

BAIN & COMPANY

**Taking
Advantage
of the
Turbulence
in Japan:
Key Challenges
for Foreign
Companies**

Health Care Viewpoint

Number 9

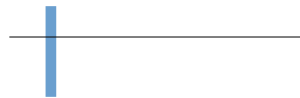


Bain health care
expertise

As the year 2000 approaches, the health care industry is still turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.



the evolving japanese market

The Japanese market is of strategic importance because of its size and role in the global triad system. Historically, technology advantages have allowed higher foreign penetration into the health care sector than in many other Japanese industries. Currently, the market is undergoing significant changes, opening up new opportunities and challenges for foreign participants.

As with many industries in Japan, the health care sector's go-to-market system is inefficient compared to other countries' systems. Furthermore, the technology advantages that created initial opportunity for multinationals are eroding. Previously strong positions in Japanese health care markets are vulnerable, unless companies fundamentally improve their efficiency and effectiveness.

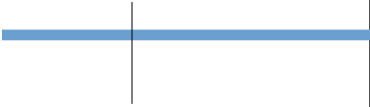
Five Challenges and

Imperatives

1 Rationalize Wholesaler Operations

In an attempt to drive low-value participants out of the market, Japan's Ministry of Health and Welfare (MHW) has begun to redefine the roles of wholesalers' and manufacturers' sales representatives. New regulations that make wholesalers responsible for negotiating prices with health care providers have taken manufacturers' power away and changed the roles and dynamics of the distribution channels.

In response, manufacturers are rationalizing and strengthening their wholesaler networks. Currently, the number of wholesalers is down from 500 in 1984 to 300, and is still under



pressure. Manufacturers have been pushing wholesalers to provide more value-added services and to simplify the rebate structure. Wholesalers' margins are being squeezed, and this trend is expected to continue.

Increasingly, manufacturers will need to learn how to manage larger and more powerful wholesalers and to provide tools and incentives to secure the wholesalers' commitment.

2 Improve Sales Force Efficiency and Effectiveness

Given the emerging changes in distribution channels, manufacturers will need to increase the effectiveness and efficiency of their sales forces. Currently, there are too many sales representatives per hospital and per physician.

Many manufacturers continue to follow inefficient and outdated sales management, employee evaluation, and compensation systems. The application of new information technology has proceeded slowly. In addition, the function of marketing divisions often has been reduced to merely supporting the sales division rather than developing strategic marketing efforts.

3 Strengthen Organizational Capabilities

In addition to changing their sales strategies, manufacturers need to reconsider their overall organizational capability. As a result, many foreign manufacturers are attempting to take over business functions previously conducted by their Japanese alliance partners. Many important organizational issues, such as excessive structural hierarchies and underdeveloped management talent, remain unresolved.

4 Face the Reimbursement Challenge

Financial pressures have led the Ministry of Health and Welfare to implement various cost-cutting measures.

At present, cost containment is still primarily perceived in terms of reducing the cost of each individual reimbursement component. The MHW lacks the requisite “total cost perspective” to push through a comprehensive rationalization of the health care cost structure. Thus, impending changes in reimbursement policy still loom over manufacturers.

5 Identify Emerging New Health Care Services

With the recent emphasis on cost containment and an improved quality of life, new opportunities are arising for services traditionally unavailable in Japan.

The emergence of a market for alternative site and home-care services is one important example. Substantial opportunities exist for foreign competitors to establish innovative product/service systems, bring these capabilities from their home markets (especially from the U.S.), and adapt them to Japanese needs.

Summary:

Health care has historically been an industry in which foreign competitors have been successful in Japan. Now the rules for success are changing. Companies that adapt to these changes and continue to stay in front of market dynamics have the potential to maintain and grow their presence in this important Japanese market.

Bain is one of the world's leading global business consulting firms. Its 2,400 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 26 years, covers a complete range of critical business in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customized strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

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