

PART

I

The Marketing Process

The Meaning of Marketing

Learning Objectives

After reading this chapter, you should be able to:

- Define marketing and differentiate between a marketing-driven and nonmarketing driven process
- Distinguish among marketing mix elements
- Delineate between health care needs and wants
- Understand the dimensions of the environment that have an impact on marketing strategy
- Appreciate the ongoing restructuring of the health care industry

Primary care satellites, integrated delivery systems, managed care plans, and physician–hospital organizations are but a few of the elements that dominate the structure of the health care industry today, as the government, employers, consumers, providers, and health care suppliers deal with a new health care market. This marketplace is typified by massive restructuring in the way health care organizations operate, health care is purchased, and health care is delivered. Competing in this environment will require an effective marketing strategy to deal with these forces of change. This book will focus on the essentials for effective marketing and their implementation in this health care marketplace. This discussion begins with an examination of what marketing is and how it has evolved within health care since first being discussed as a relevant management function in 1976.

■ Marketing

For anyone involved in health care during the past 10 to 15 years, the term *marketing* generates little emotional reaction. Yet, health care marketing—a commonplace

concept today—was considered novel and controversial when first introduced to the industry three decades ago. In 1975, Evanston Hospital, in Evanston, Illinois, was one of the first hospitals to establish a formal marketing staff position. Now, more than 30 years later, marketing has diffused throughout health care into hospitals, group practices, rehabilitation facilities, and other health care organizations. In this book, fundamental marketing concepts and marketing strategies are discussed. Although health care is undergoing significant structural change, the basic elements of marketing will be at the core of any organization's successful position in the marketplace.

The Meaning of Marketing

There are several views and definitions of marketing. The most widely accepted definition is that of the American Marketing Association, the professional organization for marketing practitioners and educators, which defines **marketing** as “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.”¹

Central to this definition of marketing is the focus on the consumer, whether that is an individual patient, a physician, or an organization, such as a company contracting for industrial medicine. This definition also contains the key ingredients of marketing that lead to consumer satisfaction. Increasingly, customer satisfaction is the key issue in health care.

The Joint Commission, the industry's major accrediting agency for operating standards of health care facilities, requires—per its 1994 accreditation manual—that hospitals improve on nine measures of performance, one of which is patient satisfaction. A similar requirement is also in place for long-term care facilities. This focus on patient satisfaction is an overt recognition of the need for health care facilities to be marketing oriented and, thus, customer responsive. Moreover, the Center for Medicare and Medicaid Services (CMS) requires all hospitals to distribute to patients and publish the results of its standardized survey instrument and data collection methodology for measuring patients' perspectives of hospital care. This 27-item survey underscores the focus on the consumer (patient) (see www.cms.hhs.gov/hospitalqualityinits/30_hospitalhcahps.asp). In January 2009, the Joint Commission posted these results for all hospitals on its Web site so that consumers could search for CMS patient satisfaction data for all hospitals and view state and national averages.² The importance of customer satisfaction is now a recognized and central component to the operations of health care organizations.

Prerequisites for Marketing

This book's definition of marketing includes several prerequisite conditions that must exist before marketing occurs. First, there must be two or more parties with unsatis-

fied needs. One party might be the consumer trying to fulfill certain needs; the second, a company seeking to exchange a service or product for economic gain. A second prerequisite for marketing is the desire or ability of one party to meet the needs of another. Third, parties must have something to exchange. For example, a physician has the clinical skills that will meet an individual patient's need to have a torn meniscus repaired. A consumer must have the health insurance or financial resources to exchange for the receipt of these medical services. Finally, there must be a means to communicate. In order to facilitate an exchange between two parties, each party must learn of the other's existence. It is this last aspect of health care that has formally evolved in recent years.

Until 1975, advertising and promotion really did not exist within health care. Communication to facilitate exchange occurred by word of mouth. One would consult with a physician, and that individual, in turn, recommended the physician to other consumers who would then seek out that particular physician. Prior to 1975, the American Medical Association (AMA) had within its codes of ethics a prohibition against advertising. That very year, the U.S. Supreme Court ruled that professional associations were subject to federal antitrust laws. The AMA revised its code of ethics to be less stringent regarding advertising. Further legal actions between the Federal Trade Commission (FTC) and the AMA had, by 1982, removed even those restrictions. The FTC believed the restriction on advertising deprived consumers of the free flow of information regarding health care alternatives and services. The FTC and the federal courts recognized the value of communication to consumers. Communication is a prerequisite for marketing. It is only in the last three decades that more formal means of communication have evolved within health care and that marketing strategies have become more visible.

Who Does Marketing?

Traditionally, only for-profit commercial businesses in consumer or industrial settings conducted marketing. In this text, they will be referred to as *traditional businesses*. Yet, the application of marketing broadened in the late 1960s.

In 1969, two marketing academics—Philip Kotler and Sidney Levy—at Northwestern University in Illinois published an article about broadening the concept of marketing. Their writing was the first attempt to recognize that for-profit and non-profit businesses engaged in marketing activities. They recognized that marketing activities occurred in both service and product businesses. At the core of these organizations' activities was the notion of “exchange.”³

Viewing the concept of exchange as the core of marketing allowed people to consider other areas where marketing might also be useful. Fine arts centers and museums, hospitals, and school districts began to see the relevance of applying marketing strategies and tactics to their settings. A consumer exchanges time and money for the pleasure of seeing a display of fine art; a patient pays for medical services provided

by a free-standing diagnostic clinic; and a school district provides education in exchange for public support through tax levies.

The scope and nature of who markets has broadened considerably. Marketing is conducted by individuals and organizations. Marketing is relevant to for-profit and nonprofit entities. Throughout this book, examples of marketing programs at businesses such as General Motors (GM) or Johnson & Johnson will be discussed, along with the marketing programs of health care providers such as the Geisinger Health System in Danville, Pennsylvania, or the Mayo Clinic in Rochester, Minnesota. Although there are distinct aspects within any industry that require the modification of marketing principles to fit particular needs, the core of marketing and the marketing mix is relevant for almost every organization.

■ The Elements of Successful Marketing

Marketing Research

Within the definition of marketing is the discussion of a process of planning and executing to meet consumer needs. Marketing requires an understanding of consumer wants and needs. This understanding is derived through an assessment of these needs. Within this book, Chapter 5 focuses on marketing research. **Marketing research** is a process in which there is a systematic gathering of data from customers to identify their needs.

The Four Ps

The heart of marketing strategy is the development of a response to the marketplace. As noted in the definition, *marketing* is the “execution of the conception, pricing, promotion, and distribution of the goods, ideas, and services.” To respond to customers, an organization must develop a product, determine the price customers are willing to pay, identify what place is most convenient for customers to purchase the product or access the service, and, finally, promote the product to customers to let them know it is available.

Product, price, place, and promotion are referred to as the **four Ps** of marketing strategy.⁴ It is these four controllable variables that a firm uses to define its marketing strategy. The mix of these four controllable variables that a business uses to pursue a desired level of sales is referred to as the **marketing mix**. The definitions of the four major elements of marketing as discussed below provide the focus of this book.

Product

Product represents goods, services, or ideas offered by a firm. In this text, the term *product* also will be used interchangeably with health care services and ideas. In health care, the nature of the product has changed dramatically. Thirty or 40 years

ago, one could define the product simply as a medical procedure or as an orthotic device to correct a physical disability. In today's climate, the discussion of the health care product includes not only these traditional products, but also products and services. Examples of such products and services include a contracted emergency physician organization (e.g., CEP America) that runs a hospital's emergency room; a group purchasing contract, such as that offered by Premier, Inc., an alliance of independent hospitals in 50 states; or even a Web-based consulting service.

Price

Price focuses on what customers are willing to pay for a service. What price represents is addressed in the definition of marketing in terms of exchanges. A company provides a service, and customers exchange dollars for receipt of a service that satisfies their needs. For example, an employee paying an annual premium to an insurance company and a physician fee for an office visit, both encompass exchange behaviors involving a predetermined price. As will be discussed in Chapter 9, the issue of pricing for health care services has become a major concern of marketing strategy as the health care environment changes.

Several factors are contributing to the greater role that the pricing variable is playing in developing marketing strategy. In many countries, the rising cost of health care has been a major cause of concern. Between 1990 and 2005, health care costs grew at a rate of 5.8% in the United States, yet this pales in comparison to health care cost increases in the United Kingdom (6.8%), Greece (7.1%), Ireland (7.1%), and South Korea (9.6%).⁵

Rising health care costs have a direct impact on the larger economy. The U.S. Department of Health and Human Services analyzed data across 38 U.S. industries from 1987–2005 to study the impact of employer-sponsored insurance on the U.S. economy. The implications were clear: increasing health care costs had a significant negative economic impact. Companies in industries where workers bore the burden of their own health care costs were not as sensitive to increases in health care costs. This might be one reason why in 2009 firms such as Chrysler, GM, and American Airlines—all of which have generous employee health benefits—experienced such severe financial difficulties.⁶ **FIGURE 1-1** shows the change in employment across selected industries as a function of the percentage of workers with employer-sponsored insurance. The relationship is fairly direct. Thus, companies that historically have paid the full premium for health care costs have become concerned about the price of medical services. These employers are now looking for ways to become more efficient buyers of health care coverage.

Finally, within the health care system itself, different approaches are being undertaken to control costs and reduce costs to employers and consumers in the long run. The federal government is attempting to implement a pay-for-performance (P4P) model through Medicare. The use of such models has increased significantly in recent years. In 2003, 40 P4P plans were in operation in the United States; by 2006, that

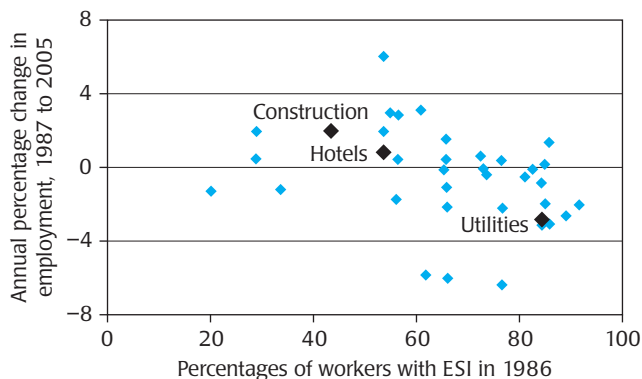


FIGURE 1-1 Growth of Workforce

Source: Sood N, Ghosh A, and Escarce JJ, "Employer-Sponsored Insurance, Health Care Cost Growth, and the Economic Performance of U.S. Industries," *HSR: Health Services Research* [Epub June 9, 2009]. http://www.rand.org/pubs/research_briefs/RB9465/index1.html

number had increased to at least 80 plans. By March 2007, 147 such plans existed.⁷ For marketers, the issue of price involves understanding what level of dollars a customer is willing to exchange for the receipt of some want—satisfying services or products. In the current health care climate, determining the value of these services—represented by the price—is the major challenge facing health care organizations.

Place

Place represents the manner in which goods or services are distributed by a firm for use by consumers. Place might include decisions regarding the location or the hours a medical service can be accessed. Chapter 10 reviews the marketing considerations for place that have assumed greater importance in today's managed care environment.

Increasingly, as more health care organizations establish managed care plans to enroll consumers in an insurance option that provides for all their health care needs, the place variable assumes a more critical role. Companies offering prepaid health care plans must consider location and primary care access for potential enrollees. While 40, 20, or even 10 years ago, a physician would establish an office in a location convenient for the physician, today the consumer dictates this variable element of the marketing mix. However, in the digital and wireless age, the entire definition of place in terms of patient-provider interaction may also shift.

Promotion

The final P represents **promotion**. For many people, this has historically meant advertising, and advertising has meant marketing. Yet, as can be seen in the definition, promotion is just one part of marketing; promotion alone is not marketing. Promotion represents any way of informing the marketplace that the organization has developed a response to meet its needs, and that the exchange should be consum-

mated. Promotion itself involves a range of tactics involving publicity, advertising, and personal selling, which are described in Chapters 11, 12, and 13, respectively.

As discussed earlier, formal communication in the form of advertising was not allowed as recently as 1975. Yet while the past 30 years have seen a change in terms of the amount of advertising, other promotional tactics such as personal selling have become more relevant to compete effectively in today's marketplace. Health insurance companies and managed care organizations (MCOs) all employ sales forces. Even local acute-care hospitals now often have physician referral staff who call on physicians to ensure that their needs are being met at the facility where they admit patients.

■ The Dilemma of Needs and Wants

One of health care marketing's major concerns pertains to the issues of needs and wants. Health care professionals often speak of the fact that what consumers want may not be what they need. Clinical and professional responsibility demands treatment of the need. A **need** has been defined as a "condition in which there is a deficiency of something, or one requiring relief."⁸ A **want** is defined as the "wish or desire for something."⁹ A consumer *needs* to have medication for hypertension. A person may *want* medication to suppress the appetite and thus lose weight. To which need or want should the health care marketer respond?

Underlying any response in health care must be whatever constitutes providing quality care for the patient. Meeting medical needs must be the primary purpose of the system. Yet wants should not be ignored. For the health care professional, consider the just-cited dilemma of a pill for weight reduction. Should the system respond to this want? A marketer's response would most likely be yes, but the response must be medically appropriate. In fact, the marketer would try to understand more closely what it is the consumer wants (or is buying). In this instance, it is less likely to be a pill and more probably a more attractive appearance through weight reduction. The request for medication might be met more appropriately with creation of an eating disorders program or a wellness center that helps establish an exercise and fitness regimen. The ultimate want that the customer has can be satisfied, but the methodology must observe appropriate practice standards.

Identifying the Customer

In health care, this need/want dilemma often masks the major question, "Who is the customer?" Consider recent trends in the field of obstetrics. For many years, the consumer—the expectant mother—wanted to have her significant other with her in the delivery room. The medical community responded by claiming that this want was inappropriate. It would compromise good standards of care. In fact, the issue had less to do with standards of care and more with standards of convenience for the provider.

Now, in most delivery rooms in the United States, a woman in labor will be accompanied by her significant other, a nurse midwife, and, possibly, the obstetrician.¹⁰

The medical community argued that the need to restrict access to the labor suite was for “good standards in obstetrical care.” In reality, medicine lost sight of who the customer was and how her needs and wants could be met. In the delivery process, the physician may be viewed as part of the production line, not as the customer. Medical needs are not compromised in modern labor rooms, but customer needs are being more closely addressed. A community hospital like Cooley Dickinson in Northampton, Massachusetts, offers a postpartum doula program linked with the childbirth center. The doula service representative visits the mother after birth and can help provide a range of services, from helping the new mother bond with the child to preparing snacks, running errands, or transmitting messages.

In our current health care marketplace, most health care organizations have multiple markets or customers to whom they must be attentive. **FIGURE 1-2** shows an array (but probably not all-encompassing) of potential markets for a health care organization. An organization offering a mental health or substance abuse program for

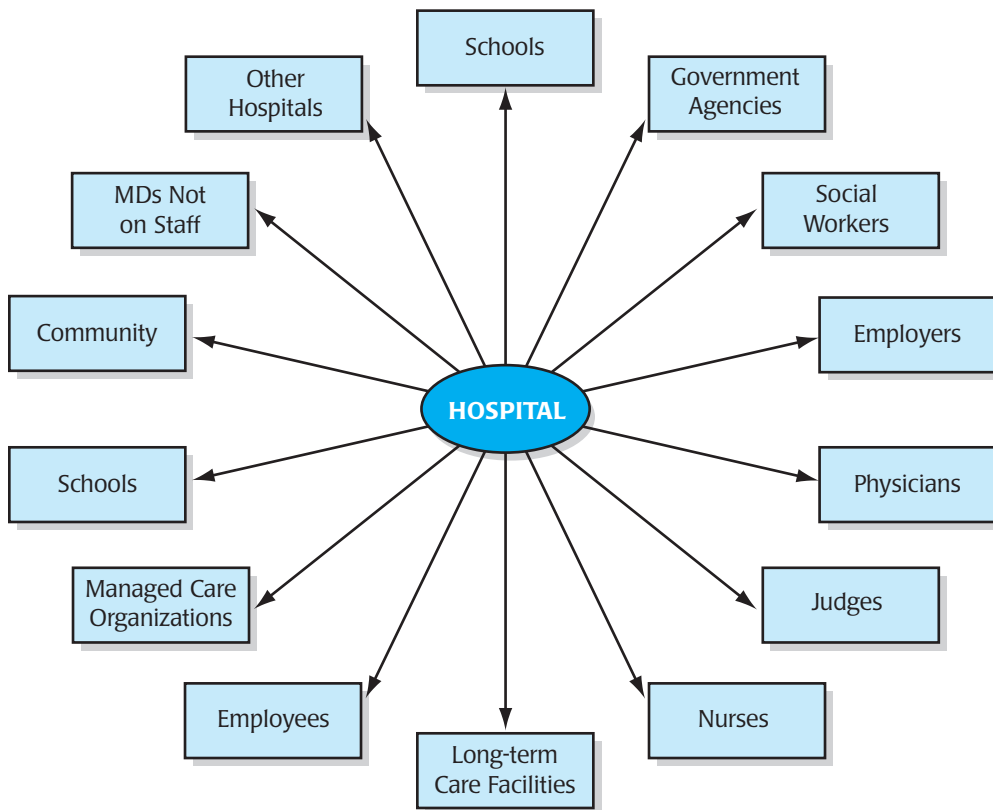


FIGURE 1-2 The Many Hospital Markets

adolescents might have to accommodate the needs of judges, probation officers, or social workers. Schools might be the market for a sports medicine program. Long-term care facilities might be the market for a geriatric assessment program. Also included are the more traditional markets represented by physicians, nurses, patients, referring physicians, employee assistance personnel at companies, managed care plans, and regulators. One increasingly important market includes employers. For many years, this segment was considered of secondary importance, because companies paid the full insurance premiums for their labor force. Now, however, companies are controlling rising health care costs (a factor discussed further in Chapter 3) by dealing directly with providers to meet their employees' health care needs.

As the topic of markets is discussed in this book, it is important to be aware that health care organizations have multiple markets—the importance of each one is a function of the program or issue being addressed.

■ The Evolution of Marketing

In both traditional businesses and in health care, the marketing concept has taken several decades to evolve. In health care, this evolution has occurred in a relatively short time period. As previously noted, one of the first hospitals to hire a person with a marketing title was Evanston Hospital in Illinois in 1975. In traditional product businesses, the evolution of the marketing concept took longer.

Production Era

To understand how marketing has evolved, let's consider its development in a corporation such as Pillsbury Company of Minneapolis–St. Paul, long known as a manufacturer of flour, baking goods, and other food products. Let's also trace this same evolution in the typical hospital.

Pillsbury located itself in the Minneapolis–St. Paul, Minnesota, market in the 1800s. The location, along the Mississippi River, offered the company a source of water power. (In that era, the Mississippi River had waterfalls that far north.) This location was also close to the raw materials needed for the production of Pillsbury's product. Robert Keith, a former Pillsbury president, described the company at this stage of its development. "We are professional flour millers. Blessed with a supply of the finest North American wheat, plenty of water power, and excellent milling machinery, we produce flour of the highest quality. Our basic function is to mill high-quality flour, and of course we must hire salesmen to sell it, just as we hire accountants to keep the books."¹¹ At this stage of the company's evolution, the primary focus of the business was producing a high-quality product—flour. The sales and even the consumption or purchase of the product were incidental to the firm's focus—it was assumed that people would buy Pillsbury flour because it was high quality.

Many hospitals were and are at this stage in their own evolution. One might rewrite Keith's statements for a production-oriented hospital to say, "Our basic function is to provide high-quality medicine. Accompanied by the highest forms of technology, we have physicians, nurses, and allied health personnel to provide this service and we have administrators to keep the books." For a production-oriented hospital or health care organization, the focus is on providing high-quality medicine. As can be seen in Table 1-1, the health care organization's focus is on delivering clinical quality.

Sales Era

For many traditional businesses such as Pillsbury, the production orientation worked well until the early 1900s. By 1920, the automobile became part of our way of life and changed the world for consumers and companies. The federal government began to finance the construction of a roadway system in the United States. Consumers became more mobile in the everyday life of work, shopping, and recreation. For companies, the strategic change was in the hiring of traveling salespeople. Competition heightened as competing sales forces fought for customers who formerly were the domain of manufacturers in their particular region. Robert Keith so characterized Pillsbury's business focus at this stage: "We are a flour-milling company, manufacturing a number of products for the consumer market. We must have a first-rate sales organization which can dispose of all the products we make at a favorable price."¹²

For hospitals, the sales era occurred in the mid-1970s with the change in reimbursement. Under cost-based reimbursement, competition with other hospitals was not a major concern. Hospitals had patients, lengths of stay were not an issue, and occupancy rates were high. Hospitals treated patients and passed along the actual cost, along with an appropriate profit margin, for reimbursement by the third-party payers. The focus for a hospital administrator in the sales stage was twofold. The first and top priority was to get as many patients as possible. Traditionally, this goal was accomplished by attracting as many physicians as possible to admit patients to the hospital. Because this era preceded the days of utilization reviews, hospitals had no concerns about attracting efficient physicians who could care for patients in some

Orientation	Pillsbury	Hospital
Production	Product quality focus	Clinical quality focus
Sales	Generating volume	Filling beds
Marketing	Satisfying needs and wants	Identifying health care needs and meeting them

limited time period. The hospital wanted to ensure that as many patients as possible wanted to be admitted into the facility who were so directed by their physicians.

Changing Mr. Keith's statement, one might characterize the focus of a sales-oriented hospital as: "We are a high-quality hospital providing numerous medical services to the market. We must attract physicians in the community to want to admit to our facility. And, we must encourage patients to want to come here." This stage of marketing evolution focused on sales. Hospitals tried to entice physicians to admit to a particular facility. Hospitals built medical office buildings attached to their facilities offering physicians the convenience of admitting patients at the hospital contiguous to their offices. Hospitals developed physician relations programs to bond with the providers. They sponsored seminars for physicians or provided valet parking and attractive lounges. All these were attempts to build the census, fill the beds.

At this time, hospitals also recognized that the patient might play a role in the hospital-selection decision.¹³ A second, concurrent strategy of selling to the public also occurred. In the mid-1970s, many hospitals adopted mass advertising strategies to promote their programs, including the use of billboard displays and television and radio commercials touting a particular service. The advertising goal was to encourage patients to use the hospital facilities when the physician presented a choice, or to self-refer if necessary. In health care, this was the evolution to sales.

Marketing Era

The evolution to marketing occurred after World War II. In the late 1940s, many companies found that their level of technological sophistication had increased dramatically as a result of their wartime efforts. Moreover, consumers were returning from the war and establishing households, escalating the demand for products and services. For many companies the major question became one of deciding which products or services to offer. Pillsbury's perspective changed to: "We are in the business of satisfying the wants and needs of consumers." With this focus, it is the customer who drives the production process and directs the organization's efforts.

So, too, in health care, a similar perspective can and is being achieved. Health care providers can offer any number of services by reallocating their financial resources. The underlying question, however, becomes which service to offer? This is where a marketing-oriented perspective is valuable. In health care, the focus of a marketing-oriented institution can be viewed as "We address the health care needs of the marketplace." Such a marketing-oriented focus might lead to a product or service line that includes home health care, geriatric medicine, after-hours care, or wellness centers. The trend toward integrated delivery systems (a concept discussed in greater detail later in this text) is a response to a marketplace that does not want to deal with a fractionated health care system of providers, free-standing medical centers, a hospital, and an insurance firm. The integrated system formation can deliver a seamless health care

product to the buyer that involves not only delivering the clinical care, but also accepting the risk for the cost of that care through a managed care product. It is a focus that begins with the consumer; the organization responds to this demand.

■ The Marketing Culture

Some organizations achieve a final level of evolution, where marketing becomes part of the corporate culture, diffused throughout all levels of the organization. The focus of marketing no longer lies solely under the responsibility of the marketing department. Rather, in the health care setting, marketing is performed by the clinical nurse administrator for the neurology program. The admitting desk clerks and the house maintenance staff understand and appreciate the need to maintain a customer orientation.

The evolution to this stage may be seen in organizations that have adopted a patient-focused system. Both Texasan's Heart Hospital in San Antonio, Texas, and Harlingen Medical Center in Harlingen, Texas, prominently promote their patient-focused care approach on their Web sites (see www.texasanhearthospital.com/Default.aspx?tabid=1035 and www.harlingenmedicalcenter.com/Default.aspx?tabid=1194).

These organizations have made the customer the central focus of all their activities. Admitting is accomplished on the floor where the patient is assigned a bed, employees cross-train for skills that allow them to be the most patient-responsive possible without compromising the quality of care delivered. Whenever possible, certain diagnostic equipment is brought to the patient rather than having the patient moved through the hospital. It is the primary responsibility of each employee to respond to customer needs first. The development of patient-focused care in such organizations is the transference of a marketing culture throughout the organization. Rather than having the patient (customer) go to the provider (such as when the patient moves through the delivery system for treatment or clinical testing), the provider goes to the patient whenever possible to administer the necessary clinical interventions.

For organizations at this stage, the concept of a marketing orientation has taken hold. A **marketing orientation** has five distinct elements:

1. Customer orientation—having a sufficient understanding of the target buyers to be able to create superior value for them continuously
2. Competitor orientation—recognizing competitors' (and potential competitors') strengths, weaknesses, and strategies
3. Interfunctional coordination—coordinating and deploying company resources in a manner that focuses on creating value for the customer
4. Long-term focus—adopting a perspective that includes a continuous search for ways to add value by making appropriate business investments

5. Profitability—earning revenues sufficient to cover long-term expenses and satisfy key constituencies.¹⁴

■ The Nonmarketing-Driven Planning Process

The patient-focused health care approach represents the diffusion of a marketing orientation throughout a health care institution, but this approach has not always been the perspective taken by health care providers. Most health care organizations have been characterized by a nonmarket-driven culture and planning process. In no place is the difference between being marketing-oriented and nonmarketing-oriented more apparent than when a health care organization goes about its long-range planning process.

To understand the difference between a marketing-driven and nonmarketing-driven process, it is important to recognize the implications of the difference between the two concepts on long-range planning.¹⁵

FIGURE 1-3 shows the sequence involved when a nonmarketing-driven organization conducts long-range planning. In most health care organizations, long-range planning is assigned to a committee comprising administrators, key members of the hospital's board of directors, and a few influential physicians. Typically, the first step involves a review of the organization's mission and goals. A hospital might reaffirm its mission "to provide high-quality health care regardless of race, creed, religion, and [in small print] ability to pay."

The second step of the planning process—strategy formulation—is often difficult and time-consuming. At this point, members of the long-range planning committee

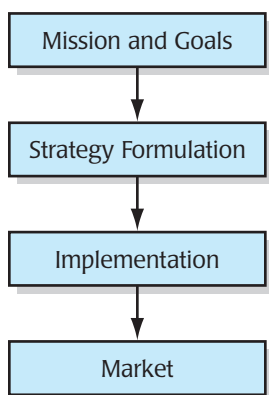


FIGURE 1-3 Nonmarket Based Planning Sequence

debate what objectives should be included in the hospital's 5-year plan. Now, the real implications of the nonmarketing-driven approach become evident. Often, a senior physician stands up at the strategy formulation stage and makes a speech such as the following: "I've been at this hospital since the day I entered the medical profession. This hospital is my life and I never even admitted a patient to another facility. Of course, I'm also being recognized as an expert in the future of medicine. I've been invited to conferences to speak on the future of medicine and I've just published an article in the *New England Journal of Medicine*. As I think about what services we need to provide in the new ambulatory care wing of the hospital, it's clear to me that we need a sports medicine program." Usually, the physician making this recommendation appears to be a self-serving orthopedic surgeon.

At this stage in the planning process, several committee members become dismayed. Some think the hospital should, instead, offer an expanded geriatric medicine program; other committee members want to get into rehabilitative medicine. Yet this physician is very influential and has lined up committee votes in favor of a sports medicine program before the committee met. The vote is taken, and the final tally is seven to five in favor of a sports medicine program, which becomes part of the strategic plan.

The next stage of the long-range planning process—implementation—is more difficult. The hospital realizes it has no staff members trained in sports medicine. The hospital hires a physician recruiting firm to find a new medical director for sports medicine. The position is filled, and it is at this stage of the process where conflict often occurs within the organization. Many committee members opposed opening a sports medicine program, yet now, the new director and new program require resources. Other services within the hospital find their budgets for the coming fiscal year are reduced in order to reallocate dollars to sports medicine. Other program directors are upset because they lose space in the new ambulatory care wing because of the needs of the sports medicine service. The new sports medicine director has an aggressive agenda. She has hired her staff, purchased the necessary equipment, and is setting up shop.

A state of anxiety soon takes hold of the hospital's administrators. As the date moves closer to the grand opening of the sports medicine program, they ask, "Who is really going to use the service?" Recognizing the need for patient volume, they attempt to market the program. But what happens is not marketing but sales. The hospital administrator typically places a frantic call to the public relations director requesting an open house for the new sports medicine program. Advertisements are placed in the local community paper. Invitations to tour the facility are distributed to influential people. The goal is to attract visitors to the new program. On the day of the open house, attendance is disappointing. Four months later, the finance committee convenes to review the performance of the sports medicine program. It is a failure. Why?

The first response is to blame public relations; the public relations director didn't promote the service well. This may be a possible explanation. A second hypothesis suggests the failure is the fault of the new sports medicine director, whose interpersonal style is discouraging other physicians from referring patients to the program. Yet, there may be a third, more viable explanation—the sports medicine program wasn't needed. The program differed little from the competition's offering; hence, patients had no reason to switch facilities.

This scenario is a common result of a nonmarketing-driven planning process. The problem with a nonmarketing-driven process is that it requires a group of people (or one powerfully persuasive committee member) to have insight into what kinds of health care service the marketplace wants, how it wants that service configured, and what it is willing to pay for it. This approach to delivering a service or health care product to the market is an internal-to-external development process. The product is sold first. The challenge then is finding enough buyers willing to use the service or product at a level sufficient to make a profit. This approach is risky at best because it relies on the market forecasting ability of people within the organization.

The limitations of the internal-to-external perspective of the nonmarketing-driven approach, as well as overcoming the political power of some people within the organization, are addressed by taking a marketing-driven approach to planning.

■ A Marketing-Driven Planning Sequence

A marketing-driven planning sequence is dramatically different from a nonmarketing-driven process, as illustrated in [FIGURE 1-4](#). The first step is the same; every organization has the right to determine its mission and goals. Yet the marketing-driven approach is substantially different at step two. It is at this stage of needs assessment where market research, as will be discussed in Chapter 5, begins to make its contribution. The hospital conducts a survey to determine which services are most needed. Should sports medicine, geriatric medicine, or women's health services be offered in the new ambulatory care wing of the hospital?

When determining the most needed service, it is essential to examine the competition. If there are existing competing services in the market, the necessary differential advantage for these new offerings must be identified. While the sources of a differential advantage are discussed later in this chapter, a **differential advantage** is the incremental benefits of a product relative to competing products that are important to the buyer and perceived by the buyer. In our example, the hospital's survey reveals that 20% of the market wants sports medicine, 25% would like to see a new geriatric program, and 50% wants women's health. Further research shows that the major differential advantages that would lead women to use this service over their existing providers are convenient location and hours.

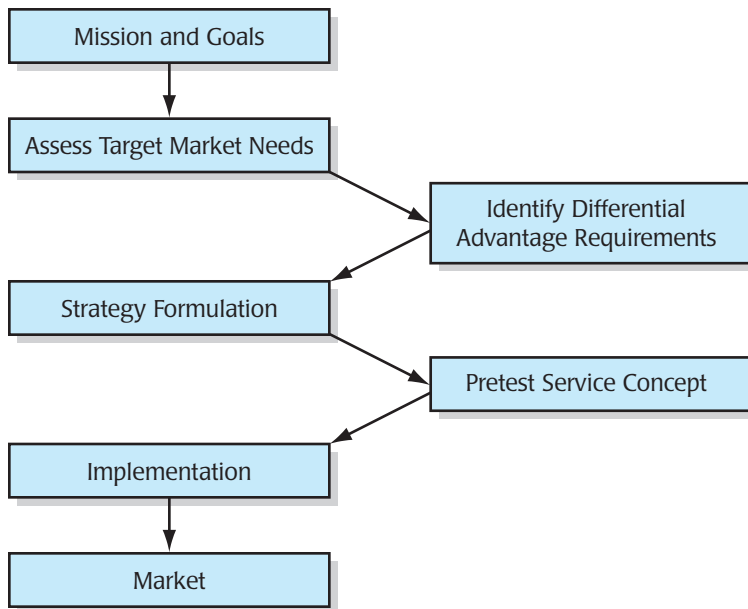


FIGURE 1-4 Market-Driven Planning Sequence

With the market research completed, the strategy is clear. A conveniently located, accessible women’s health program is written into the hospital’s long-range plan. Prior to full-scale implementation, however, market research is employed again in the form of a pretest. Pretesting involves returning to the market with a product sample to ensure that the specifications meet customer expectations. In a service business such as health care, the pretesting stage is particularly difficult. Unlike many product businesses that can manufacture a prototype without incurring major fixed costs, a new health program might require a redesign of physical space, the hiring of trained personnel, and acquisition of new technologies. Pretesting must still be done, however, without the addition of all these costs.

To pretest a service in health care effectively, the personnel involved with the program and with customer relations must develop a detailed concept description of the service. Then they assemble a sample of potential female patients similar to those in the target market and walk them through a concept test of the service. Consumers can be questioned about hours, service location, and appointment procedure. Reactions to the concept generate appropriate modifications. Full-scale implementation then begins. At this point, the hospital needs to market—not sell—the program. Market research has determined the product, the price customers are willing to pay, and how the service should be distributed (i.e., locations, hours). All that remains for the hospital is to inform the target market about the availability of the desired new service through the appropriate promotions.

Is a Marketing Planning Approach Needed?

A comparison of Figures 1-3 and 1-4 shows that using market research can lead to a dramatically different result in long-range planning. Yet, is a marketing-driven planning process needed in health care? Twenty or 30 years ago, a nonmarketing-driven process was sufficient. Competition wasn't a prime factor. In most communities, including major metropolitan areas, demand exceeded supply. A hospital would offer a new service, and the major issue was how to meet demand for it. Twenty, 30, or 35 years ago, most health care organizations were in a reasonably strong financial position because of cost-based reimbursement and unrestricted lengths of stay. Efficiency and financial prudence were nonissues.

The present competitive health care environment has prompted many organizations to adopt a marketing-driven planning approach. Health care providers find themselves facing significant competition. In many instances, and for many subspecialties, the problem is one of supply exceeding demand. The challenge is to encourage demand for your service at the expense of your competitors. Organizations must find a differential advantage to encourage buyers to use their services. Health care organizations today must be fiscally astute. Few have the excess financial resources to afford the mistake of offering a service that is not needed in the marketplace. A marketing-driven planning process is one tool to help minimize such mistakes.

We have described a nonmarketing-driven approach to planning as an internal-to-external methodology.¹⁶ That is, members inside the organization try to foretell or dictate what the market wants and how the service should best be configured to meet those wants. In contrast, a marketing-driven approach follows an external-to-internal methodology. First, there is an assessment of what the market wants, then the organization's response. Health care providers must realize that a marketing-driven planning process does not guarantee success, but it does, however, minimize the probability of failure.

■ The Strategic Marketing Process

The marketing-driven planning model just discussed is devised within the context of a more macro setting. **FIGURE 1-5** shows the setting in which marketing occurs. An organization must develop a marketing strategy that is sensitive to three factors: (1) important stakeholders, (2) environmental factors, and (3) society at large.

Stakeholders

Stakeholders represent any group with which the company has, or wants to develop, a relationship. As seen in Figure 1-5, the stakeholders can represent customers. For health care organizations, these customers might be patients, physicians who refer



FIGURE 1-5 Environment and Marketing

to the organization, social workers for an adolescent chemical dependency program, payers, managed care providers with whom contracts are developed, or companies that contract for an industrial medicine program.

Many organizations, such as hospitals or proprietary chains, also have boards of directors that serve an oversight function. Organizations develop their marketing strategy in light of the direction and values provided and communicated by this constituency. A third major stakeholder group includes suppliers. In health care, suppliers can represent companies that provide laboratory testing or maintenance services, or they again can represent physicians. For many hospitals, physicians are customers. In a group practice setting, physicians represent the shareholders or owners. In other organizations, physicians, by providing coverage of the emergency room, might actually be suppliers.

Uncontrollable Environment

Any marketing strategy is developed within the context of a broader environmental perspective. The **environment** pertains to regulatory, social, technological, economic, and competitive factors to which the organization must be sensitive when developing a strategy. These elements, which are discussed in greater detail in Chapter 3 (and briefly described below), are uncontrollable but impact marketing strategy. For example, a company cannot change the uncontrollable element that certain trends exist in society. The past 20 years have seen a dramatic increase in obesity in the United

Table 1-2		Obesity Rates by States					
2008 State Obesity Rates							
State	%	State	%	State	%	State	%
Alabama	31.4	Illinois	26.4	Montana	23.9	Rhode Island	21.5
Alaska	26.1	Indiana	26.3	Nebraska	26.6	South Carolina	30.1
Arizona	24.8	Iowa	26.0	Nevada	25.0	South Dakota	27.5
Arkansas	28.7	Kansas	27.4	New Hampshire	24.0	Tennessee	30.6
California	23.7	Kentucky	29.8	New Jersey	22.9	Texas	28.3
Colorado	18.5	Louisiana	28.3	New Mexico	25.2	Utah	22.5
Connecticut	21.0	Maine	25.2	New York	24.4	Vermont	22.7
Delaware	27.0	Maryland	26.0	North Carolina	29.0	Virginia	25.0
Washington DC	21.8	Massachusetts	20.9	North Dakota	27.1	Washington	25.4
Florida	24.4	Michigan	28.9	Ohio	28.7	West Virginia	31.2
Georgia	27.3	Minnesota	24.3	Oklahoma	30.3	Wisconsin	25.4
Hawaii	22.6	Mississippi	32.8	Oregon	24.2	Wyoming	24.6
Idaho	24.5	Missouri	28.5	Pennsylvania	27.7		

Source: Centers for Disease Control and Prevention. *U.S. Obesity Trends by State 1985–2008*.
<http://www.cdc.gov/obesity/data/trends.html>

States. In 1991, four states had obesity rates of 15–19%, and no states had rates at or above 20%. In 2008, 11 states had obesity rates ranging from 20–24%, 27 states had rates ranging from 25–29%, and 6 states had obesity rates of over 30%, as shown in Table 1-2.

Hospitals can respond to this trend by developing bariatric surgery programs. From 1998 to 2004, the total number of bariatric surgeries increased ninefold in response to this dramatic rise in obesity. The number of such surgeries grew from slightly over 13,000 in 1998 to 121,055 in 2004.¹⁷ Some hospitals, such as Highland Hospital in Rochester, New York, have established bariatric surgery centers to respond to this growing demand. In the early years of bariatric surgery, some health insurers, such as Blue Cross Blue Shield of Florida, did not provide reimbursement for such surgery, questioning its safety and efficacy. Today, most insurers require patients to follow a regimen that requires that they first adhere to a closely supervised and strict medical diet prior to undergoing the surgical option to control obesity.¹⁸ A good discussion of these issues can be seen on the Web site of the Bariatric Surgery Center of the Western Pennsylvania Hospital (see www.bariatricsurgerypittsburgh.com/process/index.html), which clearly discusses the insurance issues common to bariatric surgery patients.

Regulatory Factors

Regulatory factors include legal issues and requirements. In many health care communities, programs cannot be instituted without prior government approval. Some strategies, such as paying physicians for referrals, are illegal.

Social Forces

Social forces include demographic and cultural trends to which organizations must be sensitive. An aging population, a changing work ethic, and a culturally diverse marketplace are some of the issues to consider when developing marketing plans.

Technological Factors

Technological factors affect few industries more dramatically than they do health care. It is these technological forces that can change the viability of any service. Until the 1950s, the treatment of polio victims constituted a major revenue stream for many hospital facilities. As we know, this disease was all but eliminated by the technological achievement of the Salk vaccine in the 1950s.

Economic Factors

Economic factors include changes in income distribution or fiscal conditions such as borrowing rates that can determine any company's investment plans. As will be discussed in Chapter 3, the rising cost of health care has led one major customer group—corporations—to work more aggressively with their health care providers in seeking solutions to rising costs.

Competitive Forces

Competitive forces are the final uncontrollable element in any marketing plan. Strategies and programs must be developed in light of this constraint and should reflect the considerations that exist in the marketplace.

Society

Ultimately, all marketing programs and strategies are developed within the context of a broader societal perspective, a context that requires an ethically responsible decision-making process. For example, many companies have become more keenly aware of and responsible for the impact of their products and programs on the environment. The broader societal market represents all the individuals, groups, businesses, and other entities that affect, are related to, or derive benefit from the health care organization, as shown in [EXHIBIT 1-1](#).

Exhibit 1-1

Organizations in the Health Care Environment

Organizations That Plan for and/or Regulate Primary and Secondary Providers

- Federal Regulating Agencies
Health Systems Agencies (HSAs)
Department of Health and Human Services (DHHS)
Health Care Financing Agency (HCFA)
- State Regulating Agencies
Public Health Departments
State Planning Agency (CON)
- Voluntary Regulating Groups
- Joint Commission on Accreditation of Healthcare Organizations (JCAHO)
- Other Accrediting Agencies

Primary Providers (Organizations That Provide Health Services)

- Hospitals
Voluntary (Barnes Hospital)
Governmental (VA Hospitals)
Investor Owned (Humana, AMI, NME)
- State Public Health Departments
- Long-Term Care Facilities
Skilled Nursing Facilities (Beverly Enterprises)
- Intermediate Care Facilities
- HMOs and IPAs (Care America)
- Ambulatory Care Facilities (National Rehab Services)
- Hospices (Hospice Care, Inc.)
- Physicians' Offices
- Home Health Care Institutions (VNA, Upjohn Healthcare Services)

Secondary Providers (Organizations That Provide Resources)

- Educational Institutions
Medical Schools (Johns Hopkins)
Nursing Schools
Health Administration Programs
- Organizations That Pay for Care (Third Party Payers)
Government (Medicare)
Insurance Companies (Blue Cross)
Social Organizations (Shriners)
- Pharmaceutical and Medical Supply
Drug Distributors (McKesson)
Drug & Research (Merck, Eli Lilly)
Medical Products (Johnson & Johnson, Bausch & Lomb)

Organizations That Represent Primary & Secondary Providers

- American Medical Association (AMA)
- American Hospital Association (AHA)
- State Medical Associations
- Individual Professional Associations

Individuals and Patients (Consumers)

- Independent Physicians
- Nurses
- Allied Health Professionals
- Technicians
- Patients

Source: From Ginter, P.M., Duncan, W.J., Richardson, W.D., and Swayne, L.E., Analyzing the Health Care Environment: You Can't Hit What You Can't See, *Health Care Management Review*, Vol. 16, No. 4, p. 44, 1991. Used by permission of Lippincott Williams & Wilkins.

Target Market

At the core of the marketing program is the **target market**, the group of customers whom the organization wishes to attract. In the development of a marketing strategy, the target market is within an organization's control as a function of the effectiveness of the marketing mix developed by the health care providers. The notion of controlling the target market, however, is an idea that is often lost on health care providers. Whom a health system attracts to its facilities and whom it targets may be two different populations. Too often in the past, health care organizations have defined their market by simply identifying who walked into their facility or used the emergency room. Health care organizations developed profiles of their patients and developed strategies based on the users. Yet the central issue to marketing strategy is to decide those users you want to attract and then determine what this group's needs are. The organization that defines a target market, such as "all consumers with incomes above \$75,000 who have private insurance, and live in a particular area," can then focus its market research on identification of an appropriate strategy to meet the needs of the targeted group.

To better understand how health care organizations develop a target market strategy, consider the approach followed by the Hospital CIMA in Monterrey, Mexico. Hospital CIMA has developed a corporate program targeting companies in the United States specifically because of the ever-rising health care costs experienced by U.S. companies and their employees. Hospital CIMA, which is owned by Medical Tourism, Inc., promotes savings of up to 90% over U.S. medical rates. The hospital's homepage highlights its in-hospital infection rate of only 0.002% (www.medicaltourismco.com/mexico-hospitals/CIMA/hospital-CIMA-monterrey-mexico.php). Determining the target market resulted in several strategies to attract this consumer population.

The subtle nature of the target market definition must be underscored when talking about health care. This aspect of marketing is not meant to imply that the organization will deny care to anyone. However, defining and going after a particular group of customers from a strategic marketing perspective is different from having a business strategy that is unfocused. In health care, it would be immoral to deny care to a patient who appears at a facility in crisis and need, but a marketing strategy should have a defined group of individuals that it is trying to reach, appeal to, or attract. It is this group of individuals, be it an underserved population for an acquired immune deficiency syndrome (AIDS) awareness clinic, an upscale group of white-collar professionals for a boutique medicine practice, or a medium-to-large business for a managed care plan that might all represent a target market.

In selecting target markets, the ultimate question for any organization is which one is better or more desirable than another. Multiple criteria may well be brought into this evaluation.¹⁹ The less intense the competition, the more attractive the target market. However, growth potential and environmental factors must also be considered. In health care, reimbursement must obviously be a major consideration in

the selection of the target market. There must be a match between the organization's mission and the resources required to meet the target market requirements.

■ Organizing for Marketing

Establishing the marketing function within an organization can be accomplished in one of several ways. The two most common organizational structures for marketing are by product and by market.

Product-Oriented Organization

The product management structure, as shown in [FIGURE 1-6](#), has become increasingly common in health care settings. In this setting, the responsibility, authority, and accountability rest with the product line manager. Nursing, pharmacy, laboratory, and other departments coordinate their services across, and in support of, the product

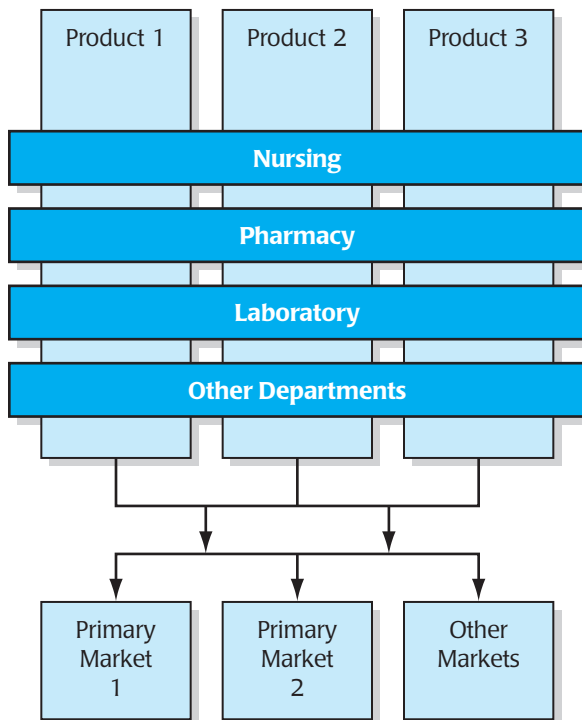


FIGURE 1-6 Product-Oriented Organization

Source: From Zelman, W.N. and Parham, D.L., Strategic, Operational, and Marketing Concerns of Product-Line Management in Health Care, *Health Care Management Review*, Vol. 15, No. 1, pp. 29–35, 1990. Used by permission of Lippincott Williams & Wilkins.

lines. In the true **product-oriented organization**, each distinct product or related set of products has its own marketing organization.

The product manager is responsible for developing and overseeing the marketing strategy for the product or **strategic business units**, which are businesses operated as separate profit centers within a large organization. In a product management structure, individual managers commonly share staff resources, such as marketing research, as well as operational personnel, such as the sales force. The product manager approach is of value when a product has such unique requirements that it demands the commitment of a separate individual.

Product line management has two major advantages for health care organizations. First, having someone responsible for all aspects of a product line helps to refine the service area and meet needs more easily. This structure helps combine services and benefits for customers. Second, packaging related services into product lines helps contribute to continuous, rather than sporadic, planning.²⁰ A disadvantage with the product management structure in traditional businesses has been the fact that the product manager has no direct control over many operational details—the product manager must negotiate for sales force time or marketing research resources. This same limitation occurs in health care. Although the product manager has the focus to develop program plans, there is no direct operational control over how the service is delivered within the facility. In many health care organizations, the product manager acts as the salesperson for the program. For health care organizations, there is another consideration that may limit the value of a product organization. If the same customer is targeted for more than one product line, significant marketing inefficiencies or customer resistance may be the result. For example, a referral physician may be unwilling to meet with four different product line representatives from one tertiary medical center.

Market-Oriented Organization

The second most common marketing structure is a **market-oriented organization** in which each distinct major market has its own marketing organization, as seen in [FIGURE 1-7](#). A health care organization might design a marketing organization around its major customer groups (referral physicians, corporations, managed care buyers, and other referral sources), as shown in this figure.

The value of this approach is its focus on customers who have different buying structures and purchasing requirements. For any health care organization, supporting marketing activities can be serviced by the manager of each major market group. The underlying rationale for this approach is that each major customer group has distinct needs.

For decades, IBM Corporation was organized around product lines. In 1994, the corporation concluded that customers demanded solutions to problems, not products. This forced the company to restructure around major markets and industries.

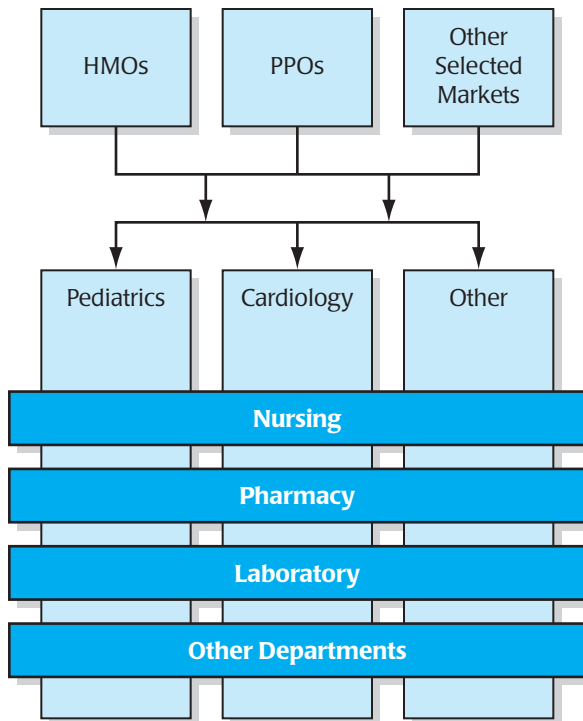


FIGURE 1-7 Market-Oriented Organization

Source: From Zelman, W.N. and Parham, D.L., Strategic, Operational, and Marketing Concerns of Product-Line Management in Health Care, *Health Care Management Review*, Vol. 15, No. 1, p. 32, 1990. Used by permission of Lippincott Williams & Wilkins.

In this way, IBM can develop expertise in financial services, telecommunications, or manufacturing and meet the information needs of these respective industries. Whether the solution is provided by a local area network system, a mainframe computer, or a series of independent desktop computers is irrelevant to the customer. This same analogy applies to the health care setting. Corporate expectations and demands differ from the requirements and concerns of a second major market of referral physicians. Each group of customers seeks solutions to problems rather than the purchase of specific clinical programs.

■ Requirements for Organizational Marketing Success

Many hospitals and medical groups have problems making the transition to becoming a market-oriented organization. Often, marketing has not met the expectations of filling hospital beds or generating substantial numbers of new subscribers into the MCO. The disappointment in marketing is due to a lack of appreciation of what it

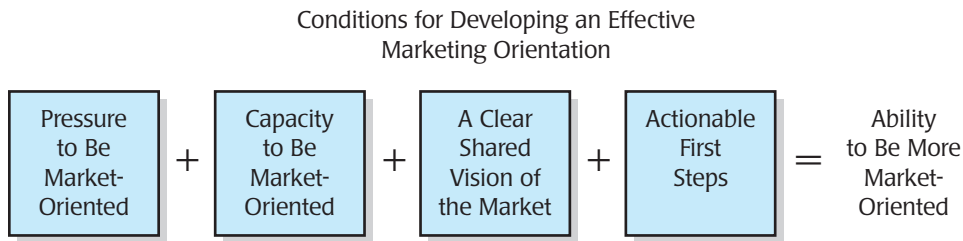


FIGURE 1-8 Prerequisites to Marketing Success

Source: From Diamond, S.L. and Berkowitz, E.N., *Effective Marketing for Health Care Providers*. Reprinted with permission from the *Journal of Medical Practice Management*, © 1990 Greenbranch Publishing, www.greenbranch.com, Vol. 5, No. 3, p. 198.

means to be marketing driven, and of what marketing alone can accomplish. There are four prerequisites for successful marketing, as shown in [FIGURE 1-8](#).²¹

Pressure to Be Market-Oriented

First, there must be pressure to be market-oriented. There must be a shared view that is accepted throughout the organization concerning the need for an improved marketing program. To some extent, this represents the fourth stage in the evolution of marketing. Not only must senior management want to become more market-oriented, but peer pressure to understand and to respond to customer needs must be strong throughout the organization. Information and reward systems must recognize the value of a customer orientation, and department program objectives and measurement systems must be tied to progress on this goal.

Capacity to Be Market-Oriented

A second criterion for organizational marketing success is the capacity to be market-oriented. The health care organization must have enough staff members who are not only experienced and adequately trained, but also devoted to improving the organization's marketing effort. Management, staff, and clinical personnel must be receptive to ideas on how to become more market-oriented and have a marketing budget to support their efforts. Besides financial support, significant time must be devoted to improving marketing efforts and to developing an understanding of how these efforts integrate with other organizational priorities.

Shared Vision of Market

A clear, shared vision of the market is a third prerequisite to success. Many questions must be answered when developing an understanding of the marketplace: Who are

the key customers and stakeholders? What are their needs? What change must the organization make in terms of its marketing mix to meet the needs of these core constituencies? How will this organization differentiate itself from other providers?

Action Plan to Respond to Market

Last, the organization must develop a clear set of actionable steps to respond to market needs. It will need a detailed marketing plan that includes the necessary strategies and tactics along each of the four Ps. This also requires well-defined mechanisms to track the progress of and address minor difficulties in implementation before they become major customer problems. Missing any one of these elements can lead to marketing ineffectiveness.

In traditional industries (those outside of health care), there has been a growing appreciation that the organizational structure within which the marketing function operates is an essential element of marketing success. Many organizations have, in fact, changed their structures to become more responsive to the needs of their markets.²² The best way to increase the effectiveness of the marketing function is to move toward a more customer-focused organizational structure. With this type of organizational structure, the goal is to focus on solving customers' problems rather than on products and strategic business units.²³

Consider the implications of a customer-focused approach for a health care organization such as a hospital. To a large degree, one might infer that the hospital organization structure is primarily structured around strategic business unit or each department or clinical unit. If the hospital's organizational structure was customer-focused, it would deliver services in light of the specific problem to be solved. To some degree, it would be closer to the patient-focused approach of Texusan or Harlingen. For example, a woman who has had a suspicious mammogram taken at the hospital's Women's Health Program would not leave the facility without a same-day consult from the physician and additional support services offered.

It is also important to recognize that in this structure, marketing is integral to the organization, impacting not only the customer (or, in health care, the patient or referral physician in a hospital setting) but other functional areas as well, as shown in [FIGURE 1-9](#).

Figure 1-9 shows that the marketing function is essential to the delivery of clinical services, driving the financial numbers that are necessary for the financial viability of the medical practice or the health care organization in general. It even impacts the operational component of the system with regard to how services are delivered to solve the customer's problem (whoever that customer may be).

In health care, the **clinical microsystem approach**, as developed by Nelson, Batalden, and Godfrey, to a large degree is at the core of linking improved clinical quality programs with a customer-responsive health care delivery system.²⁴ In a microsystem approach, the patient is at the center of the process used to deliver or structure

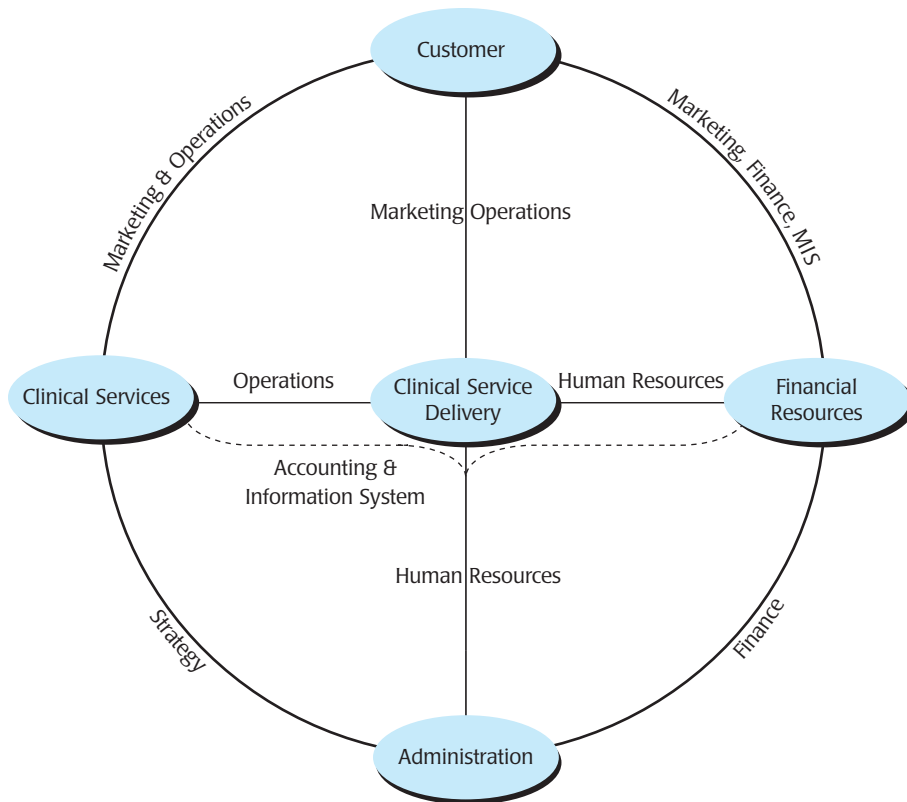


FIGURE 1-9 Interaction of Marketing with Other Functional Areas

Source: Adapted from Christine Moorman & Roland T. Rust, "The Role of Marketing," *Journal of Marketing*, Vol. 63 (Special Issue 1999) pp. 180–197.

the care; in marketing, the core is meeting the needs of the customer. Thus, in Figure 1-9 there is the link between the customer and clinical services.

Historically, marketing was limited to the customer aspect of Figure 1-9, regardless of how that customer was defined, be it a referral physician, patient, discharge planner referring to a long-term care facility, or hospital (as a customer) contracting with a proprietary radiology group for coverage of its service.

Finally, it is essential that the operational linkage—the clinical service linkage to marketing—ultimately results in a linkage between marketing and finances. Although marketing does not manage the financial linkage in the relationship, the investments in marketing activities should yield some positive financial results to the organization.

Strategic Focus	Traditional Paradigm	Relationship Paradigm
<i>Sales focus</i>	Individual sale	Customer retention
<i>Staff selection</i>	Focus on clinical skill	Focus on clinical and customer service attitude
<i>Customer service commitment</i>	Limited commitment	Goal to exceed expectations
<i>Management of wait time</i>	Customer time to increase operational efficiency	Customer wait time to enhance experience
<i>Technology access</i>	Provided when cost justified	Considered for first mover advantage competitively
<i>Customer key drivers</i>	Cost and clinical effectiveness	Quality, cost, service delivery
<i>Service system design</i>	Developed for clinical efficiency	Designed for seamless customer service

Sources: Adapted from Robert C. Ford and Myron D. Fottler, "Creating Customer Focused Healthcare Organizations," *Health Care Management Review*, (2000), Vol. 25, No. 4, pp. 18–33; Adrian Payne, Martin Christopher, Helen Peck, and Moira Clark, *Relationship Marketing for Competitive Advantage* (Butterworth-Heinemann, 1995).

■ The Evolving Perspective of Marketing

In the past 5 years, a dramatic shift has occurred in the thinking behind marketing. Historically, the perspective was of a transactional nature; that is, marketing, in trying to fulfill the needs and wants of the customer (see “The Dilemma of Needs and Wants”), focused on the individual sale or interaction between the patient and the provider, or the referral physician and the organization to which the patient may have been referred. The focus of marketing efforts today is different. Rather than considering each interaction with a customer or patient as an individual transaction, the goal is on customer retention or building long-term loyalty. We devote an entire chapter (Chapter 7) to developing customer loyalty.

The challenge for organizations today in creating loyalty and customer retention is a significant marketing issue. Employees are recognized as a key component, not only as an internal customer, as noted in Figure 1-2, but as a major link to long-term customer loyalty.²⁵ Table 1-3 shows the paradigm shift between the traditional marketing focus and the emerging marketing customer relationship focus. In the traditional paradigm, the organizational focus was to complete the sale, but the structure of the organization was geared for efficient throughput. This was most easily seen in a setting such as the outpatient surgery center. Often a patient might be scheduled for a day surgical procedure at 1:00 or 2:00 PM. However, the instructions given to the individual were to show up at 7:30 in the morning. The reason is that in case another patient did not arrive for the scheduled surgery, they could fill the queue with

another individual who might happen to be waiting. Although this approach was not convenient for the customer, it was very efficient for the organization. And, as long as the organization is focusing on a single transaction, this model works fine.

In the emerging marketing paradigm, certainly operational efficiency must be considered. Yet along with quality and efficiency, the value to the customer must be considered in terms of service delivery. As will be discussed further in Chapter 7 on developing a loyal customer, it is important to recognize the customer's value equation in health care today. Only in delivering value can patient and customer retention be achieved.

■ The Changing Health Care Marketplace

No discussion of marketing in health care can begin without an overview of the dramatic restructuring occurring in the industry today. As this chapter began, it mentioned terms that any reader of health care literature or practitioner in the field faces daily—integration, satellites, managed care. What are the implications of these changes for marketing? To appreciate the impact on marketing of the restructuring occurring within health care today, it is instructive to reexamine the traditional industry structure from which we are rapidly moving away.²⁶

The Traditional Industry Structure

In communities that have not truly experienced the formation of an integrated delivery system, the health care marketplace can be considered fractionated, in that each entity operates independently.

The focus of the hospital's marketing efforts is twofold, represented by the solid arrows. The focus primarily has been on physicians. The key to maintaining a census within the facility is encouraging physicians to admit to one's own particular facility as opposed to a competitor's. Consider, then, what has been the typical marketing efforts by hospitals in this regard.

Most hospitals today have a physician relations staff who call on physicians to ensure that they are satisfied with the facility and to determine whether the hospital can provide any additional services to meet their needs. Other hospitals have built connecting medical office buildings and rented space at attractive rates for physicians' offices, on the premise that physicians will admit to the hospital most convenient to their offices. In any case, physicians are a major focus of marketing efforts.

A second market for the hospital in the traditional industry structure is the community-at-large. Since 1975, hospitals have targeted their advertising efforts at building name recognition within the community for the facility and its programs. The rationale for this strategy is that patients may ask their physicians to refer

them to a specific hospital, or they may self-select the facility when they need medical treatment.

The second level of this chart involves physicians and their marketing focus, represented by the dotted lines. Here, too, there have been two markets—other physicians and the community-at-large. Specialists focus their efforts on generating referrals from primary care physicians, although in some specialties, such as plastic surgery and dermatology, it's common to see direct appeals to the community-at-large through advertisements. Primary care physicians have historically attracted new patients in the community either through word of mouth, or through more formal communication strategies, including advertisements or detailed telephone directory listings. This type of market structure is very similar to that faced by consumer product companies; that is, the decision to buy the service is typically made by one individual or a small group of individuals. A physician decides to admit to a particular hospital, or a family decides to become regular patients at a particular medical clinic. In this type of consumer market, mass communication is vital, because there are so many people within the community who could, at any point of time, avail themselves of the medical provider's service. Similarly for the specialist, there are always a large number of primary care physicians who could refer patients to them. The comfort of this world knows that individual buyers represent only their own volume of business.

This is a somewhat simplified but macro view of the traditional health care market structure that has existed for many years, and still does in communities with little managed care or little pressure from employers to control health care costs. This world, however, is rapidly disappearing. The health care marketplace of the next decade may well evolve into a more integrated marketplace of consolidated provider systems (clinicians) delivering the necessary care to patients (with intermediary payers involved as necessary) and shifts in payment approaches.

The Evolving Industry Structure

Today's health care marketplace is evolving in a slightly different way, as seen in [FIGURE 1-10](#). In the 1990s, many hospitals aligned closely with physicians and specialists in integrated systems. In Boston, Massachusetts, one large system, Partners, was formed in 1994 by the integration of the Brigham and Women's Hospital and Massachusetts General Hospital; affiliated with this organization is Partners Community Healthcare, Inc., representing 1000 internists, pediatricians, and family physicians and over 3500 specialists. Partners would represent the top box in Figure 1-10. At the next level of the figure are corporations, MCOs, and, increasingly, the community-at-large.

Companies are continuously looking to control health care costs. Some companies are becoming directly involved in the provision of care through more proactive approaches.²⁷ Quad/Graphics, one of the largest U.S. printing companies, provides

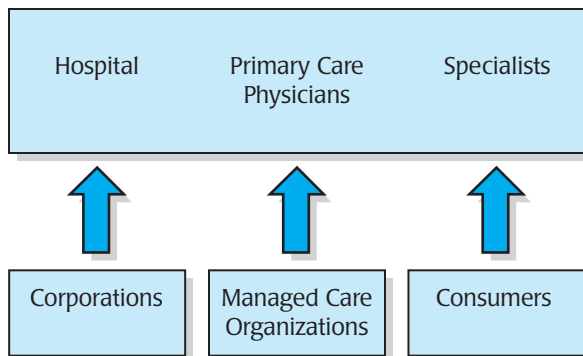


FIGURE 1-10 Evolving Health Care Marketplace

most of its own medical care for its 12,000 employees by contracting with Care Here, a company that contracts with employers to provide on-site clinical services for employees. Other competitors in this niche segment (a strategy discussed further in Chapter 2) are CHD Meridian, Whole Health Management, and Comprehensive Services. This trend has escalated since the beginning of the first part of this decade. Sprint, Nextel, Toyota, Credit Suisse, and Pepsi Cola are also experimenting with or adding doctor clinics within their facilities. Watson Wyatt, a benefit consulting firm, has estimated that corporations with a couple of thousand employees may be able to save millions of dollars. In light of the potential cost savings, Toyota recently established a 20,000-square-foot clinic at its San Antonio, Texas, assembly plant.²⁸ Thus, the evolving market in the next few years may well see the corporate box loom larger or be a direct contractor or even provider of care, making this chart look far different in another edition of this book.

A second major group represented in this figure is the MCOs. As will be discussed in Chapter 3, the five largest plans (WellPoint, The Blues, Cigna, Aetna, and United) control the bulk of commercially insured patients in the United States. As a result, these MCOs can wield significant power in negotiation of contractual rates with hospitals, physicians, and ambulatory centers.

One other significant change must be recognized with regard to consumers, because it affects how they may pay for their health care coverage. For some years there has been a steady increase in the use of **health savings accounts**. An annual census by AHIP (America's Health Insurance Plans) found that the number of people in the United States with HSAs rose from 4.5 million in 2007 to 6.1 million in 2008. Minnesota (9.2%), Louisiana (9.0%), the District of Columbia (8.7%), Vermont (7.5%), Colorado (7.1%), Nebraska (6.4%), and Connecticut (5.8%) are states with some of the highest penetration of HSAs in the nation.²⁹ These plans are designed to force

people to make economic trade-offs between consuming more health care services with the opportunity to accumulate tax-free dollars that are unspent in an account designated for health care. The purpose of these plans is to make individuals avoid unnecessary care and hopefully make them “smarter shoppers.” In the same regard, the providers may be forced to be more responsive to customers with quality service and to provide proof of such quality.

Finally, with the passage of health care reform at the federal level in 2010 and the evolving nature of the health care market, one other shift in market structure must be considered. This revision of the health care structure revolves around an entity that is being referred to as the **accountable care system (ACS)** or **accountable care organization (ACO)**, which is an entity that can implement organized processes for improving quality and controlling the costs of care and can also then be held accountable for these care results and the resultant costs associated with the outcomes.³⁰ In these systems, outpatient, inpatient, rehab, long-term care, and even palliative care would be the responsibility of the ACS.³¹ Thus, one might envision, as seen in [FIGURE 1-11](#), that the ACS structure might focus less on the relationships between the hospital and the medical staff, or even on the fixed assets of the institution, but more on the health care of the individual and in delivering the appropriate care at the most appropriate time and location. The ACS increasingly is at the core of future health care reform initiatives in the United States.

These changes carry tremendous marketing implications. Consider the mission statement of Springfield Medical Care Systems located in Springfield, Vermont:

Springfield Medical Care Systems (SMCS) is a not-for-profit, community-based health care system that includes a nine-site community health center network and Springfield Hospital. SMCS provides an integrated system of care that is patient-centered, and emphasizes quality, access, and affordability for all.

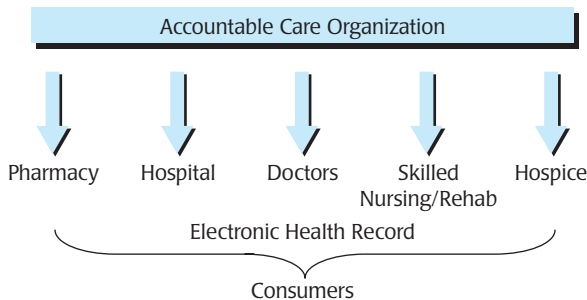


FIGURE 1-11 Accountable Health Care Organization

SMCS is just one of the pieces necessary (at some point) in the care process for patients, depending on where they are in the medical needs continuum. This small system has clinics, but it might further refine its model to include other aspects of the delivery continuum. Most important, SMCS is moving beyond the hospital-centric model and showing that the patient is at the center of care delivery.

From a marketing perspective, the implications of this restructuring are dramatic. Although the traditional health care structure was a consumer market with a large number of potential buyers (physicians who could use the facility or patients who could access the hospital), this new structure has some of these elements as consumers return with their HSAs. In the market that is beginning to evolve, the consumer is truly at the center of the organization's focus (the core premise of marketing). However, there are also elements of an industrial market when dealing with large, powerful buyers such as Aetna or Cigna, or a Pitney Bowes or Toyota that may decide to open their own clinics. The tactics, concepts, and strategies discussed in the following chapters are critical to respond to one of the most dynamic industries that exists—health care.

■ Conclusions

Marketing has evolved over the past 30 years in health care. Originally it was viewed with great derision as little more than advertising. The narrow perspective of marketing as only advertising minimizes its contribution. Marketing really brings with it an external perspective that adds a key value in organizational planning. For marketing to be successful, however, the organization must feel a need to be market responsive, have the capacity to respond, have a clear vision, and have actionable steps. In recent years, there has even been a dramatic paradigm shift within marketing from a simple focus of individual transaction and the gaining of market share to the retention of customers and the building of loyalty. This paradigm shift has significant implications within the organization in terms of structure and for the employees. Finally, there is also a significant marketplace evolution occurring. While consolidation among managed care plans has created large, powerful buyers who must be responded to, companies are also being more proactive in dealing with costs by either directly offering medical care or shifting it to employees. Consumers are no longer bound by local information sources. There is also more transparency with regard to quality and price. Insurers and employers are providing incentives to shop. Competitors are reaching into markets, and consumers are exploring boundaries as far away as India, Thailand, and South America. Understanding and being effective in the use of marketing tools is essential to organization success.

■ Key Terms

Marketing	Differential Advantage
Marketing Research	Stakeholders
Four Ps	Environment
Marketing Mix	Target Market
Product	Product-Oriented Organization
Price	Strategic Business Units
Place	Market-Oriented Organization
Promotion	Clinical Microsystem Approach
Need	Health Savings Account
Want	Accountable Care System
Marketing Orientation	Accountable Care Organization

■ Chapter Summary

1. Marketing is a process that involves planning and execution of the four marketing mix variables: product, price, place, and promotion.
2. Effective marketing for health care organizations involves the recognition of multiple customers or markets that often have a diverse array of needs and wants.
3. A nonmarket-based approach to planning is one in which the conception of the service begins internally within the organization. Marketing-based planning is an external-to-internal process.
4. The strategic marketing process must consider the broad macro environment consisting of stakeholders, environmental factors, and society at large.
5. Health care marketing planning requires identification of the target market, which may differ from the organization's present customer base.
6. In a product-oriented organization, services are managed as separate profit centers, or strategic business units.
7. In a market-oriented organizational structure, major markets or customer groups are the focus.
8. Marketing success has four prerequisites: pressure, capacity, vision, and actionable steps.
9. The marketing paradigm is shifting from a transactional focus to a customer-retention strategy.
10. The structure of the health care industry is evolving. There are three main customers: corporations, MCOs, and, with new health insurance options like health savings accounts, the accountable health systems.

■ Chapter Problems

1. Several prerequisites are necessary for marketing to occur. Identify each prerequisite in the following examples: (a) a politician running for political office, (b) a consumer seeking physical therapy, (c) a company choosing health coverage for its employees.
2. At a recent hospital planning meeting, the marketing director reports on consumer interest in a women's health center. Hearing strong interest, the planning committee endorses the concept. A group of clinicians is charged with developing the program. Upon introduction, market response does not meet expectations. A senior physician was heard to complain, "What went wrong? We did the survey." Explain the possible reasons for this program's failure.
3. An orthopedic group practice has decided to develop a pediatric sports medicine program. Identify potential target markets for this new service.
4. In developing the new pediatric sports medicine program (described above in question 3), what are some of the uncontrollable environmental factors to consider?
5. A major concern for many health care professionals is the belief that marketing "creates" needs. Explain the complexity of this issue.
6. After reviewing the volume of subscribers to the managed care plan, the executive director is dismayed. Projected enrollment is far below the forecasted level for the targeted time period. A decision is made to hire additional salespeople to market the plan more aggressively. Explain the inconsistencies between this decision and an evolutionary marketing perspective.
7. Explain the difference between existing customers, target markets, and stakeholders for an acute-care community hospital.
8. You have just been named the first-ever marketing director of the Bay Area Regional Accountable Health System. For 15 years you served as the marketing and strategic planning director at Oakland Alameda Regional Hospital, a 250-bed inpatient facility with a busy emergency department and one outpatient primary care satellite. The Board of your new employer has asked you to provide a brief overview of the five major aspects of your first-year marketing plan to the community that will differentiate it, as an ACS, from other hospitals in the Bay Area community. Provide this overview.

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