

# CHAPTER 1

## STRATEGY DEVELOPMENT AND THE STRATEGIC MINDSET

### WHAT YOU WILL LEARN

- Devising a strategy is not a lock-step process that belongs to a committee or staff department.
- An important characteristic of a good strategy is that it is focused and clear.
- Before an organization can do effective market-based business planning, it needs to have a market-based mindset.
- Strategy devised in the boardroom should connect with tactics employed in the marketplace.
- There is no single correct strategy; multiple alternatives abound.

### WHAT IS STRATEGY?

The ultimate purpose of any strategy is to help an organization realize its objectives. Since the publication of Kenneth Andrews's book, *The Concept of Corporate Strategy*, in 1971, strategy exploration in the classroom and boardroom has exploded.<sup>1</sup> General strategy models and specific strategies around benchmarking, Five Forces theory, total quality management, Blue Ocean Strategy, and value chain theory are just a few of the concepts found in modern strategy discussions. But in spite of all the attention paid to this area, success is not assured. Porter studied 33 large companies and found that they had entered more than 80 new industry areas, and by 1986 they had abandoned more than half of these diversification strategies.<sup>2</sup> In 2002, an important article in the *Journal of Business Strategy* suggested

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that execution, not the strategy itself, was the key to business success.<sup>3</sup> But in the *Harvard Business Review*, Porter argued that both operational effectiveness and strategy are essential to superior performance.<sup>4</sup>

Although strategy is critical to the business planning effort, it is neither a concrete methodology nor a guarantee of success. What then is strategy? Developing a strategy to attain a goal is useful in business, athletics, personal financial planning, and a variety of other activities. In the 1960s strategy was viewed as the “silver bullet” for management. But over the years we have discovered that strategy is not a silver bullet or even a precise recipe from which to get from point A to point B. As Mintzberg points out in an article entitled “The Fall and Rise of Strategic Planning,” strategy development cannot be fit into an event or activity that one attends once a month for 5 or 6 months.<sup>5</sup> Rather, successful organizations allow for an environment where strategy is constantly discussed, shaped, and supported by experts who help gather data, study options, and provide overall general direction. Strategy does not belong to the planners or to the planning committee, and it does not fit into an artificial timeline that magically ends on December 31. Healthcare executives often treat strategy as a theatrical performance culminating in the fall of the year with a retreat at a beautiful resort with the board and senior management team. At the retreat, outside speakers are brought in to inform and entertain, and the strategy of the organization is discussed using beautiful PowerPoint presentations filled with broad general initiatives. All of this might be acceptable if, at the end of the day, the strategy is based on data and each executive and board member can specifically articulate what the organization is intending to accomplish, but too often this is not the case. However, strategy is a constant journey, winding back and forth and involving the organization as a whole, with ideas and theories brought forward by many sources. It does not come from a planner operating in a dark room; strategy is not an event, nor is it a performance. Strategy is the core underlying job of the executives and board to work on day after day.

### **Upsetting and Reestablishing the Competitive Equilibrium**

The use of strategy in a business environment takes on a special interpretation, as outlined by Bruce Henderson of the Boston Consulting Group: “Any useful strategy must include a means of upsetting the competitive equilibrium and reestablishing it again on a more favorable basis.”<sup>6</sup> The foundation for Henderson’s statement is the assumption that the organization wishes to grow. Because the other organizations that compete in the same territory or service area also wish to grow, many organizations are

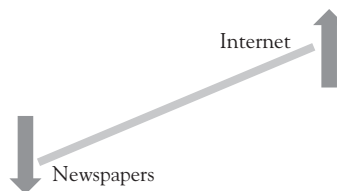
attempting to reach the same potential endpoint (growth) at the same time. Thus, to succeed, an organization must often change the competitive situation and attempt to dominate it by using strategies that are favorable to its own goals. As shown in **Figure 1.1**, sometimes changes in the environment upset the equilibrium for virtually everyone. For example, by 2008, as the Internet grew, the equilibrium of the way news was delivered changed and newspapers across the country declined or went bankrupt; similarly, by 2011, bookstore giant Borders' failure to move to e-readers and online distribution models, among other factors, caused it to go out of business.

In developing a useful growth strategy, it is necessary, first, as Henderson points out, to upset the competitive equilibrium. Within most communities, a competitive equilibrium exists among hospitals, clinics, insurance carriers, and other health-related businesses. The hospital with a strong reputation 10 years ago usually has a strong reputation today, and the health plan that was the leader then is often the leader now. Many physicians consider these organizations members of a medical fraternity. As a result, physicians or hospitals may compete with one another, but they would rather avoid the use of an overt and aggressive competitive strategy. In recent years, the use of aggressive advertising has made overt competitive tactics more common than they once were; however, because of the recognition of the medical fraternity, groups are often reluctant to try new ideas that are outside the bounds of traditional practice. Creating an online patient appointment system and opening a separate for-profit heart center are examples of concepts that have often met with resistance from the medical community. For the same reason, hospitals are often unwilling to make dramatic competitive moves against other institutions. If a strategy is to be useful, however, physicians and executives of healthcare organizations must understand the need to upset the competitive equilibrium.

Upsetting the equilibrium has happened in the world of routine pediatric care. Typically pediatric care is offered in a standard clinical office,

**FIGURE 1.1**

**Upsetting the Equilibrium**



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likely located in a multi-practice medical building. The office has physicians, nurses, billing, scheduling, and medical records staff. A routine school physical exam might cost \$150–200. This is the way pediatrics has been practiced; equilibrium among pediatricians has been firmly in place. But along came stores like Target, CVS, and Walmart with a new model where routine school physical exams are provided by a nurse inside the store, in a space no larger than 200 square feet—with no receptionist, no appointment desk, no billing office, no medical records room. The fee is as low as \$29. This is a new model of care, with new assumptions—a classic example of equilibrium upset.

After upsetting the equilibrium, according to Henderson, it is then necessary to “reestablish the equilibrium on a more favorable basis.”<sup>7</sup> Strategies may be developed to promote new concepts, ideas, and product offerings, or to serve markets that have not been considered before or that have not been thought to be worthwhile. Within this area, innovation can be expected. For example, an organization might reestablish the equilibrium on a basis more favorable to itself by offering a new service. Such an organization could establish an urgent-care center that would compete with the traditional hospital emergency room, or it could station a nurse practitioner in a supermarket next to the pharmacy in order to steal market from the hospital by providing even more convenient and low-cost care. It would be difficult for a hospital to make a retaliatory response.

#### **Creating a Difference**

Thornhill and White provide additional insight into what strategy is all about. In essence, the strategy must include a unique advantage that is difficult, if not impossible, for others to compete against. Looking at more than 2,300 companies, they concluded that the greater a firm’s strategic purity (competitive advantage) the greater the profitability—with cost leadership at one end of the spectrum of strategic purity and product differentiation at the other.<sup>8</sup> These two options represent strategic purity. Many organizations, however, choose to operate somewhere in the middle, providing no clear distinction for their service with no clear cost distinction. Failure to have a point of difference typically relegates an organization to competing on price alone; it thereby creates a commodity market subject to the ups and downs of supply and demand, much like the coffee, sugar, and wheat futures.

If strategy is about being different, it stands to reason that no two strategies for a given market need to be or should be alike and that no single strategy is the correct one for achieving success in that market. Often, when students are given a case study about a business problem, they are eager to

give the “right” answer and are often quick to change their strategy when they learn that another group has a different strategy that sounds better. However, even though Walmart, Target, Kmart, and Costco are all in the discount retail market, each has adopted different strategies, and all have experienced successes (and setbacks) over the years. Today, as health care is trying to integrate services (including doctors, hospitals, home care, and health plans), many businesses are moving away from integration toward virtual organizations. For example, rivals Motorola and IBM use parts from each other, and Chrysler and Mitsubishi develop cars together even though they are competitors. Abbott Northwestern and North Memorial Medical Center of Minneapolis have in the past invested together in technology and buildings even though they competed aggressively as separate organizations. Healthcare organizations tend to be lemmings; if one goes to integrated care, everyone tends to go to integrated care—or to physician health organizations (PHOs), managed care, or accountable care organizations (ACOs). Even though competitive advantage as a strategy does not necessarily involve following everyone else, being different is not easy, especially for large or established organizations.

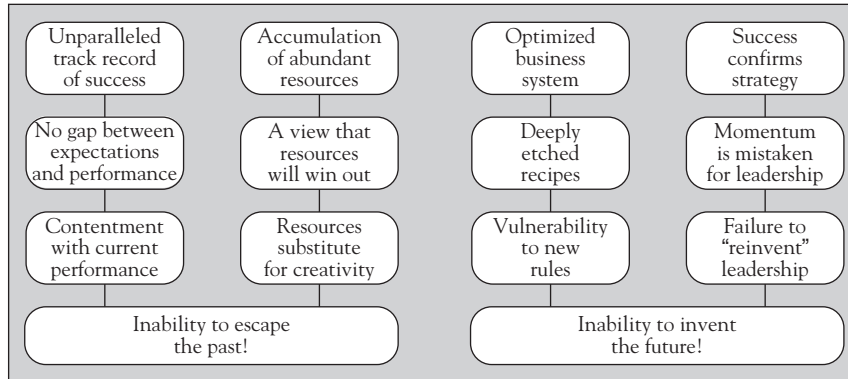
Hamel and Prahalad explain that organizations fail because they are unable to escape the past and to invent the future.<sup>9</sup> Hospitals get trapped being traditional hospitals and often cannot change from being bureaucratic organizations with high overhead and salary structures in order to compete with more nimble retail-style competitors in the areas of day surgery, eye care, cardiac disease, or other opportunities. Likewise, health maintenance organizations (HMOs) are committed to “the movement” and have trouble jumping to a future where the HMO might no longer work. **Figure 1.2** explores the reasons why it is so difficult for established firms to change, and therefore why it is so likely that new organizations will enter the market and upset the equilibrium.

Because strategy is about creating a difference in an environment of constant inquiry, it cannot be an artificial, calendar-based process in which June is the month for ideas and July is the month for tactics. The strategy process is the framework around which an organization allows strategy to percolate. The role of the strategist is to assist in maintaining an environment that allows for the exploration of ideas and options as a daily part of organizational life.

Once an organization begins to develop a strategy and related marketing plans, it becomes clear that the strategy and the plans are not passive entities; they are appropriate for a changing competitive environment. They are also action oriented. Competitive actions are necessary for achieving organizational goals. Here, numerous decisions have to be made, such as

**FIGURE 1.2**

**Why Do Great Companies Fail?**



Source: Hamel, G., & Prahalad, C. K. (1994). *Competing for the future*. Boston, MA: Harvard Business School Press; p. 17.

which services to offer; which markets to serve; which methods to use in providing the services (e.g., centralized or decentralized); which pricing strategies to use for different markets, services, and marketplace conditions; and which promotional strategies to adopt.

**Building Strategy into the Organization**

Starting with the corporate office at Walmart, the company has a strategy to be a low-cost discount retailer. The strategy that is articulated at the corporate level is to save people money. This is a strategy that is embedded within the board, officers, and employees of the organization, but it does not end there. It is driven into the depths of the organization and is implemented daily via multiple tactics, not the least of which is a dose of advertising that constantly focuses on Walmart price cuts on a variety of products. This is a perfect example of a strategic focus at the top of the organization with a matching tactical focus at every level, including the day-to-day advertising on television, and in print. A constant theme of this text is to focus on making sure that strategy at the corporate level and tactics at the detailed level connect. Unfortunately, this is often not the case.

In health care it is not unusual to observe intense and well-meaning conversations about mission, vision, strategy, and tactics, but often the results of these efforts are generic with no specific outcome, and the general statements made in the corporate office do not connect with the tactics

employed at the clinic level. Organizations must be more precise at the boardroom strategy level and more specific and connected at the tactical level. For example, if in the boardroom it is determined that your medical group will have the highest quality surgeons, one would expect that only top-quality doctors with medical board certification would be accepted on the staff. However, if a high-revenue surgeon who is not board certified is accepted on the staff, then the strategic statements become only window dressing, creating a disconnect between the strategy at the corporate level and the reality in the everyday operation of the clinic. This leads to confusion and a discrediting of the strategic process.

### **Search for the Driving Force<sup>10</sup>**

Healthcare professionals are trained to serve and help. They have difficulty saying no. Therefore, it is not unusual that hospitals tend to want to “do it all,” and their strategies often include a broad spectrum of clinical, community health, and social initiatives. But Robert argues that successful companies have a strategic area that is the heartbeat of the company, and that is what gives the organization a strategic edge in the marketplace.<sup>11</sup> Robert is echoing the idea of clear focus, and he suggests that the identification of this focus will ultimately shape the look and profile of the clinic. An organization’s heartbeat could be cardiac services or obstetrics or easily accessible clinics in every community or first-generation technology or a host of other options. The point is that greater success will be had by focusing attention on a narrow range of clinical skill versus attempting to be the leader in public health, education, clinical care, and outreach clinics. The task, therefore, is to figure out at the strategic level what the heartbeat of the organization is—that is, what it is that a clinic brings to the market that is that particular clinic’s core distinctive capability.

Treacy and Wiersema are even more direct.<sup>12</sup> They suggest that entities must choose one of three options: customer intimacy, product leadership, or operational excellence. Again, the idea is that at the strategic level every effort should be made to focus on the piece of the competitive landscape where the entity has the greatest expertise and capability. The Ritz-Carlton Hotel chain focuses on customer intimacy and service, Apple has a focus on innovative product leadership, and FedEx focuses on operational excellence involving the delivery of packages as quickly as possible.

University-controlled hospitals tend to be known for a product focus that translates into technology and extraordinary levels of clinical advancement, but they are not usually well known for operational excellence involving

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scheduling, referral systems, or efficient staffing. Likewise, while health-care entities in general do a good job of providing clinical care, they are not at the forefront of providing top-notch personal service. Treacy and Weirsema would suggest that more successful organizations will know what they are good at, and will concentrate on that feature of their enterprise in order to gain business success.

### **The Possibility of Failure**

Organizations that move through the process of developing strategic plans, business plans, and marketing plans frequently fail. Sometimes this failure is the result of (1) failure to gather appropriate data, (2) errors in analyzing the data, (3) lack of specific objectives, or (4) failure to adopt the appropriate tactics to marketplace conditions. Stated another way, failure may be caused by the inability to match strategy with action tactics or market conditions. Healthcare organizations, particularly hospitals, often lack information on consumers, referring physicians, and competitive pricing strategies; and this type of analysis with incomplete data often leads to failure. Another source of failure is the lack of specific objectives and the logistical tactics necessary to meet those objectives. This text explains the correct progression from gathering information and establishing firm objectives to developing the appropriate tactics.

Marketing planning often fails in industry.<sup>13</sup> A study based on a profile of 40 United Kingdom companies categorized by products, sales, and employees, found that 29% of the companies did not have specific objectives for product sales, and 32% did not have objectives for their marketing plans. Many companies, both in and out of the healthcare industry, fail to set targeted, measurable objectives that would facilitate the control and evaluation of ultimate success or failure. It is essential to identify market segments and to outline the appropriate strategy for each group. An objective of this text is to provide the necessary detail for healthcare organizations to be able to address relevant market questions, establish workable objectives, and develop tactics that meet those objectives. These approaches create the greatest chance of healthcare organizational success.

### **DEVELOPMENT OF THE STRATEGIC MINDSET**

Before the organization begins the process of strategy development and ultimately the production of a marketing plan, there must be an atmosphere within the organization that we call the “strategic mindset.” A number of factors must be in place and understood by all parties if strategy



development and implementation are to be effective. These factors include the attitudes of the key participants, as well as their understanding of the basic concepts of marketing and strategy development. Each element of the strategic mindset is reviewed in this section.

### **CLEAR VISION, FOCUSED STRATEGY, AND UNDERSTANDING BY THE LEADERSHIP**

Indicating that the hospital is world class, low cost, easily accessible, and focused on community health is great for general conversation, but this is usually not good strategy. Additionally, it is likely not an honest statement of what anyone really believes. Yet, this kind of statement can be found in the boardrooms of countless clinics, hospitals, and medical organizations across the country. At the foundation of good strategy design is an honest view of where the enterprise really wants to go that includes a specific handful of strategies on how to get there. Fortune 500 companies demand precision at the highest level, and health care needs the same rigor. Is the local hospital's focus public health, primary care, or something else? Is it really "world class" or should its focus be on providing basic inpatient care with board-certified doctors? Successful organizations know what they do best and everyone in the group understands what the organization is really all about. In the end, strong organizations have a clear vision and will create a clear competitive advantage, which results in a corresponding brand that has meaning in the community.

But a vision and strategy are only good if those who need to execute the plan understand them. It is not unusual for the chief executive officer (CEO) to have a vision, but the board and management team are not sure what it is, or the team has different interpretations of what the strategy is. At a minimum, every board member and every person on the management team should be able to articulate the vision and the strategy of the organization.

### **FOCUS ON THE CUSTOMER**

An important element in resolving any marketing problem is thinking about and trying to understand the customer. Customers would obviously include patients, but they could also be physicians who send referrals to a particular hospital, health plan executives who decide which physicians are on the provider list, social workers who help decide where to send patients for treatment, and many other customer categories. In any case, the most important and seemingly simple step is to think about the people who need the organization's services. This concept is often transformed into the

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somewhat cold notion of markets, although understanding the customers as people is emphasized to every marketing student from the first day of class.

A healthcare institution must understand the needs of its customers, whether they are patients, referral physicians, or social workers. The initial step in reaching this understanding is market research—talking with customers, thinking like the customers, and, above all, keeping an open mind. Researchers should not assume that they know what potential customers will do, how customers think, or how they make purchase or referral decisions. One hospital's senior marketing director overlooked this lesson of customer focus. In a presentation to a Fortune 500 company about the hospital's healthcare program for executives, the marketing director described all the therapies involved and the team that would provide all the wonderful executive services. The people at the Fortune 500 company, including its vice president, were polite as the hospital representative droned on and showed them a succession of slides he thought they would like. Finally, the hospital representative asked if there were any questions. The vice president at the Fortune 500 company had only one: When would the executive in this program be able to go back to work after treatment or other services? The hospital representative had no answer. Having believed that the company was concerned primarily with therapy, surgical outcome, and cost, the hospital representative was prepared to answer questions related only to those concerns. In retrospect, if the representative had talked to corporate decision makers responsible for health benefits before developing the presentation, the issues that were important to the company would have become clear. The presentation would have focused not only on the surgical and therapeutic care, but also on the time required to return a worker to productivity. After all, the program may be efficient, with an average length of stay of only 6 days, but if it takes an executive 6 additional weeks to return to work, the total cost to the company may be far greater than the cost of the 6-day length of stay. Understanding customers and the criteria on which they base their evaluations is ultimately the key to effective marketing.

When interviewing people for marketing jobs, it is important to discuss different types of problems to see to what extent the candidate understands the true market-based concept. For example, a candidate's response to a hypothetical situation in which a group of five physicians are thinking of opening a new clinic in a new community can be revealing. After suggesting that the candidate has been invited out to dinner with the five doctors to discuss how the new clinic "can be marketed," the interviewer should ask the candidate for recommendations about what to do next. If the candidate starts talking about a direct-mail strategy, signage for the

clinic, the advantages to be gained if the physicians join the Rotary, or any of the other hundred marketing tactics, the candidate is not the right person for the job. The answer the candidate should provide is a series of questions: Who are the possible customers? How do they make decisions? Where do they get care now? What are their needs?

In the business press, Peters and Austin have popularized the idea of knowing customers by talking to them.<sup>14</sup> Although this method may seem somewhat simple for sophisticated healthcare organizations, talking to customers can have incredible value. Market research with relevant sample sizes is important, but it is also important to take a personal, close-up approach and, most of all, to adopt a customer-focused philosophy.

In the parking lot of many hospitals, a sign posted next to the spot closest to the front door is marked "Administrator." It is odd in the healthcare industry that the administrator parks next to the front door while those who are sick, often elderly, are asked to park farther away. In contrast, at most hotels, people are greeted at the front door; someone takes their bags, escorts them to the front lobby, and parks their car. The hotel staff parks away from the facility, and the guests park next to it. This example does not demonstrate everything about marketing, but it does give an insight into such an organization's attitude toward its patients or toward its markets. Marketing is about listening carefully to customers, understanding their needs, and providing the best possible service to meet those needs before implementing tactics.

An example of the nonmarketing approach in health care can be found in a chemical-dependency program that was known for its quality and for its high cost. During "family week," the patients were reunited with their families at the treatment facility. In one such gathering, approximately 14 different family members were sitting on comfortable couches. Several were drinking coffee purchased from a vending machine located in the basement at a cost of \$1.50. The counselor, however, walked in with a china cup filled with coffee obviously poured from a coffeepot somewhere else in the building. This is a minor detail, but in a market-driven organization, family members rather than the counselor should have coffee in a china cup. Family members are part of the customer group; counselors are part of the production line.

Complex articles, seminars, books, and meetings may cloud the meaning of marketing. In the healthcare industry, marketing has created its own culture, succumbing to analysis paralysis by constant emphasis on data and research. Some administrators consider market research so critical that they do not make decisions without voluminous information. Yet, they can often obtain the best data by meeting customers in the lobby and on the units.

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In working with customers, it is important to focus on their questions and concerns, their expectations of the institution, and their decision-making processes. Sometimes marketers need to sit in the emergency room for hours, blending in and talking with families. They need to sit at the nurses' station or watch TV in the lounge with families. Sometimes they need to get in the car with a group of subspecialists (who are often key customers at a hospital), driving with them to their monthly clinic at a family-practice facility 2 hours away (their customer), and simply finding out how they perceive the hospital.

This approach may not be scientific, but it brings the data to life in a way that no amount of formal market research can. Former President George H. W. Bush realized the importance of "meeting the people" and used this methodology during the 1988 presidential campaign. During the summer of 1988, Democratic candidates Michael Dukakis and Jesse Jackson were fighting a battle to become the Democratic nominee. Throughout the Democratic primaries, Dukakis was viewed as the conservative; Jackson, as the liberal. The Republican nomination was not nearly so exciting, nor did it capture the attention of the voters the way the Democratic nomination did. After the Republicans had officially nominated Bush and the Democrats had officially nominated Dukakis, the campaign was ready to get under way after the Labor Day break. Bush's advisers were disturbed by national polls that showed Dukakis easily walking over the Republicans. They were finding it difficult to develop a strategy that might be effective against Dukakis—difficult, that is, until candidate Bush watched a couple of focus-group videotapes taken in a middle-class Roman Catholic community in Paramus, New Jersey. These people were Reagan Democrats, the people Bush needed if he had any hope of winning in November. As the tapes rolled, Bush was horrified to see that the group perceived him as more liberal than Dukakis because Dukakis had positioned himself as the broad-based Democrat against the "wild liberalism" of Jackson.

Out of these focus-group sessions came the decision to reposition Bush, but this time by keeping Bush where he was and moving Dukakis back to the left. In the words of *Newsweek* magazine, it was decided to "portray Dukakis as a bona fide, double-dip, frost belt, [George] McGovern style liberal whose most basic values were alien to most of America."<sup>15</sup> Thus a basically negative campaign was born, during which the case of Willie Horton, a murderer allowed out of a Massachusetts prison on furlough during Governor Dukakis's tenure, was drummed into the minds of the electorate from September through November until his name became the one most closely associated with Dukakis. The focus-group information told Bush how to win the election. So it is with a marketing plan.

## **CHANGE IS RELENTLESS**

Services cannot remain static; change is inevitable. Many forgotten products, goods, and services illustrate how today's successes can be in mothballs tomorrow. The marketplace is constantly changing; its needs and desires are dynamic and technology is making products obsolete at an ever-quickening rate. Some not-for-profit groups embrace change, like the church in Houston, Texas that has a McDonald's on the property, or the church in Arizona that has a bookstore and a mortuary. Meanwhile, some resist change, such as small towns across the country that have watched Walmart move into the outskirts of the town because local leaders and business people refused to work with the retail giant, fearing that the downtown area would change. In many cases the downtown area did change—the businesses died because existing community leaders refused to understand and work through the Walmart dilemma.

Organizations that take a narrow view of their products may miss opportunities for growth in tomorrow's market, while those that resist change may find themselves with no market to serve. Tuberculosis hospitals, slide rulers, and landline-based telephones and fax machines are examples of products and services that are no longer needed or wanted by the modern consumer. This same concern pertains to hospitals and clinics. Urgent-care clinics may, in large part, replace emergency rooms. The group practice may replace the solo practice and personal physician, and a nationwide chain of clinics may replace the group practice. The Internet is in the process of transforming the demand for primary care, and as most subspecialists can attest, the Internet provides patients with extensive information about disease that is often new to the physicians themselves. The clinic at the pharmacy may replace the doctor's offices, while the specialty eye hospital of Brazil may replace the eye clinic in small-town America. The laser surgeon may replace the general surgeon, the surgical robot may replace the rural surgeon, and genome science may revolutionize all medical services. In developing strategy, it is dangerous to say, "We've been doing it this way for 30 years, and there's no reason to change." Physicians, hospitals, and businesses must dare to create a vision for tomorrow with change as a fundamental ingredient. Those who are not willing to change to meet customer needs are not ready for effective marketing planning.

## **SEARCH FOR A BETTER WAY**

There is often a better way, and the competition will find it. Product and service innovation is a cornerstone of U.S. business as well as medicine. Today, innovations from business and medicine are coming together in the form of better approaches to organizing practices, better ways of paying

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for services, better technologies to help patients stay out of the hospital, and, for the consumer, better ways of getting treatment (e.g., clinics in shopping malls, evening hours, and family settings). As a result, when individuals within an organization sit down to develop strategy, they should not assume that they have a lock on the best hospital, the best clinic, the best location, or the best physicians. These are risky assumptions. IBM used to be the undisputed leader in software; now Microsoft has taken the lead position. Hilton hotels used to be first in the deluxe-hotel category; now several chains including Ritz-Carlton and Marriott have supplanted Hilton. Blue Cross was in the lead position for health insurance; now companies such as United Health Care are leading the way. No one in the United States had ever heard of a Kia automobile prior to the 2000s; now it is one of the major automotive nameplates in the country. Pediatricians used to provide most school and camp physical exams, and now it appears that Target Clinic is stealing that business. Never assume that the historical reputation of your organization will stand forever—it will stand only if it provides value relative to other alternatives available in the marketplace.

### **DECISION-MAKING ROLE OF THE MARKETPLACE**

That the marketplace has a decision-making role in helping to direct the future course of a business is often difficult to impress on professionals who take daily responsibility for decisions on behalf of their customers. It is correct and appropriate that physicians assume such responsibility for their patients, but many times patients should have the opportunity to make their own decisions regarding health care. As mentioned earlier, one of the most important elements in designing successful marketing strategies is to ask consumers how they can be better served and what their needs are. Their answers are often helpful in establishing office hours, fee ceilings, clinic locations, and a host of other elements. Basically, the types of decisions that consumers make regarding health care are the same types of decisions that healthcare professionals and other consumers make in the retail and commercial environment.

Consumers, if not asked in advance, make their judgments known by requesting some physicians in a group practice more often than others, by regularly seeking care at certain clinic locations, or by joining particular HMOs because the services provided are more suited to their needs than those offered in other HMOs or fee-for-service alternatives. Therefore, the involvement of potential customers in determining strategy is fundamental to the process of developing marketing plans.

## NEED FOR A CHAMPION

To ensure the best possible result, a program or service needs a champion—someone who is totally committed to making the idea work. The importance of this factor has become clear in profiling successful plans. Great program leadership will in all probability equal excellent results. At this stage in the marketing process, if the organization is unable or unwilling to find the necessary champion-style leadership, the program should be put on hold. The chances of failure are too great.

Peters and Austin noted that thousands of ideas are discussed every day in the United States, but that an idea needs leadership—a champion.<sup>16</sup> A champion is determined to succeed, customer oriented, energetic, willing to tout the idea to anyone, focused on success, always looking for new and better ways, and sometimes a gadfly, but always a believer.

Steve Jobs was the champion for Apple computers. He started the company in 1977, and it flourished. When he then left the company in 1987, it languished until his return in 1996 to bring new growth to the company with products such as the iPod, iPhone, and iPad. Debbie Fields worked diligently for Mrs. Fields cookies. Sam Walton was absolutely immersed in making sure that success happened at Walmart. At any given hospital, everyone recognizes three or four department managers as successful. These managers commonly create a high return on investment, new ideas, and requests for more capital; they are service champions. They believe in what they do, they are willing to look at new ideas, and they enjoy working with their customers. Somehow, the business grows.

The same holds true for physicians. In every large clinic or on every medical staff, a couple of physicians are outstanding. They are good, respected, energetic, and service oriented, and they are thinking about the future. Their practices seem to grow faster and better than other practices. Peters and Austin called their attitude a passion.<sup>17</sup> Every major marketing effort or service line needs a champion, a shepherd, someone who has the respect of others, but who also has the passion to be successful. Such an individual has the drive to create the best possible program with the highest possible return and can maneuver through the jungle of bureaucracy to put that program in front of the customer.

Most consultants and executives who work with troubled businesses cite the lack of leadership and failure to anticipate capital needs as the two leading reasons for business failure. Without a champion, the probability of success is limited. Collins and Porras describe high-performance organizations such as Walmart, Nordstrom, Disney, and others as having a “cult-like” feel: Leadership, and therefore the entire organization, exhibits similar characteristics.<sup>18</sup> These important characteristics include extensive indoctrination,

tightness of fit, and elitism. As discussed by Collins and Porras, extensive indoctrination includes training, hiring, and close mentoring to create a passion around customers. Tightness of fit involves being an IBMer at IBM or a Nordie at Nordstrom. This sense of family involves working together and also recognizing that one is part of the same organization day in and day out. Elitism refers to a feeling of superiority; the organization is able to convince employees that they, in fact, work for a special company. This is not to imply that the best leadership style is paternalistic. However, the leadership style of top organizations includes a passionate view of the business along with strong attempts to build a sense of family, involvement with the organization, and a strong commitment to customers.

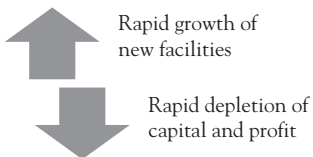
### TRADEOFFS IN COURSES OF ACTION

It is impossible to use all available strategies at the same time. By the same token, multiple strategies are often in conflict with one another. As **Figure 1.3** suggests, a strategy of high growth through additional volume generated by an aggressive sales program conflicts with a strategy of high profitability. Simply stated, tremendous growth may not be compatible with maximum profitability in the short run. Dramatic growth costs money.

On a short-term basis, in order to achieve growth, profits may have to be diminished. In a growth phase, profits may decline because capital is required for new clinics and related costs, such as staffing. Such a tradeoff can be an obstacle, because individuals in the partnership who are approaching retirement may not want to sacrifice income for growth.

**FIGURE 1.3**

#### Strategies Force Tradeoffs



### BEWARE OF GROWING AND SHRINKING AT THE SAME TIME—MARKET SHARE IS THE KEY

An interesting book published in 2002, *Four's a Crowd*, suggests that in a mature business, on average, only the top three market-share leaders are successful, and that usually these three will account for or control 70–90%



of the market.<sup>19</sup> An organization’s market share is an important indicator of performance. Common measures of a healthcare program’s success are number of patient days, number of new patients, net revenue, or average daily census. These measures are all appropriate and valuable. As health care becomes increasingly competitive, however, these measures can provide a false sense of security. Each has one major limitation—it is an absolute and does not take into account the competition. The Hampton clinic example provides a good understanding of volume versus market share insight.

**Hampton Orthopedic Group**

	Year 1	Year 2	Year 3	Year 4
Hampton Volume	50	75	80	90
Other Clinics’ Volume	0	25	80	150
Hampton Market Share	100%	75%	50%	38%

The patient volume (or net revenue) of the Hampton Orthopedic Group, for example, steadily increased from year 1 to year 4. In year 1, Hampton had 100% of the market in the new emerging suburban market, in part because it had no competitors. In year 2, with competition in the market, Hampton had 75% of market share, and by year 4, its market share had dipped to less than 38%. In each year it was growing in volume, but at the same time becoming less important in the market from a market-share point of view. In fact, this group’s common response to any suggested change in its strategy or tactics was, “No, we’ve never done better!” In year 1, these absolute measures were sufficient indicators of success. In the past, many hospitals and groups had little or no competition. Few healthcare organizations today, however, could describe their environment as noncompetitive. Even the rural parts of the United States now see competition, as large tertiary facilities offer helicopter service as a way to attract patients.

But an absolute measure may not reveal the truth. Although there was a steady growth in patient volume at Hampton, its market share of referrals from primary care physicians in its service area during those same years decreased. How could this be, and what does it mean? New orthopedists moved in; some of these physicians had more convenient locations than Hampton, which provided better access. Thus, Hampton is becoming a less important player in the market. If a new managed-care organization enters the market and contracts only with the market-share leader for specialty referrals, Hampton will lose. The time may have passed when it should have made strategic changes to remain a market leader.

Once a healthcare organization has competitors for its service or program, it must broaden its measures of performance and success. While absolute measures (e.g., net profit, volume) are valuable, a relative index

(relative to the competition) is also essential. Plotting and tracking market share may keep an organization from being left with an unprofitable segment of the business as the demand for the service matures.

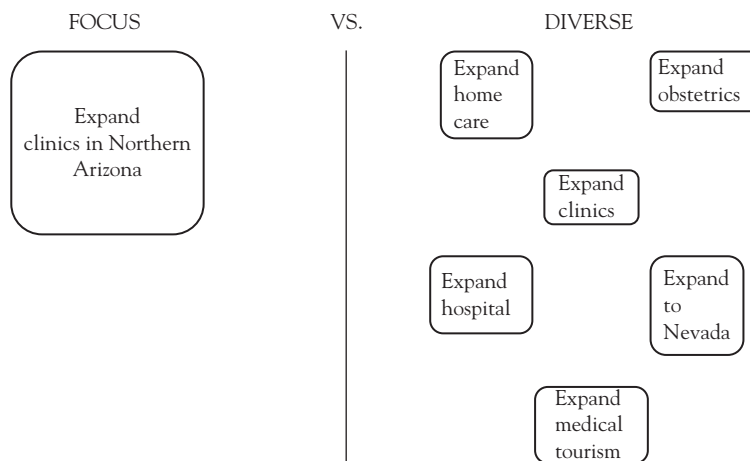
**FORCE AND FOCUS**

Normally, in the for-profit world, force and focus would be part of the formal marketing process. Yet, these two items seem to cause tremendous difficulties for marketing plans in healthcare organizations, as not-for-profits have a difficult time being seen as competitive. A common mistake in the marketing tactics of many healthcare providers is the failure to provide enough *force* (resources) to a marketing program. Usually, they allocate just enough advertising dollars for a 6- to 8-week image campaign, a half-time salesperson, or a part-time product manager. This tactic amounts to a partial commitment with a full expectation of success. It is essential to provide necessary resources or to save the capital altogether. With the typical consumer seeing more than 2,000 advertising messages per day in the United States, the chances of success for a poorly funded, understaffed, and inadequately promoted healthcare program are slim.

**Figure 1.4** describes how health systems and hospitals tend to dabble in 5 to 20 different strategies simultaneously, while often not being able to offer sufficient resources to each strategy. Successful organizations tend

**FIGURE 1.4**

**Focus and Force versus Diverse and Dabble**



to focus their efforts. One successful national retailing executive, when asked about his strategy, indicated that the single most important notion was market force. The organization concentrated on its core business, offering products and services in high-traffic malls (strategy), and always entered new markets with the goal of becoming the dominant retailer in its product area (the force). Therefore, this company, rather than opening one store in 20 cities in a given year, opened 20 stores in one city and became the dominant player in that city before moving to the next.

It makes little sense for a company to enter a market with a new product unless it intends to be the dominant player in the market. Hospitals often enter many markets (clinical programs), however, and end up as minor players in all of them. They do not become preeminent in any major clinical area or service. This is the central reason why much of the expansion anticipated from marketing in the 1990s failed to materialize. An aggressive position to capture a market was missing. Hospitals and clinics need to think about becoming forceful—forceful in spending capital, forceful in dominating the market, and forceful in advertising. Once they have decided to enter a market, they need an aggressive strategy with supporting tactics.

As healthcare institutions consider their options, they often find it necessary to narrow those options—to *focus*—both from a business-line perspective and from the perspective of marketing strategy. A lack of focus will result in what one marketing expert, Tom Bonoma, calls “bunny marketing”—hopping from one strategy to another while having minimal impact with any of them.<sup>20</sup> Once an institution can focus its marketing and general business strategy, it can place greater force behind that strategy. Such force includes money, people, and strategic thinking—critical elements in a successful marketing program.

An analysis of diversification attempts by the top 200 of the Fortune 500 corporations showed that only a few businesses (18%) achieved profits in their first few years of diversification.<sup>21</sup> New ventures need, on average, 8 years to reach profitability and approximately 12 years to reach cash flows similar to those of a mature business. Clearly, extrapolating these data directly to the healthcare environment would be foolhardy, but the Fortune 500 companies from which these data were drawn are among the most well-managed organizations in the United States; their administrators often have a greater knowledge of diversification than do most administrators of healthcare organizations.

The extent to which an organization chooses to emphasize a target market or key service, or the extent to which it chooses to function in multiple businesses is its focus. Often this focus is described as vertical

or horizontal integration. Vertically integrated companies seek to function within related businesses. For example, if Theodore General buys Aaron Supply Company and Wayzata Nursing Home, Inc., this is considered a vertically integrated organization. However, a hospital that purchases another hospital and adds yet a third is horizontally integrated. Usually, it is easier to operate horizontal businesses because of prior knowledge and expertise that can transfer from one like entity to the next in the product category. The problems in this area are complex, however.

Some executives seem to take a Las Vegas approach to developing focus. They note that if 70% of business lines fail, some are sure to work. Similarly, a person who throws 10 balls in the air at the same time will surely be able to catch a couple. Those who take this approach believe that it must be more risky to throw only one ball up in the air or to place only one or two bets. The difference between Las Vegas and business is the management time and attention that must be given to manage risk, direct resources, and provide service. Managers cannot throw money down and watch it passively. Managers have to participate, make decisions, try to manage risk, and try to maximize return. Thus, they must be concerned about force and focus.

The hottest management rage in the healthcare industry in the late 1970s and early 1980s was acquiring and operating multiple lines of business. Each month the management journals published articles about the grandiose plans of this system or that system. They reviewed complex organization structures, along with the myriad businesses that hospitals seemed to be entering. Hospital managers without diversified businesses felt old fashioned; it seemed that the landscape of the hospital industry was forever changed as managers attended seminars on diversification. The following experience is typical.

A hospital trade publication ran an announcement by Libertyville General Hospital's CEO that the hospital had established a holding company and would be entering a multitude of different businesses. The CEO was quoted as saying that because of the difficult times ahead for hospitals, it was necessary to seek revenue sources from alternative new businesses, including a health-food store, a home healthcare agency, and franchised dental centers, as well as from new healthcare programs. The hospital planned to establish 30 chemical-dependency programs around the United States within 3 years. The article noted that a major partner in a national accounting firm had been hired as the hospital's chief financial officer (CFO) to assist in this business-development and acquisition process. Two years later, in the Help Wanted section of the same magazine, an advertisement appeared for a CFO for the Libertyville General holding company. After the company's dismal record in establishing

chemical-dependency programs and the collapse of other businesses, the new CEO and CFO of Libertyville General Hospital announced a new strategy at their first board meeting—getting back to basics.

Some organizations, such as St. Joseph's Hospital of Ottumwa, Iowa, have been able to accommodate diversification nicely. This organization has diversified into hospitals, rehabilitation facilities, family recovery programs, skilled-nursing facilities, and wellness programs.<sup>22</sup> Other companies had a dramatic drop in stock value in late 1985, largely because of investor concerns about the organizations' failure to diversify into managed healthcare systems. For example, Hospital Corporation of America became less attractive to the investor community because it was operating only hospitals.

At the other end of the spectrum, well-known management writers such as Tom Peters suggested that it was time to get back to the basics of business.<sup>23</sup> Events at other giants, such as the collapse of Enron and the sale of diversified, not-for-profit, Philadelphia-based Allegheny Health System by a bankruptcy court in 1998, caused management experts to reevaluate the whole concept of horizontal and vertical growth. The histories of many large corporations, including banks, automobile manufacturers, and airlines show numerous failures as these companies tried to expand. Integrated health systems such as the not-for-profit Henry Ford Health System lost more than \$90 million in 2001. Further, hospitals across the country have found it difficult to make their medical clinic practice purchases work. Organizations such as these have sold or are thinking about selling businesses that are not core—sometimes the hospital, sometimes the doctors' group, and sometimes the health plan. Finally, a telltale sign of this new stick-to-the-knitting focus appears in conversations among CEOs, who talk about their need to develop the base business. This view is in sharp contrast to the articles about national expansion that these same CEOs wrote just a few years ago.

This is not to say that expansion or diversification is not a viable strategy and cannot be used effectively. For example, the Mayo Clinic's expansion into Arizona, Florida, and the Middle East has been successful because the Mayo Clinic has the reputation, the brand name, the manpower, the force, and the focus. Long-term commitment to a primary business also helps make such a venture successful. Such success would be impossible for most others, however.

The key is to develop strategy thoughtfully within the realistic capability of the firm. Health care is complex. The Las Vegas approach is simply too difficult to manage and sustain for most healthcare providers. Each organization needs to *focus* on a comfortable set of services and apply those key marketing strategies that can help bring them about with *force*.

## UNIQUE SELLING PROPOSITION

Every organization needs a unique selling proposition, a combination of what its customers “give it” and those services or enhancements that the organization wants to add. Usually, the unique selling proposition is one or two attributes that, over time, become the institution’s claim to fame or point of distinction from the competition. For IBM, it is maintenance availability; for Frito-Lay, it is freshness; for the Cleveland Clinic, it is comprehensive technology; for Nordstrom, it is an absolute commitment to service; and for Google, it is about preeminent information search.

### Consumers’ Perspective

Customers determine, in part, the unique selling proposition because they have views and perceptions about alternative healthcare providers, even though they may have no personal experience with them. For example, if customers view an emergency room as the most convenient, that is a powerful, unique selling proposition—one that the customers have “given” the organization.

Consumers have a difficult time determining the competence of various physicians and hospitals, but they have little difficulty perceiving such characteristics as high-tech or high-touch approaches, convenience, safe neighborhood, and friendly staff. Most hospitals like to think that their unique selling proposition is high quality, and consumers expect a hospital to provide high-quality care. As consumers consider the purchase of a durable product such as a TV set, for example, they recognize that they can pay less than \$100 for a portable, small-screen TV to a few thousand dollars for a wide-screen LED-LCD TV with Internet and the latest apps. Within each category, consumers expect to purchase quality. It is the same with health care. Pahrom said it best: “Quality is the tar baby of health care competition. Nearly everyone vows or claims to compete on this dimension . . . but there are real problems with [this] approach.”<sup>24</sup> He goes on to point out that service quality, not clinical quality, will be the competitive dimension of the future.

The consumer assumes that if a hospital has a license, nurses, physicians, and all the other trappings, it must provide quality—to at least a minimal standard. In a competitive strategy, quality is the cost of entry; it is the given. Saying “we are the quality hospital” is a little like saying “our pizza tastes good” or “our accountants know the tax law.” The *New England Journal of Medicine* published findings from a study of patients who changed doctors. Only 25% cited incompetence. In several proprietary

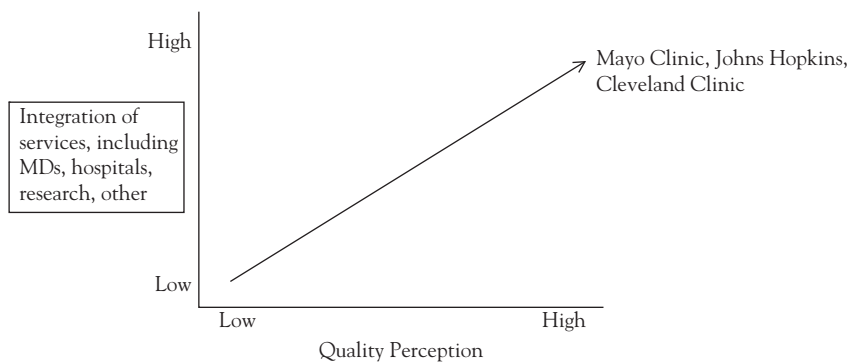
studies (conducted by Steven Hillestad and Eric Berkowitz) provided to clients in 2011, the results remain basically the same: Most consumers who switch physicians base their decisions on personality, style, cleanliness, and poor communication skills—“It was clear that competence was taken for granted.”<sup>25</sup>

Some organizations on a national level and, to a greater extent, on a regional level have achieved superior quality status. Johns Hopkins, the Cleveland Clinic, and the Mayo Clinic fall into this category. The interesting aspect of this status is that the organization, not an individual physician, has gained the recognition based on the perception of quality. A study conducted by the Strategic Planning Institute and the Harvard Business School of the Profit Impact of Market Strategy (PIMS) of more than 450 companies and 3,000 business units found that relative perceived quality and profitability are strongly related.<sup>26</sup> The link between relative perceived quality and return on investment is clear in the PIMS data (Figure 1.5).

Whether the measure is return on sales or return on investment, superior perceived quality leads to superior performance. Few people (relative to those who have expressed opinions) have experienced care at these centers, however, and on the surface it is difficult to determine what these centers have done specifically to achieve their quality position. The consumer assumes quality; he or she will not knowingly visit a bad hospital. How then does a consumer differentiate between “quality” hospitals in a given community?

**FIGURE 1.5**

**Relative Quality Perception as Related to Integration of Services**



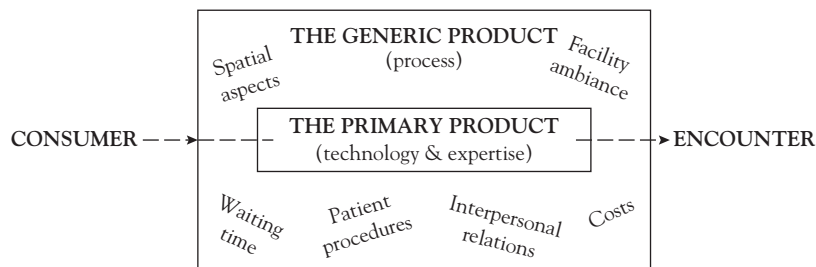
From the consumer’s perspective, the primary product to be purchased is the expertise of physicians, nurses, and staff, along with the accompanying technology (**Figure 1.6**). The primary product is the core of healthcare service just as the engine is the core of the car or airplane. The primary product gives a healthcare organization its quality, or technical component—the cost of entry. It must work, just as an engine must start. It is expected. But it is not the differential advantage for business consumers; they differentiate one hospital from another on the basis of the generic product—components such as breadth of services, image, price, and attitude of the staff. Although “healthier” is a complex notion, the evaluation of the consumer often rests on seemingly simple parameters such as wait times and written materials and instructions. Likewise, the automobile is complex, but some consumers make purchase decisions based on the availability of cup holders. They infer quality from such components, and they can make this inference even if they have never experienced the service or used the product. Therefore, instead of emphasizing general quality in a marketing plan, a hospital may find it more valuable to focus on the physicians and the special training that they have—assuming that this is indeed a unique selling proposition.

**Determinant Attribute**

It is important in building a unique selling proposition to focus on a component of the service that may be a determinant attribute. Such a component is one that consumers feel is important (e.g., breadth of services) and that they perceive as a difference from the competition. If one hospital in a community has taken convenience as its unique selling proposition, another hospital will probably not be able to counteract it with, “we are

**FIGURE 1.6**

**Health Care as a Primary and Generic Product**





quality.” Because most consumers see all hospitals as providing some reasonable level of quality, the convenience factor comes up time and again as one of the most powerful and sustainable unique selling propositions available to a hospital or to a physician. In order to overcome this unique selling proposition, another organization must have a strategy that goes beyond convenience and quality.

If quality cannot be used as a unique selling proposition, it may be possible to use price, particularly a low price. The use of pricing strategies as a unique selling proposition is untested in the healthcare arena, however, and it is probably one of the most dangerous strategies for at least two reasons. First, competitors can often easily match this strategy, at least for a short period of time, unless the price package includes unique benefits to the buyer. If a competitor matches your low price, in effect it takes away the unique selling proposition and sets up the possibility of a price war. Classic price wars have taken place among hundreds of companies and have sometimes changed the entire structure of an industry. Throughout the 1980s, for example, the airline industry was in a price war to such an extent that discount prices came to be expected; this expectation drove profit margins down, drove bankruptcies up, and ultimately led to a massive consolidation that resulted in sharp price increases as competitors were eliminated.

Second, price is one of the ways that consumers judge quality, and organizations try to position the quality of their services through the use of price strategies. As a rule of thumb, setting a higher price and bundling benefits with that price help position a product as a higher quality item. Setting a lower price may cheapen the product and attract a different market. For example, consumers are likely to perceive the skills of tax preparers who advertise their services for \$19 as poor, particularly if they know that a national certified public accounting firm would charge \$275. For most products and services, there is a perceived price–quality relationship. These discount accountants may have graduated at the top of their classes, but the pricing system they use may raise concerns about the quality of the service delivered. The situation is similar for hospitals and physicians. Most patients do not want their surgery done by the cheapest surgeon in the cheapest hospital. Instead, they want good care, a great outcome, and a responsible price. Being known as the “Kmart of hospitals” may be all right for such products as school physicals, health education, and other low-risk services, but it could be dangerous for others.

Although quality and price may not be appropriate competitive advantages or unique selling propositions, no service needs to be a commodity—as long as points of difference between competitors can be highlighted.

Some of these differentiations or unique selling propositions may seem trivial or small, but they may be just enough to set an organization apart from the competition. A certified public accountant is generally assumed to be competent, for example. Others are also competent, so consumers can shop around every year to get the best deal on their tax preparation. The clients of one particular accountant seldom change, however, because of a small service that he or she provides as a byproduct of preparing tax forms. The accountant may use a computer-generated model to complete the forms because it is fast, it is accurate, and it allows the accountant to check on significant variances from one year to the next that may indicate a client's error in reporting information. As a byproduct of this process, the accountant may provide a nicely packaged 3-year comparative history of income, deductions, and significant financial transactions, complete with a folder that can be easily filed with other personal financial information. The customer does not receive an extra charge for this added service and perceives it as unique and convenient. Providing such a service also keeps the customer, because switching to another accountant (who has the same services, if not more) would interrupt this series of comparative financial reports. Therefore, the accountant not only has a unique selling proposition (comparative reports), but also provides it in such a way as to lock in a satisfied customer.

### **Add-Ons**

Often, add-ons become unique selling propositions. A surgeon's generic service is his or her ability to skillfully examine, operate, and manage the patient's postoperative care. A routine add-on service is talking to the family immediately and calling the referral physician. Although the routine service is not part of the generic product, it is important to the extent that it helps differentiate one surgeon from another. The surgeon can go even further—to an extraordinary add-on product that is above and beyond the routine. Services in this category might be a telephone call from the surgeon to the referral physician or the patient 10 days later to make sure everything is all right, or a fax from the surgeon to the referral source immediately with information about the case.

Other services or add-ons are designed to keep the institution in the forefront. A surgeon may have an invitation-only Saturday morning seminar for referral sources, after which the group attends a university football game. Another surgeon may invite referral physicians to scrub for two or three cases to see a new laser technique in use so that they can better explain the procedure to their patients. Service thus includes the generic, routine, and extraordinary dimensions, which will change. Today's extraordinary services can become tomorrow's routine services.

### Differential Advantage

A differential advantage is a core feature that makes you different from the competition. It is your unique advantage to your customers. Some call this concept your strategic heartbeat or your core driver. Most differential advantages are derived from one of three broad categories: a cost, a product, or a market driver. A differential advantage achieved through cost is self-explanatory. For example, many freestanding surgi-centers, which have low overhead, have been able to achieve a differential advantage on price over hospital-based surgery programs, which must pay a significant portion of the plant's overhead operating expenses. In order to obtain a cost-based differential advantage, organizations turn to a few basic approaches. First, an organization may create a no-frills product. Some managed healthcare plans have entered the market at a significant cost advantage by offering coverage with high deductibles or by providing care through lower-cost providers, such as physician extenders rather than physicians, at the first point of patient intervention. Second, the experience may lead to a cost advantage. As an individual or organization performs a task more and more frequently, the result should be increased efficiency. Some organizations charge more than \$1,000 for Lasik vision correction, while others with large volumes of business charge under \$500. Third, organizations may obtain a cost-based differential advantage through expense control.<sup>27</sup> Ideally, an organization may have an actual cost advantage over competitors, but not find it necessary to use this advantage in the marketplace. Creating a differential advantage on cost often requires extremely good expense control, and it is achieved at the sacrifice of the profit margin. Unfortunately, to some extent, buyers of healthcare services are choosing among competing providers based on this differential advantage.

Organizations can achieve product-based advantages from several factors, such as name or image, a demonstrably higher-quality service, innovations involving getting clinic information appointments online, or by being willing to constantly review and update their business model to stay competitive with changing clinical and economic conditions.<sup>28</sup> An organization gains a market-based differential advantage by offering a relatively narrow product line, focusing on a targeted market segment, or having a strong geographical focus. For example, the Joslin Clinic has historically been strongly positioned in the area of diabetes research and treatment, giving it a strong market-based differential advantage. In recent years, several hospitals, such as Abbott Northwestern Hospital, have attempted to achieve a differential advantage among women by promoting specialized women's healthcare services (**Figure 1.7**).

**FIGURE 1.7**

**Advertisement for Women's Healthcare Services**

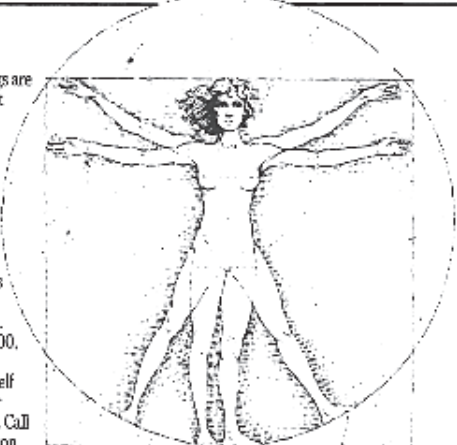
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 **WOMENCARE**<sup>SM</sup>  
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Finally, many large, multispecialty group practices have aggressively expanded by means of primary care satellite networks in an attempt to establish a strong geographical differential advantage. In the 1970s, the Scott and White Clinic in Temple, Texas had no primary care satellites; by 1989, it had established multiple satellites in a wide geographical radius. Similarly, the Geisinger Clinic in Pennsylvania rapidly increased the number of its satellite clinics over a 10-year period in order to have wide geographical dispersion. Soon after, most hospitals and large medical centers were trying this model. But by 2000, after failing to achieve

economic return from the expansion of clinic sites, many hospitals began to unload clinics as fast as possible.

### **CREATING BARRIERS FOR COMPETITORS' ENTRY AND MINIMIZING BARRIERS FOR SELF EXIT**

In developing a competitive strategy, an organization's ultimate goals should be to create barriers that discourage competitors from entering the market and to minimize barriers that hinder its own exit.

There are several sources of *barriers to entry*. Size can create economies of scale and make competition difficult. The consolidation within a prepaid business may discourage new competitive entries, for example. A prepaid plan with a membership of 2–3 million obviously has a risk base that may allow for more aggressive pricing than is possible for an independent physician association plan with 35,000–40,000 members. In essence, market share can be a formidable barrier to entry. Another valuable barrier to the entry of competitors is the consumers' switching cost. The goal is to link the consumer to the hospital or other healthcare providers in such a way that switching to a new provider may cost too much in information lost, hardware made obsolete, or, ultimately, financial resources. A large advertising budget provides a competitive advantage beyond the impression of the organization that it gives potential buyers. Any new competitor must at least match the advertising budget to compete for awareness among potential buyers. Capital requirements can also create a useful barrier to entry. A financial consultant may wince at the thought, but expensive projects have a market advantage in their very expensiveness. They prevent many competitors from entering the market because they lack the financial resources to do so. The ideal barrier to a competitor's market entry is product differentiation. The service provided must, however, be superior in some characteristic that is both perceived and valued by the potential buyer. In health care today, as technology pervades the system and the skill levels of physicians increase, product differentiation is difficult to achieve.

As important as it is to consider creating barriers to market entry, it is also useful to *minimize barriers to market exit*. In considering competitive plans for services or programs, an organization should attempt to maximize its ability to leave the market. The first barrier to exit that must be minimized is high fixed costs; once a lot of money has been approved for a project, it is difficult to drop. The second barrier to exit that must be minimized is psychological commitments. Senior management may believe that too much has been invested in a project to consider dropping it.

**DIVERSION AND DISSUASION**

Some organizations use diversion strategies; they try to make it appear as though they will not invest in a given opportunity or that the opportunity in which they have invested is so unimportant that it does not warrant attention.<sup>29</sup> Dissuasion strategies lead competitors to believe that, in direct competition, the organization will be able to crush them because of the resources the organization will pour in. These tactics are common in business and are used to diminish the probability that a competitor will open across the street, develop a new service line, or compete for the same market segment.

For hospitals, the use of diversion and dissuasion tactics is often difficult. Most hospitals allow the general staff or the executive committee of the medical staff to approve new service offerings. Physicians who participate in these discussions often have staff appointments at two or three hospitals. As a result, information about a new program at one hospital may be quickly available at another hospital, a situation that limits either hospital’s ability to use these classic tactics.

As hospitals and physicians consider more joint ventures, problems in the use of diversion and dissuasion are likely to become more widespread. While hospitals and clinics attempt to balance tactical surprise, traditional policy, physician-vested interests, hospital-vested interests, and a competitive environment, they will need to evaluate and develop ways to use these tactics appropriately.

**GROWTH IN THE PRESENT MARKET**

Many organizations search for new markets, bringing on staff new physicians or more primary care physicians to enhance the referral base. They spend little time, however, increasing the loyalty of current customers. As organizations develop their marketing plans, they must recognize that present buyers are as important as new ones. Furthermore, increasing the loyalty (or usage rate) of current buyers is frequently less costly than attracting those who have never used an organization’s services. In the soft-drink industry, for example, the usage figures in the market are as follows:

**Soft-Drink Industry Usage Figures**

Households	22%	39%	39%
Purchase/usage	0%	10%	90%

Twenty-two percent of the households purchase no soft drinks; 39% of the households purchase 10% of all the soft drinks sold; and 39% purchase 90%. For strategy development, one fact is obvious—the group that purchases 90% of the soft drinks must be maintained. At first, it may appear that because of the potential volume, those who sell soft drinks should focus on the 22% who do not purchase soft drinks. In fact, however, these people may have never tried one, hate soft drinks, or have some other challenging reason for not buying them. Who would be easier to convert: the person who has never had a soft drink, or the person who drinks them occasionally? It may be easier and more profitable to convert the medium user into a heavier user than to convert the person who has never consumed a soft drink into a buyer.

In the healthcare industry, it is similarly important to look for growth in the present market. An analysis done for one specialty group revealed the following referral patterns for primary care doctors:

**Referral Patterns for Primary Care Doctors**

Primary care doctors	38%	32%	30%
Referrals generated	0%	37%	63%

Thirty-eight percent of the primary care physicians in the service area referred no patients, while a smaller core (30%) accounted for the bulk of the referrals. This specialty group should make no changes in patient procedures without consulting the loyal “heavy users,” the 30%. The group should also find a way to increase the loyalty of the 32% of physicians who account for 37% of the referrals. These physicians are either referring patients to more than one healthcare facility, or they are not referring patients in the volume that they might. The issue is not to make these physicians aware of the group’s existence, but to generate more volume. Obviously some business can also be received from the group of physicians who account for no referrals. Some of them may not yet be aware of the specialty group, but once they are made aware, they may find the service of value. The vast majority of physicians who do not make referrals to the group, however, have previous commitments or have simply decided not to do so. Conversion of those who have made a conscious decision not to refer is expensive and difficult.

**FALL ON YOUR SWORD**

Is the medical organization willing or able to live with its own words? If they say they will have the highest quality of care, then are they willing to eliminate clinical privileges for those who do not meet the national standard? If they say they are customer focused, then are they willing to spend

significant effort and resources each year to study consumer opinion of their service? An example of this is a remote northern resort hotel that is open in the winter months even though business is slow. The resort's mission is a commitment to couples looking for a romantic weekend. The resort has 20–30% occupancy during slow times and therefore has significant negative cash flow during the winter months. Sports teams who have games scheduled in nearby towns call the resort looking for accommodations for dates during the difficult cash flow periods. The teams could fill the rest of the rooms and generate thousands of dollars of much-needed revenue. But the resort refuses them; it does not want this revenue unless the teams are willing to sign a strict set of guidelines and abide by a prescribed set of rules with significant penalties if the rules are not followed. The resort is willing to “fall on its sword” and keep its promise that, in fact, it is a quiet romantic getaway destination, even if it means saying no to organizations that are not willing to abide by the rules and possible penalty fees.

Some healthcare organizations are willing to keep their promise as stated in their vision, mission, and other strategy statements, while others will grant credentials and privileges to physicians who can bring new volume even though the physicians have had prior issues at other organizations. If a hospital says that it will offer the most efficient, cost-effective service, then an observer would expect to see diligent attempts to reduce waste, including extra tests, procedures, and medical visits. While the marketplace might be competitive, the healthcare community has an ethical and professional responsibility to live its mission statements and to provide for the best interests of its patients.

## **SUMMARY**

Steve Jobs, the founder of Apple, personified the concepts of the Strategic Mindset. In the late 1980s, under pressure, Jobs left Apple, and did not return to the Apple campus until 11 years later in 1997. When he returned, the company was in a shambles, with declining revenue, severe cash flow issues, and a critical loss of customer support. The company was headed toward bankruptcy, as demand for Apple computers nearly vanished. On one of Jobs's first days back to work at Apple, he was astonished to find a dozen different versions of Apple's Macintosh computer and a confusing and disjointed array of products under development. One day he attended a product development meeting and on the board he drew a square and divided it into four quadrants. Above the square, over each of the two columns, he wrote “Consumer” and “Pro.” Along the side of the square, he wrote “Desktop”



for one row and “Portable” for the next. He then told the horrified engineers that he wanted only one product in each box, and soon 70% of the existing product line was scrapped as the organization was refocused into four product areas.<sup>30</sup> Jobs embodied the use of the Strategic Mindset, including clear vision, absolute focus, attention to customers, and having a champion.

Before starting the planning process, the elements that constitute the Strategic Mindset should be reviewed and discussed to determine if the organization is really ready to move on to the next step. Before moving forward, how well positioned is the company with each of the following Strategic Mindset topics?

1. The company must have a clear vision and focused strategy.
2. Customers, customers, customers—they are the real focus.
3. Services cannot remain static; change is inevitable.
4. There is often a better way, and often a competitor will find it.
5. The marketplace has a decision-making role in directing the future course of a business.
6. A champion must be in place.
7. Tradeoffs among alternative strategies are necessary.
8. Beware of growing and shrinking at the same time—market share is the key.
9. Effort should be focused, and adequate force should be provided.
10. A unique selling proposition is necessary.
11. Barriers to entry should be created, and barriers to exit should be minimized.
12. Diversion and dissuasion need to be utilized.
13. Growth is often most likely with the present market.
14. Be willing to fall on your sword.

Within the framework of this mindset, the remainder of this text addresses the development of a model for creating high-level strategic plans that link to marketing and business plans in healthcare organizations.

### **QUESTIONS FOR DISCUSSION**

1. In a world of federal health reform, how does strategic planning change?
2. Is a champion for an idea more important than the strategy itself?
3. New ideas do not have a history. What is the best way to introduce a new idea into the marketplace?
4. Can organizations grow rapidly and maintain financial margins at the same time?

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\*These generic strategies are discussed in Porter, M. (1980). *Competitive strategy*. New York: Free Press; ch. 2; and Aaker, D. (1984). *Strategic market management*. New York: Wiley; ch. 12.