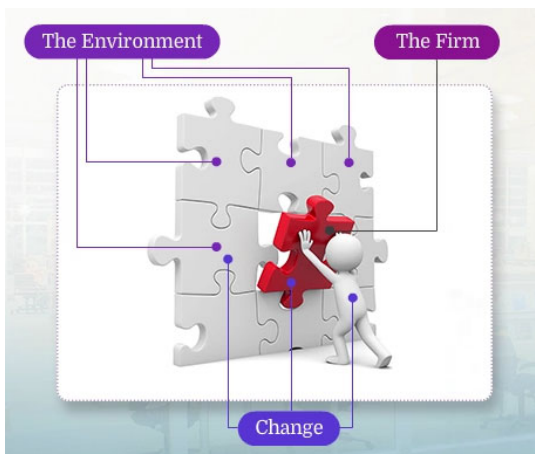


Marketing & Strategy

Strategy Session 2
STRATEGY 704QH 2024

What is Strategy?



Great strategies, ones that allow firms to achieve ambitious objectives, address all three of these topics

Session 2: The Firm

Today's Agenda

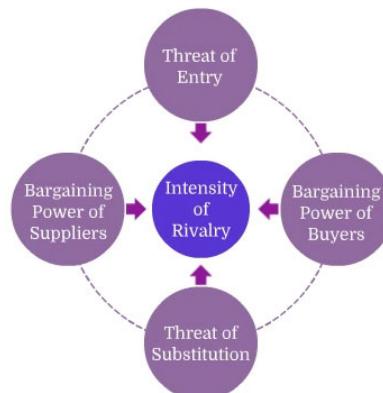
- Consider Mayo Clinic's environment
- Evaluate Mayo Clinic's resources, capabilities, dominant logic
- Reflect on transaction cost economics analysis
- Decide what Mayo Clinic should do

Macro and Industry Environment

Macro Environment

- Demographic trends
- Socio-cultural influences
- Technological developments
- Macroeconomic impacts
- Political-legal pressures
- Global trade issues

Industry Environment



Macro Environment

Industry Environment



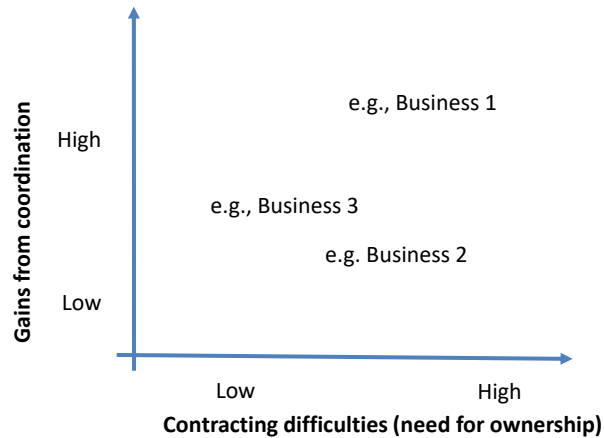
How much of the value created will the firms be able to capture (i.e., how profitable will this industry be)?

What key threats to capturing value must a firm's strategy address?

Core Business (Industry) and Forces?

Resources, Capabilities, Dominant Logic

Corporate Scope (Transaction Cost Economics)



Corporate objective: Maximize gains from coordination across businesses while minimizing the cost of transactions

Why does Disney own a cruise line but license out for Disney on Ice?

Contracting Difficulties

- Uncertainty about future contingencies
- Inseparability of resources or effort
- Contracting on information: Arrow's paradox
- Limited private information (adverse selection)
- Specific assets and hold-up (opportunism)

Gains from Coordination

Operational Advantages (lower costs and higher WTP)

Economies of scope (scale and utilization of a shared activity)

Cross-selling and bundling

Co-location and other forms of increased complementarity (fit)

Coordinating complementary investments and activities

Leveraging resources and capabilities (particularly scale-free ones)

Strategic Advantages

Bargaining power with suppliers and buyers

Reduction in rivalry (multi-point competition)

Team TCE Analyses

What should Mayo Clinic do?

Trend Update - ACOs

Exhibit 2: ACOs and covered lives over time, 2010 to Q1 2022

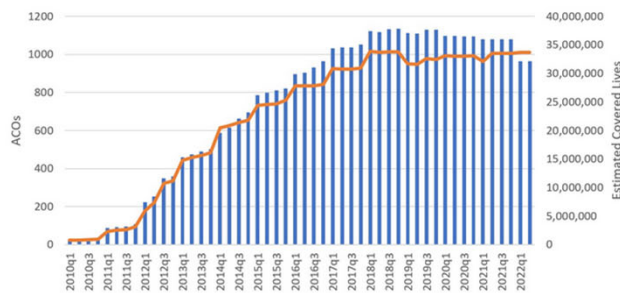
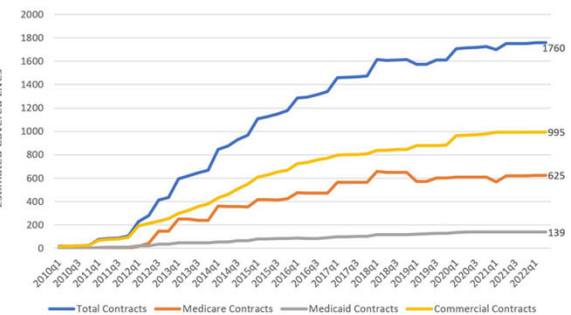


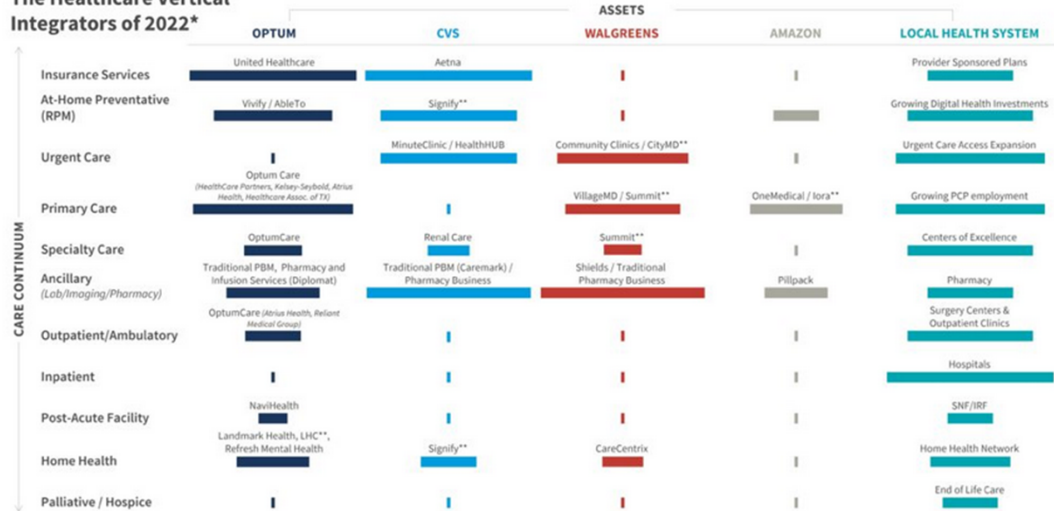
Exhibit 3: ACO contract growth by payer type over time, 2010 to Q1 2022



Source: Milliman Torch Insight (<https://www.healthaffairs.org/content/forefront/growth-value-based-care-and-accountable-care-organizations-2022>)

Trend Update – Vertical Integration

The Healthcare Vertical Integrators of 2022*



LUMERIS  QUESTIONS? EMAIL: info@lumeris.com

*Scale based on relative market impact as of 11/2022. | **Pending transactions | ©2022 Lumeris | Proprietary & Confidential

Source: <https://www.lumeris.com/healthcare-vertical-integration-back-to-the-future/>

Trend Update - AI

“I don’t think we are at a place where we can just let algorithms run and make the decisions,” said Michael Pencina, director of Duke AI Health, an initiative at Duke University School of Medicine that works on AI and machine-learning research. Generally, medical AI programs use an algorithm or set of algorithms that learn and get better over time with input.



Dr. Paul Friedman, chair of the Department of Cardiovascular Medicine at Mayo Clinic in Rochester, Minn., uses AI to look at electrocardiogram information. PHOTO: TERRI MALLOY/ MAYO CLINIC

Source: <https://www.wsj.com/articles/how-doctors-use-ai-to-help-diagnose-patients-ce4ad025>

My Take on Case

An outstanding organization with rare strengths

Confronts changing environmental demands

Meeting expected demands requires broader coordination

- Incentives

- Information

Across businesses that have traditionally been run with different logics

Mayo Clinic's resources, capabilities, and dominant logic may make them particularly capable of meeting these coordination challenges

For our next meeting (*Change*)

Read the articles posted about expansion of tech companies into healthcare

Please choose one of the kinds of players in the healthcare industry (e.g., providers, payors...) that you think is most subject to disruption over the next decade.

In three PowerPoint slides: identify who they are (define their role, give key examples); show why are they at risk (draw on any kind of evidence), and provide three recommendations about how they (one specific company or all of the players) should respond.

Types of Technological Change

Change can be *competence enhancing* (preserve or extend exiting capabilities) or *competence destroying* (undermine the value of existing strengths or turn a strength, such as a distributor network, into a liability)

Change can be in *components* (isolated changes generally easy to adapt to) or *architectural* (changing the relationships among parts of a business system)

Change can be *sustaining* (it improves existing performance attributes) or *disruptive* (it succeeds on attributes less important to existing customers)

Disruptive Change

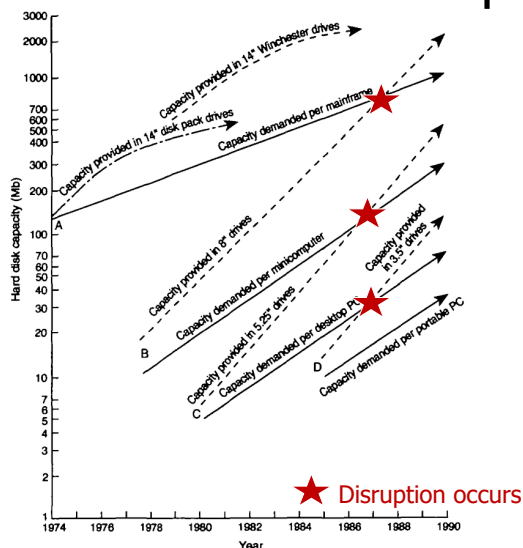


FIGURE 3. A comparison of the trajectories of disk capacity demanded per computer, versus capacity provided in each architecture.

Disruptive Technologies

- Initially have attributes that are not adequate for existing customers (thus are often ignored by incumbents)
- Are adequate for newer customer groups (creating a viable market)
- Are on improvement paths that eventually surpass the needs of existing customers (thus replacing the old technology)

Source: Christensen, C. M. and R. S. Rosenbloom (1995). "Explaining the attacker's advantage: technological paradigms, organizational dynamics, and the value network." *Research Policy* **25**: 233-257.