Predicting changes in industry structure

Stuart E. Jackson

Stuart E. Jackson is a Vice President of L.E.K. Consulting and author of *Where Value Hides: A New Way to Uncover Profitable Growth for Your Business* (Wiley, 2006).

You're driving down Main Street in Anytown, USA, in the year 2018.

There, on the right, just beyond the stoplight, are the ubiquitous Golden Arches of McDonald's. Ray Kroc's astounding invention – standardized, predictable, inexpensive food, franchised across the nation and around the world – is still going strong.

Just beyond McDonald's is a Starbucks: a corner of the largest coffeehouse empire in the world. Way back in the 1980s, entrepreneur Howard Schultz figured out how to sell coffee and espresso drinks (as well as beans) to a public that was ready for a consistently high-quality product, consumed in a welcoming quasi-Continental environment.

Next, of course, comes the local Jiffy Lube. Car technology has changed dramatically since 1979, when Houston-based Jiffy Lube – a subsidiary of Shell – set up the first drive-through service bay. But car engines still use oil, and oil still needs to be changed, so Jiffy Lube is thriving.

The next little commercial enterprise on this strip, set back a little from Main Street, is a fairly new arrival in town. An enormous black fiberglass stethoscope snakes its way playfully across the façade and around the corner toward the rear parking lot. This is ''QualityClinics'' – a franchise under one of the fastest-growing retail umbrellas in the country. It offers a limited ''menu'' of medical services on both a walk-in basis and by appointment. Need a throat culture? Need a vaccination for that upcoming overseas trip? Time to have your blood checked? Pull into QualityClinics: the next available practitioner will see you.

It is not an entirely new concept, of course. Beginning in the later decades of the twentieth century, urgent-care clinics began appearing in downtown areas. These early efforts, which tended either to be freestanding businesses, part of a pharmacy chain, or satellite offshoots of the local hospital, were often disparaged for offering low-quality and impersonal care. But QualityClinics, taking a page from Ray Kroc's playbook, took the idea a major step forward. Among other innovations, the company took what had previously been a local business, with physician offices and clinics run by the doctors who worked there, and began competing on a national level with a limited menu of treatments, standardized procedures and published information on quality standards and patient outcomes. It posted its standardized, nationwide prices on easily read signs in the main waiting room and contracted with major corporations and insurance companies for nation-wide rates. It even called its patients ''customers'' and offered guaranteed appointments within 15 minutes of scheduled time, or customers received a $30 gift voucher.

Today, in 2018, QualityClinics is opening up a new store every 22 hours on average. Employers are happy. (Their employees are taking 45 minutes off for a routine outpatient consultation, rather than a half a day.) Wall Street is thrilled. The medical

 VOL. 29 NO. 2 2008, pp. 54-56, © Emerald Group Publishing Limited, ISSN 0275-6668 DOI 10.1108/02756660810858161

establishment is scratching its collective head.

Is this a farfetched scenario? Not really, especially when you look at the health-care industry through the lens of strategic market positioning, or ''SMP.'' SMP is about defending and growing your company's strategic market segments that define competitive advantage within your industry. The company that understands the fundamentals of SMP gets bigger along the dimensions of scale that drive competitive advantage and profitability for their industry sector.

In previous columns, I have looked at companies and industries in historical terms. (How did smart companies use SMP to make acquisitions and other investments? How did less smart companies pick the wrong growth path?) In this column, I want to present a brief analysis of the health care industry as an example of how the basis of competition might change in the future, with big implications for many of those operating in the industry today.

Today, the global health care industry can be divided into a series of sectors with very distinctive market characteristics. On one end of this spectrum are the pharma companies, which tend to operate on a global scale. (If you develop a breakthrough drug, most likely you can sell it around the world – and given the cost of drug development today, mostly likely you have to sell it around the world.) Medical devices tend to have the same kind of high development costs, and stent-makers, for example, strive for scale across geographies.

Stepping down to medical/surgical supplies, though, the picture starts to look a little different. Here, the key suppliers of things like bandages, sutures, and so on tend to be national players. (The product tends to be bulkier and less complicated; transportation costs and national health-care standards and traditions tend to come into play.)

When it comes to the HMO and managed-care sectors, you start to find state-based markets, mainly because this part of the industry is regulated on a state-by-state basis. True, some of the larger players operate across state lines, but their economics tend to be largely dependent on their results in key states.

Finally, at the opposite end of the spectrum from the pharmas, we find the caregivers themselves. Most of these seek to build strong market shares in their respective local markets. Many of the best hospitals, for example, try to build reputations that will achieve scale locally (or perhaps regionally). Doctors, if they even try to build scale, tend to combine into groups that similarly aim for strong local market positions. The reason is that historically there have been significant benefits from local scale in payer contracting, doctor scheduling and facility operations but few benefits to national scale.

Take, for example, HCA (the former Hospital Corporation of America). Beginning in 1979, HCA began buying general hospitals in the Southern and Western USA on the mistaken assumption that simply by growing, they were building scale profitably. But patients remain stubbornly local. As a result, hospitals specializing in secondary and tertiary care have been picking off the most profitable patients, leaving HCA (and all the smaller general hospital chains) with a disproportionate share of uninsured patients and unprofitable hospitalizations. In its 2005 annual report, HCA – which had taken a beating in the previous decade – declared its intention to ''focus on [its] core communities,'' and to ''maintain market-leading positions in large, growing urban and suburban communities.'' (HCA, 2005, p. 17). Belatedly, it seems, HCA is embracing local market definition of SMP.

But does this mean that all health-care providers should always think in terms of local market share and forget about national scale? Not necessarily. One interesting recent development is the retail health clinic, cast as a precursor to our imaginary QualityClinics – but already a real enough phenomenon in 2008. RediClinic (acquired by CVS in 2006) today operates over 230 clinics, mostly in CVS pharmacies, and mostly in the contiguous states of Texas, Oklahoma, and Arkansas. Staffed exclusively by nurse practitioners, RediClinics treat between 25 and 30 common medical conditions and offer a range of preventive care services. Can RediClinic, with the combined muscle of CVS/Caremark behind it, change the delivery of basic health care in the USA? Can RediClinic (or some other similar chain, of which there are already several) become the Starbucks of strep throat – and a great many more primary care procedures?

The answer will depend on whether RediClinic or anyone else can change the basis of competition and find national scale benefits in a market dominated by local physician groups. Can they develop all-electronic patient records and billing systems that local doctors groups cannot afford but give a national clinic lower costs and greater accuracy? Can they realize substantially lower costs from national purchasing of their own proprietary equipment and supplies (and drugs, in the case of CVS/Caremark)? Most importantly, can they overcome the potential backlash from independent physicians and build a national brand for quality and efficiency that makes the clinics a preferred option for large numbers of customers?

What about a more complicated medical service? Could a nationally renowned medical provider put together a good reputation, strong systems, consistently high levels of service, and local outlets to build a national business for more severe medical conditions?

The answer is ''probably'' for the basic clinics and ''maybe'' for the more complicated procedures. Perhaps the most powerful brand in US health care today is the Mayo Clinic. Patients travel from all over the world to remote Rochester, Minnesota to receive the high quality care that Mayo is known for. Could Mayo leverage that reputation to build a chain of clinics across the country, and around the world? If a member of your family needed the kind of expert care that Mayo provides, and if there were a Mayo Clinic right down the street, wouldn't you ''shop'' there first?

But Mayo's experience with its branch operation in Jacksonville, Florida offers some cautions. World-class Mayo physicians, it seems, are reluctant to leave their world-class peer group and head off across the country. At the same time, Mayo was surprised by the powerful ''antibody'' reaction of local physicians who controlled most of the patient flow and preferred to continue sending patients to the doctors they knew personally. So a sprawling Mayo empire is unlikely in the short term.

Just as there will always be great restaurants operating in a single location, so there will always be single-location great physician practices and hospitals. But maybe somewhere out there, as you read this, there is a combination of bright young MDs and MBAs who are putting together the right package of stock options, high-tech data and image exchange capabilities, expert systems and continuing education, and other elements needed to make McMedicine – in a good sense! – an increasing reality.

Reference

HCA (2005), *Annual Report*, HCA, Nashville, TN.