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L.E.K. Consulting

INDUSTRY OUTLOOK

Outlook 2013: New Opportunities and Pressing Challenges Ahead

L.E.K. Consulting's 2013 Outlook series looks across the horizon to assess the broader business climate and specific industry drivers for the coming year. We examine macroeconomic trends that could very well have a pronounced influence on businesses across the country. Digging deeper, we have also developed outlooks for market sectors across the economic spectrum – including aviation, building & construction, consumer products, life sciences and retail.

What are the Biggest Challenges and Opportunities Facing Senior Executives During the Next Year?

If You Are "Middle of the Road," You'll Likely Get Run Over. Offering average products and services is likely a losing proposition. Across many U.S. industries, we are seeing successful companies that are either targeting affluent consumers at the high end or are providing value-based products and services to budget-conscious consumers.

Discount retailers such as Dollar General and restaurants like Subway have seen more than 9% annual sales growth between 2007-2011. During the past couple of years, companies with tailored premium offerings including Whole Foods and Nordstrom have also seen healthy double-digit growth during a time when many companies are struggling to maintain sales and market share.

Companies serving B2B industries can also command higher margins for products that demonstrate clear advantages. As an example, our research shows that residential building and construction contractors are generally willing to pay premiums for trusted brands rather than trade down to less expensive alternatives that are perceived to have lower quality.

Are You Giving Informed Consumers the Tools to "Build it Themselves"? Consumers are taking an increasingly active role in nearly every aspect of their lives – from researching healthcare options to scouring the Internet for deals on everyday products. And because they want choices that are tailored to their specific needs, companies must truly rethink how they engage with consumers at every touch point.

But building a true connection with individual consumers requires companies to provide a myriad of options and then package them effectively. As an example, neighbors with the same number of family members may have significantly different requirements for their health plans. And even a family traveling together may have different needs, with parents opting for extra legroom on a flight while the kids use high-speed Internet access for online gaming on their handheld devices. Companies that can understand their different customer segments, and offer the right services at the right time, have the potential to stand out in an increasingly crowded market.

What's the Current State of Industry?

M&A Trends: Are You Going to Bulk Up or Slim Down This Year? We expect to see an uptick in M&A activity this year across a number of industries as business leaders focus on strengthening and rationalizing their portfolios. This renewed level of activity is fueled by confidence that the worst is over and a thawing credit market will give senior executives greater opportunities to act on strategic deals.

Some industries, such as airlines, may see continued consolidation as a merger between US Air and American Airlines could significantly reshape the domestic airline industry and have a ripple effect globally. In this scenario, other carriers may look to bulk up through partnerships or mergers to strengthen their competitiveness against other industry titans and better insulate themselves against volatile fuel prices, softening demand in some regions or other potentially turbulent market conditions.

State of the Industry, Continued . . .

Industry leaders in other sectors, however, may need to take a closer look at divesting assets to improve their perceptions on Wall Street. In fact, L.E.K. analysis shows that the total sales and market cap of big pharma companies can be negative predictors of total shareholder returns. To address these challenges, large pharmas may further consider a number of options, including deconsolidating/restructuring around a smaller revenue base of high-value therapeutic areas, consolidating to externally fill pipeline gaps or diversifying beyond pharmaceuticals to access adjacent profit segments.

What Burning Issues are Senior Executives Facing?

How Do You Measure Success (and When is Having 10 Customers Better than 20)? This era of lean economics has forced many companies to focus on sales to generate much-needed revenue in the short term at the expense of larger, more strategic opportunities. From L.E.K.'s perspective, businesses that have fewer, deeper relationships with customers are in a better position to sustain growth than competitors who have a smaller share of wallet with a larger number of customers. This larger group spends significantly less than your core customers and probably doesn't see you as central to their needs, but as a secondary and dispensable choice.

When working with one retailer, we determined that the company had a nearly 25% share of its core customer's wallet, compared to only 5-10% with other customer groups. Using this information, we developed targeted programs that focused on the retailer's core customers, and have been able to further increase both sales and margins with this important group.

In the pharmaceutical industry, one drug manufacturer developed a new, focused approach for an oncology drug launch. After identifying critical shifts in the commercial landscape, the company determined that a traditional sales and marketing campaign targeting a large number of oncologists would not be effective. Instead, the pharma company developed a specialized commercial model that focused on providing expert support to each of its core stakeholder groups: patients, oncologists and payers. The strategy to devote a majority of its efforts to support a specific sub-segment of oncologists and other key constituents helped to make the launch extraordinarily successful. Today, the commercial model deployed by the drug manufacturer is considered a benchmark for success in the pharmaceutical industry.

Bypass the Middleman. Historically, many companies have had barriers between themselves and their customers. For example, retailers – not clothing manufacturers – often held customer information by virtue of their position as the end-point to consumers. But that's continuing to change across a number of industries.

In life sciences, customer relationships today are extending beyond online patient communities and educational web sites to include tools such as iPhone apps that help diabetes patients measure and maintain appropriate blood sugar levels. And entertainment networks such as HBO are bypassing cable providers and developing direct connections with subscribers by offering their content directly on consumers' mobile devices (in addition to the TV set-top box that cable companies control).

And to streamline operations and control costs, many building products retailers and companies in other industries are also experimenting with directly sourcing some products to eliminate a step in the channel.

Meet Our Expert

Peter McKelvey
President of L.E.K. Consulting's North America Practice

Please contact us at sales@lek.com for additional information.