

HEALTH CARE MARKET STRATEGY

From Planning to Action

FOURTH EDITION

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Sandy, Annie, Julia
&
Gracie, Shadow, and the Gentle Giant, Dane
—E.N.B.*



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PREFACE

Too often, we value the process of creating strategy while paying little attention to our results.

The healthcare industry is increasingly a focal point of public interest regarding access to care, quality, and affordability. Employers are becoming overwhelmed by health insurance costs, Medicare is a major stress on federal budgets, and there is an increasing concern about the total percentage of the GDP spent on health services. In spite of these national concerns, at the local level, healthcare organizations have continued to develop strategies around the assumption of increasing the number of programs, services, and facilities without regard to the possibility of reaching the limits of the public tolerance in terms of paying for these ever-expanding healthcare services.

Healthcare delivery changes are taking root in the 21st century that often challenge the conventional way health care is delivered. With so many financial resources going into health care, strong perceived profit margins, and demand for services likely to increase as the population ages, many entrepreneurs see opportunities to challenge conventional delivery of care. At the same time, policymakers are demanding that the medical community begin to seriously examine efficiency and efficacy of care, and business leaders are working hard to create incentives for employees to make more prudent financial decisions regarding their personal health care in an effort to control cost and reduce utilization. All of these forces have significant impact on strategic decisions for healthcare organizations.

In short, entrepreneurs who have historically operated outside of the healthcare arena now see this environment as having enormous potential financial opportunity, while others see health care in need of dramatic cuts in terms of economic costs. In either case, hospitals, clinics, physicians, and other providers are going to see more pressure to provide better, more efficient care, often using new methods of delivery that could shrink the need for existing and expensive facilities.

Many traditional providers such as hospitals and clinics will survive, but others will likely fail if they do not embrace changes such as concentrated specialty centers, web-based doctor visits, or voucher-style payment systems. Every business school student is taught about the theory and practice of S-curve thinking. S-curve theory is based on the idea that services have a natural pattern of initial, often slow, introduction followed by a growth pattern where the new idea begins to eclipse the more mature and recognizable service. Sometimes the mature service or product offering is ultimately replaced or fails by what at one time was considered a new or breakthrough concept. Some call this concept *creative disruption*, and we see the concept in practice all around us every day. For example, the passenger train was eclipsed by the airplane, Main Street has been eclipsed by the big box retailer, and brick-and-mortar bookstores are disappearing as a result of the e-reader and tablet technology. Health care is not immune to the same kinds of upheaval, as primary care physician visits are being disrupted by care being delivered in grocery and drug-stores, credible orthopedic care is being delivered to Americans willing to travel to Thailand, and web-based physician visits are, in turn, replacing urgent care and traditional doctor visits. All of these changes are examples of creative disruption that brings about new services, which modify or replace old clinical programs with new and different clinical service offerings. The key for a healthcare executive is to learn how to recognize that change and new ideas are unstoppable, and to figure out how to work with both existing and new concepts to manage successfully into the future.

We see individuals within healthcare organizations spending countless hours in discussions, committee meetings, retreats, and analyses to create a strategy. Often, however, such strategies are only partially successful because of a lack of crisp focus and a gap between strategic decisions and tactical implementation at the marketing level. In our view, such plans often fail because: (1) the leadership does not recognize the changing environment where there is a new demand for different services that are delivered in a different way, (2) the organization has made intuitive judgments about the marketplace that are not accurate, (3) the strategies lack clear focus and direction, (4) they are strategically or tactically weak, (5) the organization is unable or unwilling to identify a clear value add or

unique organizational advantage, or (6) the action portion of the plan is not precise and powerful enough to be successful.

Healthcare strategy development has become very complex. In the past, a hospital would estimate admissions and units of care delivered, calculate costs, prepare a budget, and then pass the cost increase on to insurers and other payers. But that model is gone. New, nontraditional competitors are figuring out how to take volume from hospitals and doctors' offices by offering a different service at a lower cost. Others are creating models such as accountable care organizations (ACOs) that require hospitals to essentially offer a service at a fixed cost and guarantee the outcome of the service. As health care continues to be a large and still growing economic power, existing players will see even more "outsiders" looking at new ways of providing good patient care, while, at the same time, taking a share of the economic opportunity. As we move forward, anyone involved in healthcare management will need to be much more focused, strategic, analytical, and tactical than we have ever seen in the past.

This text provides a market-focused method to fill the gap between strategy design and tactical implementation. It offers a useful, step-by-step method for implementing and connecting the strategic plan along with the tactical implementation at the marketplace level. Furthermore, individuals who have read an introductory textbook on marketing or strategic management and want to know what to do next will find this book useful as an immediate follow up as they begin to implement strategic and marketing concepts.

The major contribution this text makes to health care is in linking strategic thinking to appropriate market tactics. We call this tactical model the *strategy/action match*. Using this model, the reader will have confidence when choosing the tactics to employ in many different situations. In addition, we emphasize the mindset that successful strategy requires. We call it the *strategic mindset*.

Since the publication of the third edition of this text, we have had the opportunity to work with hundreds of organizations, both large and small. As a result, we believe more than ever that great emphasis needs to be placed on creating an atmosphere or culture that is open to honestly examining where an organization fits within the competitive marketplace. Sometimes these conversations and decisions are very difficult. This text provides tools to help health-related entities have robust and honest conversations, so that failure can be minimized.

Finally, this text attempts to clarify relationships—relationships among managers within a healthcare company, and relationships between each of those managers and strategic planners and marketing staff—so conflict can be avoided and teamwork can be established. In this edition, we have

significantly expanded the discussions of strategy and strategic planning in order to clarify how strategy, business plans, and marketing relate. We have also added tools to help health organizations have balanced discussion around strategic issues that allows for participation by all relevant decision makers.

Chapter 1 provides an overview of strategy and the importance of strategy in the organization. In this chapter, the reader will become grounded in strategic thinking at the highest level and develop a mindset that is conducive to strategy development at the leadership level. Chapter 2 details the more precise task of understanding how the process of strategic planning, business planning, and marketing work connect.

Both strategic planning and market planning start with an understanding of the environment. Chapter 3 looks at the environment and discusses how it is changing and its impact on strategy. Chapter 4 offers ideas around the next logical step: analyzing in detail internal capability and external factors. Here the reader will learn about market research and other tools that can be used to get a fair-and-balanced view of the situation facing the organization.

Chapter 5 explores the importance of a vision to the organization and it examines the other elements of a strategic plan. This chapter also provides models and tools to help executives manage a strategic conversation, understand the framework of what a strategic plan should accomplish, and compare and contrast good strategic visions with less desirable ones.

Chapter 6 is the cornerstone of this text. It provides a model from which the reader can use data and theory to develop the framework of a reasonable connection between strategy and specific tactics. We call this the strategy/action match. In this chapter, we examine the product life-cycle and look at tactics that can be used depending on where an organization's product is in its lifecycle or S-curve.

From this point on in the book, we take a tactical look at tools used to accomplish the organization's vision. In Chapter 7, we look at traditional marketing concepts including pricing, advertising, distribution, and product development from a healthcare point of view. Chapters 8 and 9 are about making the marketing plan an integral part of the organization and using tools to monitor items such as financial progress and sales performance.

The appendix material is designed to show the reader what questions might be important throughout this process. We have also updated and clarified a model market plan so that the reader will have a clear understanding of what such a plan should look like.

This text is a bridge. It bridges theory with practical applications. It connects strategic thinking from the corporate office to tactical application

at the clinical business unit. It connects modern business strategic and tactical thinking with application to healthcare organizations such as hospitals, doctors' offices, blood banks, organ donor programs, rural healthcare co-ops, and weight-loss services.

Steven G. Hillestad
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ABOUT THE AUTHORS

Steven G. Hillestad, BA, MA trained at the University of Wisconsin–Madison in business and public administration. He led marketing efforts at the Fairview System in Minneapolis in the late 1970s, when the first edition of this book was published. Until 1998, he led marketing, strategy, acquisitions, and business-development efforts at Abbott Northwestern Hospital, LifeSpan, and Allina Health System, all located in Minneapolis. He provides consulting support to healthcare organizations in strategic planning and market research. He has been active in professional organizations and has published frequently. He was awarded the Frank Weaver Leadership Award and the Corning Award from the American Hospital Association, where he served as President of the Society for Healthcare Strategy and Market Development. Hillestad teaches part-time at the University of Minnesota, co-owns an upscale lodge on the shores of Lake Superior, and provides consultation to organizations involved in healthcare delivery. Currently, he is working with not-for-profit boards to help them improve performance so they can achieve their vision. He resides in the Twin Cities area.

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Dr. Berkowitz has consulted frequently on marketing and market research for a wide range of healthcare organizations. A frequent speaker for medical staff meetings and retreats, Dr. Berkowitz also serves as a core faculty member for the American College of Physician Executives. Dr. Berkowitz has also been a frequent speaker at meetings of the Medical Group Management Association, the American Hospital Association, the Association of Community Cancer Centers, and the American Academy of Orthopaedic Surgeons, among others. Dr. Berkowitz has taught in the Executive Management Programs of the University of Minnesota, Health Systems Management Center at Case Western Reserve University, Carnegie Mellon University, ITAM in Mexico City, and for the University of Connecticut.

Professor Berkowitz has published extensively in both marketing and health care. He is an author of six books: *Essentials of Health Care Marketing* (3rd ed., Jones & Bartlett, 2011); *Marketing* (7th ed., McGraw-Hill, 2002); *Marketing* (6th ed., Canadian Edition, McGraw-Hill, 2006); *Health Care Market Strategy* (4th ed., Jones & Bartlett, 2013); *Strategic Planning in Health Care Management: Marketing and Finance Perspectives* (Aspen, 1981); *Healthcare Market Research* (McGraw-Hill, 1997).

Dr. Berkowitz is a past editor of the *Journal of Health Care Marketing*. He also served as Chairperson of the Alliance for Healthcare Strategy and Marketing, and as the editor of *TrendWatch* for the Alliance for Healthcare Strategy and Marketing. Professor Berkowitz is listed in *Who's Who in American Industry and Finance*, *Who's Who in Education* (6th ed., 2004–2005), and *Who's Who Among Emerging Leaders*. While on the faculty of the University of Minnesota, Professor Berkowitz was twice named the outstanding teacher in the School of Management. In 1998, he received the outstanding teacher award in the School of Management at the University of Massachusetts. In 1985, Dr. Berkowitz was named an honorary member of the American College of Physician Executives, and in 1988, he received the Frank J. Weaver Leadership Award from the Alliance for Healthcare Strategy and Marketing for his contributions to the advancement of healthcare marketing.