PART 1

The Marketing Process
After reading this chapter, you should be able to:

- Define marketing and differentiate between a marketing-driven and nonmarketing-driven process
- Distinguish among marketing mix elements
- Delineate between health care needs and wants
- Understand the dimensions of the environment that have an impact on marketing strategy
- Appreciate the ongoing restructuring of the health care industry
Primary care satellites, integrated delivery systems, managed care plans, and physician–hospital organizations are but a few of the elements that dominate the structure of the health care industry today, as the government, employers, consumers, providers, and health care suppliers deal with a new health care market. Added to this environment is the reality that consumers can interact with a primary care provider through a web-based app on their iPad or mobile device for a consult for themselves or their child on a 24/7 basis. The marketplace of today is typified by massive restructuring in the way health care organizations operate, health care is purchased, and health care is delivered. Competing in this environment will require an effective marketing strategy to deal with these forces of change. This text focuses on the essentials for effective marketing and their implementation in this health care marketplace. This discussion begins with an examination of what marketing is and how it has evolved within health care since first being discussed as a relevant management function in 1976.

**Marketing**

For anyone involved in health care during the past twenty years, the term *marketing* generates little emotional reaction. Yet, health care marketing—a commonplace concept today—was considered novel and controversial when first introduced to the industry three decades ago. In 1975, Evanston Hospital, in Evanston, Illinois, was one of the first hospitals to establish a formal marketing staff position. Now, more than 40-some years later, marketing has diffused throughout health care into hospitals, group practices, rehabilitation facilities, and other health care organizations. In this text, fundamental marketing concepts and marketing strategies are discussed. Although health care is undergoing significant structural change, the basic elements of marketing will be at the core of any organization’s successful position in the marketplace.

*The Meaning of Marketing*

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

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

The Joint Commission, the industry’s major accrediting agency for operating standards of health care facilities, requires—per its 1994 accreditation manual—that hospitals improve on nine measures of performance, one of which is patient satisfaction. A similar requirement is also in place for long-term care facilities. This focus on patient satisfaction is an overt recognition of the need for health care facilities to be marketing oriented and, thus, customer responsive. Moreover, the Center for Medicare and Medicaid Services (CMS) requires all hospitals to distribute to patients and publish the results of its standardized survey instrument and data collection methodology for measuring patients’ perspectives of hospital care. This 27-item survey underscores the focus on the consumer (patient) (see www.cms.hhs.gov).
/hospitalqualityinits/30_hospitalhcahps.asp). In January 2009, The Joint Commission posted these results for all hospitals on its website so that consumers could search for CMS patient satisfaction data for all hospitals and view state and national averages. The importance of customer satisfaction is now a recognized and central component to the operations of health care organizations as hospitals are financially impacted by the satisfaction of patient evaluations in a system referred to as Hospital Consumer Assessment of Healthcare Provider Systems (HCAHPS). This is a standardized survey instrument that measures patients’ perspectives on hospital care across nine dimensions (communication with doctors, communication with nurses, responsiveness of hospital staff, pain management, communication about medicines, discharge information, cleanliness of the hospital environment, quietness of the hospital environment, and transition).3

### Prerequisites for Marketing

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

Until 1975, advertising and promotion really did not exist within health care. Consider that reality as you drive around most metropolitan communities today and look at the billboards for major health care institutions or Google a particular clinical problem such as brain tumor or cancer and look at the health care institutions whose advertisements appear as possible sources of care solutions. Health care has changed dramatically in terms of promotion.

The limitations to advertising were in the original 1847 Code of Ethics of the American Medical Association (AMA) that placed a ban on advertising for health care services. These ethical codes stated, “It is derogatory to the dignity of the profession to resort to public advertisements or private cards of handbills inviting the attention of individuals affected with particular disease. These are the ordinary practices of empirics, and are highly reprehensible in a regular physician.” Communication to facilitate exchange occurred by word of mouth. One would consult with a physician, and that individual, in turn, recommended the physician to other consumers who would then seek out that particular physician. Although the AMA 1957 “Principles of Medical Ethics” continued to judge the practice of soliciting of patients to be unethical, in 1980, these prohibitions were struck down in a Second Circuit appellate court decision in which the AMA was ordered to cease and desist from such restrictions on advertising. The court stated that such restraints violated Section 5 of the Federal Trade Commission Act prohibiting “unfair or deceptive acts or practices in or affecting commerce.” The AMA revised its code of ethics to be less stringent regarding advertising. Further legal actions between the Federal Trade Commission (FTC) and the AMA had, by 1982, removed even those restrictions. The FTC believed the restriction on advertising deprived consumers of the free flow of information necessary to the uninformed consumer’s decision in which it believed the AMA was seeking to control.4

Marketing
information regarding health care alternatives and services. The FTC and the federal courts recognized the value of communication to consumers. Communication is a prerequisite for marketing. It is only in the last three decades that more formal means of communication have evolved within health care and that marketing strategies have become more visible, whether it is the formal advertising of traditional media, the personal sales representative who might be at a trade booth displaying a new medical device at a physician specialty meeting, or on a social media platform.

Who Does Marketing?

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

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

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

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

In health care today—as there is an increasing focus on managing an individual’s health given the emerging nature of the health care reimbursement marketplace—it is increasingly relevant to consider the aspect of marketing and exchange as has been discussed within a social marketing concept. That is, the issue of exchange may well involve third parties, and the transfer can be values, attitudes, or beliefs. Implicit in this concept of exchange, then, is the recognition that marketing and, thus, social marketing involve a voluntary action on the behalf of the individual customer or consumer that focuses on a behavioral change to improve their health status. It is not a regulatory or enforced action being imposed on the person to change their behavior and thus comply with some mandated action to improve their health behaviors, for example. What might be considered as a difference of social marketing from marketing in general is that social marketing has as a goal to get individuals to change their behavior in measurable ways. Within this text, several examples of social marketing will be integrated because the outcome metric may be different, but the tactical elements are similar in terms of what will be described later as the marketing mix.
The Elements of Successful Marketing

- Marketing Research

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

- The Four Ps

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

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

Product  Product represents goods, services, or ideas offered by a firm. In this text, the term product also will be used interchangeably with health care services and ideas. In health care, the nature of the product has changed dramatically. Thirty or 40 years ago, one could define the product simply as a medical procedure or as an orthotic device to correct a physical disability. In today’s climate, the discussion of the health care product includes not only these traditional products, but also products and services. Examples of such products and services include a contracted services organization (e.g., CEP America) that runs a hospital’s emergency room, hospitalists, anesthesia services, and other necessary elements as needed by acute care facilities; a group purchasing contract, such as that offered by Premier, Inc., an alliance of independent hospitals in 50 states; or even a web-based consulting service such as those provided by Carena, a private Seattle-based company that employs physicians and nurse practitioners to do virtual consults in 11 states. And, Washington has become the 24th state to allow reimbursement for some telemedicine services.

Price  Price focuses on what customers are willing to pay for a service. What price represents is addressed in the definition of marketing in terms of exchanges. A company provides a service, and customers exchange dollars for receipt of a service that satisfies their needs. For example, an employee paying an annual premium to an insurance company and a physician fee for an office visit both encompass exchange behaviors involving a predetermined price. The issue of pricing for health care services has become a major concern of marketing strategy as the health care environment changes, with companies shifting an increasing amount of the responsibility to employees or consumers moving to health exchanges and being more sensitive to the price of health care services. For many years, the price aspect of health care...
services has been a challenging variable for consumers. One health care economist likened it to a situation in which a consumer as a shopper entered a department store blindfolded and put clothes in a shopping cart, only to be sent a bill for the items several months later. In this scenario, it would be difficult to be a judicious shopper. However, there is a greater movement to price transparency to aid consumer decision making.

Several factors are contributing to the greater role that the pricing variable plays in developing marketing strategy. In many countries, the rising cost of health care has been a major cause of concern. Between 1990 and 2005, health care costs grew at a rate of 5.8 percent in the United States but actually began to show signs of slowing in the latter half of the decade, to an annual increase of slightly below 4 percent. And, in this most recent decade, health care costs have decreased even further. From 2010 through 2013, the real per capita national health expenditure grew at an annual rate of 1.1 percent. This was the slowest rate for any 3-year period on record and below the average rate of 4.6 percent from 1960 to 2010. Although this slower growth is a positive for companies and consumers who are paying the cost either through coverage for their employees or in the form of employee premiums, there is a downside to this decline in health care cost in terms of the macro environment. The slowing of the health care sector growth had led to a decline in terms of gross domestic product (GDP) growth by 2.9 percent in 2014. Though not all of that decline could be attributed to the slower growth in health care expenditures, this sector of the economy is a significant factor, as the U.S. proportion of GDP spent on health care had been rising faster than any other developed nation in recent years.

Although health care cost increases have slowed in the United States, the impact on employers has never been larger. From 2003 to 2013, premium contributions for employers climbed by 93 percent while premiums for family coverage increased by 73 percent. Total premiums paid by both employers and employees rose much faster than the increase in median household income. Finally, within the health care system itself, different approaches are being undertaken to control costs and reduce costs to employers and consumers in the long run. The federal government is implementing a pay-for-performance (P4P) model through Medicare. Under this approach, financial incentives are provided to providers to improve the quality of care they deliver and to reduce costs in the process while meeting agreed-upon performance measures. A 2010 report by the National Conference on State Legislatures estimated that 85 percent of state Medicaid programs were to operate such a P4P program by 2011. The interest in P4P models has been significant in both the private and public sector. The programs have rewards but can also impose penalties if certain goals are not met. The quality measures tend to be grouped into one of four categories:

- Process measures that focus on activities that contribute to positive health outcomes. These might be actions such as giving aspirin to a heart attack patient.
- Outcome measures such as whether or not a patient with diabetes has it under control. This dimension is particularly controversial as many elements to control diabetes are often felt not to be under the control of the health care organization or clinician.
- Patient experience metrics that include patient perception of the quality of care and their satisfaction with the service that they have received, including the communication with the clinical staff.
• Structure measures that relate to the facilities, personnel, and equipment used in
treatment. The pay-for-performance metrics have direct relevance for marketers as
patient satisfaction, consumer perceptions of care, and communication issues are
all factored into the performance bonuses or penalties that may well affect a health
care organization. For marketers, the issue of price involves understanding what
level of dollars a customer is willing to exchange for the receipt of some want—
satisfying services or products. In the current health care climate, determining the
value of these services—represented by the price—is the major challenge facing
health care organizations.

Place  Place represents the manner in which goods or services are distributed by a firm
for use by consumers. Place might include decisions regarding the location or the hours a
medical service can be accessed. With the advances in technology, the place component of
the marketing mix has become one of the more dynamic aspects of the marketing variables
with a wide range of alternatives in which services may be distributed to consumers for their
access: fixed assets such as walk-in centers or physicians’ offices; distance distribution such as
with tele-radiology services; or through mobile access—all represent part of the place com-
ponent of the marketing mix. Chapter 10 reviews the marketing considerations for place that
have assumed greater importance in today’s health care environment.

Increasingly, as more health care organizations establish managed care plans to enroll
consumers in an insurance option that provides for all their health care needs or with account-
able care plans in which health care organizations are increasingly responsible for population
health management for a group of individuals, the place variable assumes a more critical role.
Companies offering prepaid health care plans must consider location and primary care access
for potential enrollees. Although 40, 20, or even 10 years ago, a physician would establish an
office in a location convenient for the physician, today the consumer dictates this variable
element of the marketing mix. However, in the digital and wireless age, the entire definition
of place in terms of patient—provider interaction is also shifting in dramatic ways (as is discussed
in the text) and is all part of the place element of the marketing mix.

Promotion  The final “P” represents promotion. For many people, this has historically meant
advertising, and advertising has meant marketing. Yet, as can be seen in the definition, pro-
motion is just one part of marketing; promotion alone is not marketing. Promotion repre-
sents any way of informing the marketplace that the organization has developed a response
to meet its needs and that the exchange should be consummated. Promotion itself involves
a range of tactics involving publicity, advertising, and personal selling, which are described
in Chapters 11, 12, and 13, respectively. However, as this text will describe, technology and
the Internet have changed or impacted the promotional element of the marketing mix in
interesting, useful, and also challenging ways for marketing.

As discussed earlier in this chapter, formal communication in the form of advertising was
not allowed as recently as 1975. Yet, although the past 40 years have seen a change in terms of
the amount of advertising and the vehicles used by which advertising occurs, other promot-
ional tactics such as personal selling have become more relevant to compete effectively in
today’s marketplace. Health insurance companies, pharmaceutical companies, and many
health provider organizations all employ sales forces. Today, acute care hospitals, academic,
medical centers, and many physician groups have physician referral staff who call on referral sources to ensure that their needs are being met at the facility where they admit patients or send their employees for care.

**The Dilemma of Needs and Wants**

One of health care marketing’s major concerns pertains to the issues of needs and wants. Physicians often speak of the fact that what consumers want may not be what they need. Clinical and professional responsibility demands treatment of the need. A need has been defined as a “condition in which there is a deficiency of something, or one requiring relief.”

A **want** is a good or service that is desired but not necessarily needed defined as the “wish or desire for something.” A consumer needs to have medication for hypertension. A person may want medication to suppress the appetite and thus lose weight. To which need or want should the health care marketer respond?

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

**Identifying the Customer**

In health care, this need/want dilemma often masks the major question, “Who is the customer?” Consider recent trends in the field of obstetrics. For many years, the consumer—the expectant mother—wanted to have her significant other with her in the delivery room. The medical community responded by claiming that this want was inappropriate. It would compromise good standards of care. In fact, the issue had less to do with standards of care and more with standards of convenience for the provider. Now, in most delivery rooms in the United States, a woman in labor will be accompanied by her significant other, a nurse midwife, and, possibly, the obstetrician.

The medical community argued that the need to restrict access to the labor suite was for “good standards in obstetrical care.” In reality, medicine lost sight of who the customer was and how her needs and wants could be met. In the delivery process, the physician may be viewed as part of the production line, not as the customer. Medical needs are not compromised in modern labor rooms, but customer needs are being more closely addressed. To some degree in this example, the issue was more one of viewing the mother as a patient (not necessarily inappropriately, of course) as opposed to also a customer. The labels connote very different sets of behavioral expectations for the individuals involved. A physician treats a patient purely from the clinical perspective. However, a customer involved in a clinical situation may certainly have all the expectations of high-quality clinical outcomes.
but also may “shop” for additional services to accompany that high-quality outcome, such as unrestricted access to the labor/delivery suite and a private room.\textsuperscript{21}

This issue is not a U.S.-based challenge regarding the question of who is the customer. Interestingly, the same question was debated in Great Britain as the National Health Service was undergoing significant reform in the latter part of the previous decade; the term “customers” was used in the context of patients, as there was an increasing consumerist approach toward health care under both the Conservative and Labour administrations. Similar to the United States in this model, patients were to be empowered by giving them more choice and information in a partnership model with the patient and the provider, ideally leading to better outcomes and a focus on primary care.\textsuperscript{22} In our current health care marketplace, most health care organizations have multiple markets or customers to whom they must be attentive. FIGURE 1-1 shows an array (but probably not all encompassing) of potential markets for a health care organization. An organization offering a mental health or substance abuse program for adolescents might have to accommodate the needs of judges, probation officers, or social workers. Schools might be the market for a sports medicine program. Long-term care facilities might be the market for a geriatric assessment program. Also included are the more traditional markets represented by physicians, nurses, patients, referring physicians, employee assistance personnel at companies, managed care plans, and regulators. One increasingly important market includes employers. For many
years, this segment was considered of secondary importance, because companies paid the full insurance premiums for their labor force. Now, however, companies are controlling rising health care costs (a factor discussed further in Chapter 3) by dealing directly with providers to meet their employees’ health care needs.

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

The Evolution of Marketing

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

- Production Era

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

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

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

- Sales Era

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

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

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

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

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

So, too, in health care, a similar perspective can be and is being achieved. Health care providers can offer any number of services by reallocating their financial resources. The underlying question, however, becomes which service to offer? This is where a marketing-oriented perspective is valuable. In health care, the focus of a marketing-oriented institution can be viewed as “We address the health care needs of the marketplace.” Such a marketing-oriented focus might lead to a product or service line that includes home health care, geriatric medicine, after-hours care, or wellness centers. The trend toward integrated delivery systems (a concept discussed in greater detail later in this text) is a response to a marketplace that does not want to deal with a fractionated health care system of providers, freestanding medical centers, a hospital, and an insurance firm. The integrated system formation can deliver a seamless health care product to the buyer that involves not only delivering the clinical care, but also accepting the risk for the cost of that care through a managed care product. It is a focus that begins with the consumer; the organization responds to this demand.

Successful firms today in most cases are marketing oriented. In this context the firms are focusing on the needs and wants of the customers and delivering value.

**The Marketing Culture**

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

The evolution to this stage may be seen in organizations that have adopted a patient-focused system. In a patient-centered or -focused health care system, rather than being physician centered, it is as the name implies: focused on the patient in terms of focusing on improving the quality of the doctor–patient relationship, while at the same time decreasing the utilization of diagnostic testing, prescriptions, hospitalizations, and referrals. It has been found that physicians’ empathetic communication skills significantly increase and influence patients’ satisfaction and compliance behavior. Medical schools and provider organizations are responding. The Duke Medical faculty, University of Pittsburgh, and others developed “Oncotalk” — part of an effort to help teach such empathy skills. Mass General Hospital psychiatrist Dr. Helen Reiss has developed an online course titled “Empathetics” to help train physicians. And, in a randomized study of more than 500 patients, patient-centered care...
was found to result in decreased health care utilization even when controlling for age, gender, education, and health risk factors such as obesity, alcohol abuse, and smoking. Transfusing a culture of focusing on the customer (patient) throughout the organization has significant benefits in satisfaction and most importantly in clinical outcomes. Yet, to accomplish these outcomes it must be a part of the organizational culture. At the Medical College of Georgia (MCG), an academic institution, behaviors for customer service and for patient- and family-centered care have been defined, and both sets of behaviors are included in position descriptions and MCG’s performance review system for employees. At Cincinnati Children’s Hospital, families are no longer viewed as visitors, and units are open to them 24/7. Families are encouraged to participate in rounds. Organizations that are patient focused redirect their processes when feasible to make it customer-centric. Admitting is accomplished on the floor where the patient is assigned a bed; employees cross-train for skills that allow them to be the most patient responsive possible without compromising the quality of care delivered. Whenever possible, certain diagnostic equipment is brought to the patient rather than having the patient moved through the hospital. It is the primary responsibility of each employee to respond to customer needs first. The development of patient-focused care in such organizations is the transference of a marketing culture throughout the organization. Rather than having the patient (customer) go to the provider (such as when the patient moves through the delivery system for treatment or clinical testing), the provider goes to the patient whenever possible to administer the necessary clinical interventions.

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

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

At the core, however, one should recognize that an organization that is marketing oriented is in the position of creating value. In that sense, one might recognize that health care organizations that are providing patient-centered care are delivering value to the customer by having services provided in a more accessible manner, with a staff that is more customer oriented.

The Nonmarketing-Driven Planning Process

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

To understand the difference between a marketing-driven and nonmarketing-driven process, it is important to recognize the implications of the difference between the two concepts on long-range planning.33

**FIGURE 1-2** shows the sequence involved when a nonmarketing-driven organization conducts long-range planning. In most health care organizations, long-range planning is assigned to a committee comprising administrators, key members of the hospital’s board of directors, and a few influential physicians. Typically, the first step involves a review of the organization’s mission and goals. A hospital might reaffirm its mission “to provide high-quality health care regardless of race, creed, religion, and [in small print] ability to pay.”

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

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

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

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

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

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

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

A Marketing-Driven Planning Sequence

A marketing-driven planning sequence is dramatically different from a nonmarketing-driven process, as illustrated in FIGURE 1-3. The first step is the same; every organization has the right to determine its mission and goals. Yet the marketing-driven approach is substantially different at step two. It is at this stage of needs assessment where market research, as will be discussed in Chapter 5, begins to make its contribution. The hospital conducts a survey to determine which services are most needed. Should sports medicine, geriatric medicine, or women’s health services be offered in the new ambulatory care wing of the hospital?
When determining the most needed service, it is essential to examine the competition. If there are existing competing services in the market, the necessary differential advantage for these new offerings must be identified. Although the sources of a differential advantage are discussed later in this chapter, a differential advantage is the incremental benefits of a product relative to competing services that are important to the buyer and perceived by the buyer. In our example, the hospital’s survey reveals that 20 percent of the market wants sports medicine; 25 percent would like to see a new geriatric program; and 50 percent wants women’s health. Further research shows that the major differential advantages that would lead women to use this service over their existing providers are convenient location and hours.

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

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

• Is a Marketing Planning Approach Needed?

A comparison of Figures 1-2 and 1-3 shows that using market research can lead to a dramatically different result in long-range planning. Yet, is a marketing-driven planning process needed in health care? Twenty or 30 years ago, a nonmarketing-driven process was sufficient. Competition wasn’t a prime factor. In most communities, including major metropolitan areas, demand exceeded supply. A hospital would offer a new service, and the major issue was how to meet demand for it. Twenty, 30, or 35 years ago, most health care organizations were in a reasonably strong financial position because of cost-based reimbursement and unrestricted lengths of stay. Efficiency and financial prudence were nonissues.

Health care organizations today must be fiscally astute. Few have the excess financial resources to afford the mistake of offering a service that is not needed in the marketplace. A marketing-driven planning process is one tool to help minimize such mistakes.

The present competitive health care environment has prompted many organizations to adopt a marketing-driven planning approach. Health care providers find themselves facing significant competition and multiple challenges given the various manners in which reimbursement mechanisms require strategies to be modified to respond to the marketplace. At one level, for many subspecialties, the problem is one of supply exceeding demand. In terms of reimbursement, some patients are in a system of reimbursement where the marketing challenge for a health provider organization is one of maintaining loyalty in order to be able to manage the individual’s health over the contractual period based on the performance metrics by which the health system is being judged. In other instances, it is a more traditional situation of capturing market share for revenue as any business might consider in their strategy at the expense of their competitors.

Organizations must find a differential advantage to encourage buyers to use their services. Health care organizations today must be fiscally astute. Few have the excess financial resources to afford the mistake of offering a service that is not needed in the marketplace. A marketing-driven planning process is one tool to help minimize such mistakes.

We have described a nonmarketing-driven approach to planning as an internal-to-external methodology.34 That is, members inside the organization try to foretell or dictate what the market wants and how the service should best be configured to meet those wants. In contrast, a marketing-driven approach follows an external-to-internal methodology. First, there is an assessment of what the market wants and then the organization’s response. Health care providers must realize that a marketing-driven planning process does not guarantee success, but it does, however, minimize the probability of failure.

The Hallmarks of a Market-Driven Planning Approach

In considering the difference between a market-driven and a nonmarket-driven planning approach, it is important to recognize the key differences in these two major structural approaches to planning and implementing a strategy and resulting tactics to the market. In a market-driven approach:

• Inside-Outside-Inside sequence: In the market-driven approach, the process begins internally in the organization with a review of the mission and goals of the organization. This is essential to recognize in the realm of health care organizations.
Then, the market needs are assessed, but these needs are then considered as to whether they fit within the context of the organization’s mission and goals (that is, once identified, they are brought back inside for review relative to the mission). An organization may decide not to do something it learns based on the market research. The only essential caveat to recognize is that in a dynamic and ever-changing competitive market such as exists in health care today, the organization may learn of what the market wants and decide not to respond, such as desiring access to physician consults online, and a competitor may respond first.

• Market research at two points—service development and pretest: The market-driven approach and, in fact, the core element of the marketing approach is the reliance of understanding the customer through market research. However, market research needs to occur at two stages. First, it should occur at the service development stage, which is the initial point of understanding the wants and needs of the customer. What are the service gaps in the marketplace? However, too often organizations stop with only this first phase of market research, believing now that they have identified what is needed, they can formulate the service or identify what service needs to be delivered without testing whether the distribution site is, in fact, one that is considered accessible from the target market’s perceptions. Without conducting the phase two market research (pretest), it greatly minimizes the value of the initial market research and often leads to service failures.

• Customer-driven differential advantage: at this point, it is essential to recognize, from the perspective of a market-driven approach, that too often organizations believe that they have a good product or that they have a better service than the competing offering in the market. The essential element is whether the customer believes there is greater value at a price or effort worth buying or seeking out. To a large degree, it is this element that is one of the primary purposes of the initial phase of market research. Uncovering what critical elements to the customer would make them switch suppliers, referral sources, or providers is a key challenge for market research. Chapter 2 contains an in-depth discussion of the concept of differential advantage.

The Strategic Marketing Process

The marketing-driven planning model just discussed is devised within the context of a more macro setting. Figure 1-4 shows the setting in which marketing occurs. An organization must develop a marketing strategy that is sensitive to three factors: (1) important stakeholders, (2) environmental factors, and (3) society at large.

Stakeholders

Stakeholders represent any group with which the company has, or wants to develop, a relationship. As seen in Figure 1-4, the stakeholders can represent customers. For health care organizations, these customers might be patients, physicians who refer to the organization, social workers for an adolescent chemical dependency program, payers, managed care providers with whom contracts are developed, or companies that contract for an industrial medicine program.
Many organizations, such as hospitals or proprietary chains, also have boards of directors that serve an oversight function. Organizations develop their marketing strategy in light of the direction and values provided and communicated by this constituency. A third major stakeholder group includes suppliers. In health care, suppliers can represent companies that provide laboratory testing or maintenance services, or they again can represent physicians. For many hospitals, physicians are customers. In a group practice setting, physicians represent the shareholders or owners. In other organizations, physicians, by providing coverage of the emergency room, might actually be suppliers.

**Uncontrollable Environment**

Any marketing strategy is developed within the context of a broader environmental perspective. The environment pertains to regulatory, social, technological, economic, and competitive factors to which the organization must be sensitive when developing a strategy. These elements, which are discussed in greater detail in Chapter 3 (and briefly described here), are uncontrollable but impact marketing strategy. A company cannot change the uncontrollable element that certain trends exist in society. For example, more than one-third (34.9%) of Americans are considered obese. As Table 1-2 indicates, 20 states have an obesity rate of more than 30 percent with 6 states (Mississippi, West Virginia, Arkansas, Tennessee, Kentucky, and Louisiana) having a rate over 33 percent. The health impact of obesity is significant as it is associated with an increased risk of many types of cancers as well as related health problems such as heart disease, type 2 diabetes, and stroke. It has been estimated that the direct medical costs associated with obesity in 2009 were more than $150 billion dollars, which included health care services, medical tests, and drugs for comorbidities. Obesity-related absenteeism cost employers as much as $6.4 billion dollars a year and as much as $30 billion in lost productivity.

![Figure 1-4: Environment and Marketing](image-url)
Hospitals have responded to this trend by developing bariatric surgery programs. **FIGURE 1-5** is a graph of the number of bariatric surgeries in the United States from 1992 through 2014. From 1998 to 2004, the total number of bariatric surgeries increased nine-fold in response to this dramatic rise in obesity. The number of such surgeries grew from slightly over 13,000 in 1998 to 121,055 in 2004. However, recent years have seen a significant slowdown. Although the number rose significantly to slightly over 200,000 as shown in Figure 1-5, growth has declined from the high reached in 2010 and dropped to slightly above 150,000 procedures per year. Several external factors have contributed to the leveling off of this demand. First, it is expensive. Insurers are not always covering what is seen as an elective procedure. Second, when there is coverage, the deductible is significant. Finally, the lasting benefits are not always there for those who undergo the procedure. Bariatric surgery is a tool for weight loss but not a cure-all. Today, most insurers require patients to follow a regimen that requires that they first adhere to a closely supervised and strict medical diet prior to undergoing the surgical option to control obesity. The international medical market for bariatric surgery is a major segment as a very price-competitive focus. South America and Mexico are two countries where clinicians target consumers looking for price as there are many private clinics that focus on consumers with packages for those individuals who may be in the self-pay segment of the market.

**Table 1-2 2013 Obesity Rates by State**

<table>
<thead>
<tr>
<th>State</th>
<th>Rate</th>
<th>State</th>
<th>Rate</th>
<th>State</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mississippi</td>
<td>35.1%</td>
<td>Georgia</td>
<td>30.3%</td>
<td>New Hampshire</td>
<td>26.7%</td>
</tr>
<tr>
<td>West Virginia</td>
<td>35.1%</td>
<td>Kansas</td>
<td>30.0%</td>
<td>Oregon</td>
<td>26.5%</td>
</tr>
<tr>
<td>Arkansas</td>
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<td>Pennsylvania</td>
<td>30.0%</td>
<td>Florida</td>
<td>26.4%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>33.7%</td>
<td>South Dakota</td>
<td>29.9%</td>
<td>New Mexico</td>
<td>26.4%</td>
</tr>
<tr>
<td>Kentucky</td>
<td>33.2%</td>
<td>Wisconsin</td>
<td>29.8%</td>
<td>New Jersey</td>
<td>26.3%</td>
</tr>
<tr>
<td>Louisiana</td>
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<td>29.6%</td>
<td>Nevada</td>
<td>26.2%</td>
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<tr>
<td>Oklahoma</td>
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<td>Nebraska</td>
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<td>Minnesota</td>
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<td>Alabama</td>
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<td>Illinois</td>
<td>29.4%</td>
<td>New York</td>
<td>25.4%</td>
</tr>
<tr>
<td>South Carolina</td>
<td>31.8%</td>
<td>North Carolina</td>
<td>29.4%</td>
<td>Connecticut</td>
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</tr>
<tr>
<td>Michigan</td>
<td>31.7%</td>
<td>Maine</td>
<td>28.9%</td>
<td>Vermont</td>
<td>24.7%</td>
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<tr>
<td>Iowa</td>
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<td>Maryland</td>
<td>28.3%</td>
<td>California</td>
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<td>Delaware</td>
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<td>Wyoming</td>
<td>27.8%</td>
<td>Utah</td>
<td>24.1%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>31.0%</td>
<td>Rhode Island</td>
<td>27.3%</td>
<td>Massachusetts</td>
<td>23.6%</td>
</tr>
<tr>
<td>Texas</td>
<td>30.9%</td>
<td>Virginia</td>
<td>27.2%</td>
<td>District of Columbia</td>
<td>22.9%</td>
</tr>
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<td>Missouri</td>
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<td>Washington</td>
<td>27.2%</td>
<td>Hawaii</td>
<td>21.8%</td>
</tr>
<tr>
<td>Ohio</td>
<td>30.4%</td>
<td>Arizona</td>
<td>26.8%</td>
<td>Colorado</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

Reproduced from Adult Obesity in the United States, Trust for America's Health http://stateofobesity.org/adult-obesity

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CHAPTER 1 The Meaning of Marketing
Interestingly, the American Society for Metabolic and Bariatric Surgery has a dedicated web page specifically discussing the issue of global bariatric health care as it is a major service line for consumers seeking lower-cost alternatives (http://asmbs.org/resources/global-bariatric-healthcare).

**Regulatory Factors** Regulatory factors include legal issues and requirements. In many health care communities, programs cannot be instituted without prior government approval. These laws, often referred to as Certificate of Need programs, are often put in place to restrain health care facility costs by attempting to coordinate the planning of construction of new facilities by competing organizations. As of 2014, some 36 states had such laws still in place.41 Some strategies, such as paying physicians for referrals, are illegal. These are but two areas in the regulatory environment that must be considered in terms of the uncontrollable aspect of the regulatory environment.

**Social Forces** Social forces include demographic and cultural trends to which organizations must be sensitive. An aging population, a changing work ethic, and a culturally diverse marketplace are some of the issues to consider when developing marketing plans, all of which are discussed in greater depth in Chapter 3.

**Technological Factors** Technological factors affect few industries more dramatically than they do health care. These technological forces can change the viability of any service. Until the 1950s, the treatment of polio victims constituted a major revenue stream for many hospitals...
facilities. As we know, this disease was all but eliminated by the technological achievement of the Salk vaccine in the 1950s. In present times, the degree of disruptive innovation in healthcare can dramatically replace existing business lines with unforeseen new product or new service introductions.

Economic Factors Economic factors include changes in income distribution or fiscal conditions such as borrowing rates that can determine any company’s investment plans. The rising cost of health care has led two major customer groups—corporations and the federal government—to work to control health care costs and consider alternative approaches in the delivery of care for greater efficiency.

Competitive Forces Competitive forces are the final uncontrollable element in any marketing plan. Strategies and programs must be developed in light of this constraint and should reflect the considerations that exist in the marketplace. It is important to recognize and understand the competition. Competition can be defined as “any environmental or perceptual force that impedes an organization’s ability to achieve its goals.”

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

It is important to recognize the dynamic nature of this broader marketplace. Although many stakeholders are represented within this exhibit, the need to continually monitor the change within each segment is essential for effective market-based planning. For example, within the Government sector, the Center for Consumer Information and Insurance Oversight is an agency that now assumes greater importance as it is charged with overseeing many of the provisions of the Affordable Care Act that ensure compliance with the new insurance market rules and the Patient Bill of Rights. Similarly, among third-party payers there has continued to be major consolidation as two of the largest insurers, Anthem and Aetna, have acquired subject to government approval two other large insurers, Cigna and Humana, respectively, leaving the United States with one other dominant national insurance provider, UnitedHealthcare.

Target Market At the core of the marketing program is the target market, the group of customers whom the organization wishes to attract with a bundle of offerings. The closer the program or service is targeted using the four Ps (product, price, place, and promotion) to a particular market’s
unique characteristics, behaviors, attitudes, or the like, the greater the likelihood of engendering a positive response in that group or segment. It has been shown that consumers respond more favorably to targeted communications when there is homophily or when people assume similarity between themselves and characteristics within the advertisements. In the development of a marketing strategy, the target market is within an organization’s control as a function of the effectiveness of the marketing mix developed by the health care providers. The notion of controlling the target market, however, is an idea that is often lost on health care providers. Whom a health system attracts to its facilities and whom it targets may be two different populations. Too often in the past, health care organizations have defined their market by simply identifying who walked into their facility or used the emergency room. Health care organizations developed profiles of their patients and developed strategies based on the users. Yet the central issue to marketing strategy is to decide those users you want to attract and then determine what this group’s needs are. The organization that defines a target market, such as “all

EXHIBIT 1-1  Major Organizations in the Healthcare Environment

<table>
<thead>
<tr>
<th>Channel Members</th>
<th>Provider Organizations</th>
<th>Regulatory agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Systems</td>
<td>Accountable care organizations</td>
<td></td>
</tr>
<tr>
<td>Retail clinics</td>
<td>Acute care facilities</td>
<td></td>
</tr>
<tr>
<td>Hospice</td>
<td>Long term care facilities</td>
<td></td>
</tr>
<tr>
<td>Independent physician practices</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Third party payers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public private</td>
</tr>
</tbody>
</table>

| Clinical training institutions |
| Private Regulatory Agencies (A.M.A.) |
| Health & Human Services |

| Patients |
| Center for Medicare & Medicaid |
| State Regulatory Agencies |
| Office of National Coordinator of Health IT |

| Consumers |
| Clinical specialty societies |
| • American Board of Family Medicine |
| • American Board of Medical Specialties |

| Accrediting Agencies |
| Pharmacies |
| • Public private |

| Employers |
| Physicians |

The Strategic Marketing Process 25
consumers with incomes above $75,000 who have private insurance, and live in a particular area,” can then focus its market research on identification of an appropriate strategy to meet the needs of the targeted group.

To better understand how health care organizations develop a target market strategy, consider the approach followed by a 22-bed facility in Post Falls, Idaho, called Northwest Specialty Hospital. Located approximately 100 miles from the Canadian border, the hospital decided to target Canadian patients who were seeking quicker access to hip replacement surgery or lap sleeve procedures. The hospital had historically received about 0.5 percent of their patients from Canada, but wanted to receive a greater percentage. Canadians typically experience long wait times for such procedures, so the hospital believed there was an opportunity for this target market. Adding a Canadian flag to the website that linked to a microsite that promoted the medical tourism options, the hospital promoted its access times, along with its low infection rates. The hospital also partnered with a top-tier resort for deluxe accommodations in nearby Coeur d’Alene.45

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

In selecting target markets, the ultimate question for any organization is which one is better or more desirable than another. Multiple criteria may well be brought into this evaluation.46 Market segmentation is the clustering of customers or individuals who have similar wants or needs to which an organization can tailor the marketing mix to meet those individual needs. The ideal market segment is as homogeneous as possible. The less intense the competition, the more attractive the target market. However, growth potential and environmental factors must also be considered. In health care, reimbursement must obviously be a major consideration in the selection of the target market. There must be a match between the organization’s mission and the resources required to meet the target market requirements.

Organizing for Marketing

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

- **Service Line (Product)–Oriented Organization**

The service (product) management structure, as shown in FIGURE 1-6, has become increasingly common in health care settings. This approach has evolved from one of a purely structural distinction of marketing a clinical business line to a clinical program operation to deliver a
bundle of defined services to a segment of the market. Three variations have been identified within the service (product) line structure, although Figure 1-6 shows the general configuration of the product line structure. These three structures are:

- **Matrix Structures.** In this type of service line organization, there is an individual who has overall responsibility for setting the broad strategic direction for the service line, managing and growing the business, and has responsibility for building and enhancing physician relationships and developing referrals. Ultimate financial responsibility rests with this service line manager.

- **Direct Line Structures.** Direct line structures are another form of service line in which an individual has operating responsibility and accountability for the clinical departments that make up the service line and for planning for clinical program growth and development. Usually in these service line structures, the service line leader has a clinical background with some business expertise and background.

- **Clinical Co-Management Structures.** This is the third form of a service line structure, in which a hospital contracts with a group of physicians to provide daily management for the inpatient or outpatient component of a particular service line, such as cardiology, oncology, or orthopedics. In a 2012 survey regarding service line management, 75 percent of

![Figure 1-6: Product-Oriented Organization](image-url)
hospitals and health system leaders indicated that they planned to expand this type of organizational structure. However, a major problem in doing so was physician alignment (54% stating difficulty in attaining alignment with organizational goals and physicians). As a result, over two-thirds (66%) were in favor of this form of service line management structure to address this critical issue.48

In this setting, the responsibility, authority, and accountability rest with the service line manager. Nursing, pharmacy, laboratory, and other departments coordinate their services across, and in support of, the service lines. In the true service-oriented organization, each distinct service or related set of services has its own marketing organization—rarely is that the case in a health care organization.

The service line manager is responsible for developing and overseeing the marketing strategy for the services or strategic business units, which are businesses operated as separate profit centers within a large organization. In a service line management structure, individual managers commonly share staff resources, such as marketing research, as well as operational personnel, such as the sales force. The service line manager approach is of value when a service line has such unique requirements that it demands the commitment of a separate individual. For this approach to be truly effective, the individual in charge of the service line needs to have the authority to make the strategic decisions that can result in real changes in cost and quality. In most health care systems, the administrator of the service line typically pairs with a clinical leader within the organization in a dyadic management role, such as is done at Huntington Memorial Hospital in Pasadena, California.49

Service line management has two major advantages for health care organizations. First, having someone responsible for all aspects of a service line helps to refine the service area and meet needs more easily. This structure helps combine services and benefits for customers. Second, packaging related services into service lines helps contribute to continuous, rather than sporadic, planning.50 This advantage of a more focused team-based approach to planning was recognized by Ridgeview Hospital in Waconia under a service line structure that led to improved patient experiences and greater physician buy-in.51 A disadvantage with the product management structure in traditional businesses has been the fact that the product manager has no direct control over many operational details—the product manager must negotiate for sales force time or marketing research resources. This same limitation occurs in health care. Although the service manager has the focus to develop program plans, there is no direct operational control over how the service is delivered within the facility. In many health care organizations, the service manager acts as the salesperson for the program. For health care organizations, there is another consideration that may limit the value of a product organization. If the same customer is targeted for more than one service line, significant marketing inefficiencies or customer resistance may be the result. For example, a referral physician may be unwilling to meet with four different product line representatives from one tertiary medical center.

- **Market-Oriented Organization**

The second most common marketing structure is a market-oriented organization in which each distinct major market has its own marketing organization, as seen in Figure 1-7. A health care organization might design a marketing organization around its major customer groups (referral physicians, corporations, managed care buyers, and other referral sources), as shown in this figure.
The value of this approach is its focus on customers who have different buying structures and purchasing requirements. This structure is particularly suitable in situations in which there is a strategic need to have a close relationship with the customer and strategies are highly dependent on relational value. This may be most likely where customers have diverse and complex requirements and where customers see value in buying an integrated bundle of products and services from one source. For any health care organization, supporting marketing activities can be serviced by the manager of each major market group.

For decades, IBM Corporation was organized around product lines. In 1994, the corporation concluded that customers demanded solutions to problems, not products. This forced the company to restructure around major markets and industries. In this way, IBM can develop expertise in financial services, telecommunications, or manufacturing and meet the information needs of these respective industries. Whether the solution is provided by a local area network system, a mainframe computer, or a series of independent desktop computers is irrelevant to the customer. This same analogy applies to the health care setting. Corporate expectations and demands differ from the requirements and concerns of a second major market of referral physicians. Each group of customers seeks solutions to problems rather than the purchase of specific clinical programs.

A Market-Driven Organizational Culture

For organizations to have a marketing orientation, it is essential that it is part of the organization’s culture and values and involves delivering outstanding service quality and superior value to the customer.\(^53\) Market-oriented cultures are those that have some distinct hallmarks.\(^54\)

- They are customer focused.
- They tend to be results oriented.
- There is an awareness of the competition.

To develop this market-driven organizational culture requires a significant degree of internal marketing efforts. Internal marketing in itself is an integrative effort that might be defined as the “application of marketing, human resources management, and allied theories, techniques, and principles to motivate, mobilize, co-opt, and manage employees at all levels of the organization to continuously improve the way they serve external customers and each other.”\(^55\)

If internal marketing is effective, it will respond not only to employee needs as it advances the organization’s mission and goals but also, ultimately, to all external customers and essential stakeholders. Day has suggested that one or more forces often lead an organization to trigger the need to become more market oriented:\(^56\)

- Market disruptions that threaten the business model
- Continuing erosion of alignment with the market that puts the firm at a disadvantage with market-driven competitors
- Strategic necessity
- Intolerable opportunity costs

The health care industry certainly has been impacted by market disruptions with major innovations of technology that have impacted business lines, new reimbursement models, and major competitive shifts. Shifting alignments of providers have changed the face of the competitive landscape for many health care organizations, and the result may well be as suggested by the last two bullet points: There is both a strategic necessity and intolerable opportunity costs creating forces for health care organizations to be ever more market driven in terms of the culture that is created.

Leadership in the organization is essential to having a strong marketing organization. It is only in this way that excellent service quality and customer value are ultimately delivered to the customers. Studies have found that a strong marketing orientation results in instilling and promoting trust in the channel.\(^57\) This factor is essential in an industry such as health care, where channel relationships are critical for organizations like health systems that must establish strong relationships with channel partners, such as physicians. It has also been noted that being market oriented is a distinct resource that can be viewed as a competitive advantage that is an internal strength that is hard to often imitate.\(^58\)

Requirements for Organizational Marketing Success

Many health care organizations have problems making the transition to becoming a market-oriented organization. Often, marketing has not met the expectations, whether it is to generate new revenue, capture patient loyalty, aid in increasing the engagement of those patients, or sufficiently encourage the important referrals desired by the organization. The disappointment
in marketing is due to a lack of appreciation of what it means to be marketing driven, and of what marketing alone can accomplish. There are four prerequisites for successful marketing, as shown in **FIGURE 1-8**.59

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

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

**Shared Vision of Market**
A clear, shared vision of the market is a third prerequisite to success. Many questions must be answered when developing an understanding of the marketplace: Who are the key customers and stakeholders? What are their needs? What change must the organization make in terms of its marketing mix to meet the needs of these core constituencies? How will this organization differentiate itself from other providers?

**Action Plan to Respond to Market**
Last, the organization must develop a clear set of actionable steps to respond to market needs. It will need a detailed marketing plan that includes the necessary strategies and tactics along each of the four Ps. This also requires well-defined mechanisms to track the progress of and

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**Conditions for Developing an Effective Marketing Orientation**

![Conditions for Developing an Effective Marketing Orientation](image)

**FIGURE 1-8**  Prerequisites to Marketing

address minor difficulties in implementation before they become major customer problems. Missing any one of these elements can lead to marketing ineffectiveness.

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

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

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

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

In health care, the clinical microsystem approach, as developed by Nelson, Batalden, and Godfrey, to a large degree is at the core of linking improved clinical quality programs with a customer-responsive health care delivery system. In a microsystem approach, the patient is at the center of the process used to deliver or structure the care; in marketing, the core is meeting the needs of the customer. Thus, in Figure 1-9 there is the link between the customer and clinical services.

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

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

The Evolving Perspective of Marketing

In the past 10 years, a dramatic shift has occurred in the thinking behind marketing. Historically, the perspective was of a transactional nature; that is, marketing, in trying to fulfill the needs and wants of the customer (see “The Dilemma of Needs and Wants”), focused on...
the individual sale or interaction between the patient and the provider, or the referral physician and the organization to which the patient may have been referred. The focus of marketing efforts today is different. Rather than considering each interaction with a customer or patient as an individual transaction, the goal is on customer retention or building long-term loyalty.

In health care today for provider-based organizations, this shifting perspective is particularly important. In an accountable care environment, the focus is to manage population health of a group of patients. In order to effectively do, it is ever more important to not only capture a group of patients into the organization but also to retain them to manage their care and ultimately improve their health status. Thus, loyalty and retention become driving goals for a health care organization as it does for a traditional commercial enterprise. In this text an entire chapter (Chapter 7) is devoted to the discussion of developing customer loyalty.

The challenge for organizations today in creating loyalty and customer retention is a significant marketing issue. Employees are recognized as a key component, not only as an internal customer but also as a major link to long-term customer loyalty. In a 2011 PricewaterhouseCoopers (PwC) survey, one-third of consumers attributed staff attitudes to positive moments of truth in several industries (airline, banking, and hotel). It was slightly higher for retail (38%). However, for providers it was 70 percent, underscoring the importance of employees in the link to loyalty.

Table 1-3 shows the paradigm shift between the traditional...
marketing focus and the emerging marketing customer relationship focus. In the traditional paradigm, the organizational focus was to complete the sale, but the structure of the organization was geared for efficient throughput. This was most easily seen in a setting such as the outpatient surgery center. Often a patient might be scheduled for a day surgical procedure at 1 or 2 p.m. However, the instructions given to the individual were to show up at 7:30 in the morning. The reason is that in case another patient did not arrive on time for the scheduled surgery, they could fill the queue with another individual who might happen to be waiting. Although this approach was not convenient for the customer, it was very efficient for the organization. And, as long as the organization is focusing on a single transaction, this model works fine.

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

### The Changing Health Care Marketplace

No discussion of marketing in health care can begin without an overview of the dramatic restructuring occurring in the industry today. As this chapter began, it mentioned terms that any reader of health care literature or practitioner in the field faces daily—integration, satellites, mergers of major third-party payers, and employment of physicians. What are the implications of these changes for marketing? To appreciate the impact on marketing of the restructuring occurring within health care today, it is instructive to reexamine the traditional industry structure away from which we are rapidly moving.65
The Traditional Industry Structure

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

The focus of the hospital’s marketing efforts is twofold, represented by the solid arrows shown in Figure 1-10(a). The focus primarily has been on physicians. The key to maintaining a census in a fee-for-service system was to encourage physicians to admit to one’s own particular facility as opposed to a competitor’s. Consider, then, what has been the typical marketing efforts by hospitals in this regard. The physicians who admitted to the hospitals had privileges at the hospital but operated their own, independent practices. Thus, in this traditional environment, the doctors were a customer or target market of the hospital.

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

A second market for the hospital in the traditional industry structure has been the community at large. Since 1975, hospitals have targeted their advertising efforts at building name recognition within the community for the facility and its programs. The rationale for this strategy was that patients may ask their physicians to refer them to a specific hospital, or they may self-select the facility when they need medical treatment.

The second level of this chart in Figure 1-10(a) involves physicians and their marketing focus, represented by the dotted lines. Here, too, there have been two markets—other physicians and the community at large. Specialists had historically focused their efforts on generating referrals from primary care physicians, although in some specialties, such as plastic surgery and dermatology, it has been common to seek direct appeals to the community at large through advertisements. Primary care physicians have historically attracted new patients in the community either through word of mouth or through more formal communication strategies, including advertisements or detailed telephone directory listings. This type of market structure is very similar to that faced by consumer product companies; that is, the decision to buy the service was typically made by one individual or a small group of individuals. A physician decided to admit to a particular hospital or a family decided to become regular patients at a particular medical clinic. In this type of consumer market, mass communication was vital, because there were so many people within the community who could, at any point of time, avail themselves of the medical provider's service. Similarly for the specialist, there are always a large number of primary care physicians who could refer patients to them. The safety of this environment is that each buyer (the primary care physician) accounts only for an important but relatively small share of a specialist’s total business. In the evolving environment, that is less true.

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

**The Evolving Industry Structure**

Today's health care marketplace is evolving in a slightly different way, as seen in **FIGURE 1-10 (b)**. In the 1990s, many hospitals aligned closely with physicians and specialists in integrated systems. In Boston, Massachusetts, one large system, Partners, was formed in 1994 by the integration of the Brigham and Women's Hospital and Massachusetts General Hospital; affiliated with this organization is Partners Community Healthcare, Inc., representing 1,000 internists, pediatricians, and family physicians and over 3,500 specialists. Partners would represent the top box in Figure 1-10. The movement has accelerated where many health care organizations have employed physicians at a dramatic pace. In May 2014, Bon Secours Health System, a Marriottsville-based provider organization, employed 708 physicians, which represented a 30 percent increase over 2011 and an 86 percent increase since 2009. Unity Point Health based in Des Moines, Iowa, had 640 physicians in 2014 with another 400 coming on board.\(^6\) In 2013, 53 percent of physicians were employed by hospitals or medical groups.\(^7\) At the next level of the figure are corporations, managed care organizations (MCOs), and, increasingly, the community at large.

Companies are continuously looking to control health care costs. Some companies are becoming directly involved in the provision of care through more proactive approaches.\(^68\) Companies are deciding as one approach to controlling health care costs to provide their own health care. Intel opened its own medical clinics on its campuses in Hillsboro, Oregon, and Rio Rancho, New Mexico. The company’s goal was to lower costs as well as to improve employee health and productivity. This strategy was similar to Michelin North America, which built a medical clinic on its Greenville, South Carolina, campus, and Hewlett-Packard, which opened a facility in Palo Alto, California. Company executives want to make health care more accessible for their employees. A survey by Tower Watson of 558 large companies indicated a quarter had such

![FIGURE 1-10](image-url)
facilities on-site in 2011, with another 12 percent planning such an approach in 2012. A study by Mercer, a benefits consulting firm, indicated that of firms with 5,000 or more employees, 37 percent of employers had on-site clinics in 2013, up from 32 percent in 2012. Thus, the evolving market in the next few years may well see the corporate box loom larger or be a direct contractor or even provider of care, making this chart look far different in another edition of this text.

A second major group represented in this figure is MCOs. The five largest plans (UnitedHealth Group, WellPoint, Aetna, Cigna, and Coventry Health Care) control the bulk of commercially insured patients in the United States. And, as will be described later in this text, several of these insurers have proposed to be acquired by one of the others such that there will be only three large insurers in the United States if approved by the Department of Justice. As a result, these MCOs can wield significant power in negotiation of contractual rates with hospitals, physicians, and ambulatory centers, and there is significant concern whether to allow these third-party payers to grow even larger in size.

Although there are many changes with regard to reimbursement models in health care, a significant change must be recognized with regard to consumers, because it affects how they may pay for their health care coverage. For some years, there has been a steady increase in the use of health savings accounts. A health savings account (HSA) is a tax-deductible account similar to an IRA. Withdrawals from this account can be used to pay for qualified medical expenses, including dental and vision care, and are never taxed. Interest in the account is tax deferred and, if used for medical expenses, is never taxed. Money in this account can be used to pay for deductibles and thus are often paired with a high-deductible health plan. Health savings accounts are controlled by the employee and are carried over year after year. If an employee leaves the employer, he or she can take the money to the next position. According to AHIP (America's Health Insurance Plans), HSAs rose from 6.1 million in 2007 to 13.5 million in January 2012. These plans are designed to force people to make economic trade-offs between consuming more health care services and the opportunity to accumulate tax-free dollars that are unspent in an account designated for health care. The purpose of these plans is to make individuals avoid unnecessary care and hopefully make them “smarter shoppers.” In the same regard, the providers may be forced to be more responsive to customers with quality service and to provide proof of such quality.

Finally, with the passage of health care reform at the federal level in 2010 (the Affordable Care Act), a major new approach to health care began to be developed. However, since the initial passage of this law, there were many challenges in the courts as to whether this law was in fact legal. However, in June 2015, what appeared to be a seemingly last major challenge before the Supreme Court led to a 6–3 ruling that the Affordable Care Act will exist beyond the presidential term of President Obama. That said, this law has put in place the mechanism and the evolving nature of the health care market; one other shift in market structure must be considered. This revision of the health care structure revolves around an entity that is being referred to as the accountable care system (ACS) or accountable care organization (ACO), which is an entity that can implement organized processes for improving quality and controlling the costs of care, and can also then be held accountable for these care results and the resultant costs associated with the outcomes.

In these systems, outpatient, inpatient, rehab, long-term care, and even palliative care would be the responsibility of the ACS. Thus, one might envision, as seen in FIGURE 1-11.
that the ACS structure might focus less on the relationships between the hospital and the medical staff, or even on the fixed assets of the institution, but more on the health care of the individual and in delivering the appropriate care at the most appropriate time and location. The ACS or ACO increasingly is at the core of future health care reform initiatives in the United States.

These changes carry tremendous marketing implications. **FIGURE 1-12** shows the paradigm shift of the ACO environment under health care reform and the inherent marketing challenge referred to earlier in this chapter. In the traditional environment, the focus is more on a volume perspective, or in more typical language: gaining revenue or increasing share. In this new environment, although an organization may certainly want to gain a large percentage of the population or volume, the challenges are more complex. With a large percentage of the population, the loyalty of the “customer” or patient must be maintained.

**FIGURE 1-11** Accountable Health Care Organization

**FIGURE 1-12** The Paradigm Shift in the ACO Environment

- Primary care doctors
- Gain patient confidence that system can “manage their care” in “integrated system” & thus reduce leakage

Key Elements
in order to best manage the total health as the accountable nature of the Reform Act is based on rewards (and penalties) based on performance for this population, which is attributed to a particular health care organization. The marketing challenge is loyalty of the customer and having the organization act in a seamless way to the stakeholders who interact with the organization.

Consider the very concise description of an accountable care organization provided by Community Health Accountable Care LLC, based in Montpelier, Vermont:

Accountable Care Organizations (ACOs) are groups of doctors, hospitals, and other health care providers, who come together voluntarily to give coordinated high quality care to their Medicare, Medicaid, and commercially insured patients. The goal of coordinated care is to ensure that patients, especially the chronically ill, get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors. When an ACO succeeds in both delivering high-quality care and spending health care dollars more wisely, it will share in the financial savings it achieves.

This ACO has clinics in several communities throughout the state of Vermont, where patients can access physicians, advanced practice nurses, dentists, and pharmacy services. A medical home model is utilized, and counseling services are available.

From a marketing perspective, the implications of this restructuring are dramatic. In the market that is beginning to evolve, the consumer is truly at the center of the organization’s focus (the core premise of marketing). However, there are also elements of an industrial market when dealing with large, powerful buyers such as Aetna or Cigna, or a Pitney Bowes or Toyota that may decide to open their own clinics. Tactics, concepts, and strategies are critical when responding to one of the most dynamic industries that exists—health care.

**Conclusions**

Marketing has evolved over the past 40 years in health care. Originally, it was viewed with great derision as little more than advertising. The narrow perspective of marketing as only advertising minimizes its contribution. Marketing really brings with it an external perspective that adds a key value in organizational planning. For marketing to be successful, however, the organization must feel a need to be market responsive, have the capacity to respond, have a clear vision, and have actionable steps. In recent years, there has even been a dramatic paradigm shift within marketing from a simple focus of individual transaction and the gaining of market share to the retention of customers and growing recognition of the importance of building loyalty. This paradigm shift has significant implications within the organization in terms of structure and for the employees. Finally, there is also a significant marketplace evolution occurring. Though consolidation among managed care plans has created large, powerful buyers who must be responded to, companies are also being more proactive in dealing with costs by either directly offering medical care or shifting it to employees. Consumers are no longer bound by local information sources. There is also more transparency with regard to quality and price. Insurers and employers are providing incentives to shop. Competitors are reaching into markets, and consumers are exploring boundaries as far away as India, Thailand, and South America. Understanding and being effective in the use of marketing tools is essential to organizational success.
Marketing is a process that involves planning and execution of the four marketing mix variables: product, price, place, and promotion.

Effective marketing for health care organizations involves the recognition of multiple customers or markets that often have a diverse array of needs and wants.

In today’s health care environment, the satisfaction of the customer is of central concern, as health care systems are financially rewarded or penalized based on a standardized instrument (HCAHPS) that measures patients’ perspective on hospital care.

A nonmarket-based approach to planning is one in which the conception of the service begins internally within the organization. Marketing-based planning is an external-to-internal process.

There are three distinct hallmarks to a market-driven approach to planning: It is characterized by an inside-outside-inside approach to planning; there is market research at the point of needs assessment and pretesting; and there is a customer-driven differential advantage.

The strategic marketing process must consider the broad macro environment consisting of stakeholders, environmental factors, and society at large.

Health care marketing planning requires identification of the target market, which may differ from the organization’s present customer base.

In a product-oriented organization, services are managed as separate profit centers, or strategic business units. There are three variations of service line structures: matrix structures, direct line structures, and clinical co-management structures.

In a market-oriented organizational structure, major markets or customer groups are the focus. It is particularly suitable when there is a strategic need to have a close relationship with the customer and strategies are highly dependent on relational value. Often customers in this situation have diverse and complex requirements.

Market-driven organizations have three hallmarks to their culture. They are customer focused, results driven, and have a strong awareness of the competition.

Marketing success has four prerequisites: pressure, capacity, vision, and actionable steps.

The marketing paradigm is shifting from a transactional focus to a customer-retention strategy.

The structure of the health care industry is evolving. There are three main customers: corporations, MCO’s with new health insurance options like health savings accounts, and consumers.
Chapter Problems

1. Several prerequisites are necessary for marketing to occur. Identify each prerequisite in the following examples: (a) a politician running for political office, (b) a consumer seeking physical therapy, (c) a company choosing health coverage for its employees.

2. At a hospital planning meeting, the marketing director reports on consumer interest in a women’s health center. Hearing strong interest, the planning committee endorses the concept. A group of clinicians is charged with developing the program. Upon introduction, market response does not meet expectations. A senior physician I heard to complain, “What went wrong? We did the survey.” Explain the possible reasons for this program’s failure.

3. An orthopedic group practice has decided to develop a pediatric sports medicine program. Identify potential target markets for this new service. Describe the approach the group might take to assess whether there would be a positive response to this program if the group decides to make a financial investment, allocate space, and commit personnel to rolling out such a program.

4. In developing the new pediatric sports medicine program (described in question 3), what uncontrollable environmental factors should be considered? This group practices in a large metropolitan area. There are two large health care systems that in recent years have begun to employ their own physicians in a large practice.

5. A major concern for many physicians is the belief that marketing “creates” needs. Explain the complexity of this issue. Assume you have been invited to a conference and will participate in a debate on this subject. The session chair has not told you which side of the debate you will be presenting. Prepare each side of the argument.

6. After reviewing the volume of subscribers to the managed care plan, the executive director is dismayed. Projected enrollment is far below the forecasted level for the targeted time period. A decision is made to hire additional salespeople to market the plan more aggressively. Explain the inconsistencies between this decision and an evolutionary marketing perspective.

7. Explain the differences among existing customers, target markets, and stakeholders for an acute care county hospital. That hospital has historically taken care of those individuals who are less well insured or socioeconomically disadvantaged. The clinical staff is highly qualified and committed to the mission of the institution. In recent years, the hospital has found that county support for its budget has decidedly decreased. In light of your description of the target market, existing customers, and stakeholders, how might this factor into a marketing director’s concerns in light of budget realities and the need to attract a well-insured patient population.

8. You have just been named the first-ever marketing director of the Bay Area Regional Accountable Health System. For 15 years, you served as the marketing and strategic planning director at Oakland Alameda Regional Hospital, a 250-bed inpatient facility with a busy emergency department and one outpatient primary care satellite. The board of your new employer has asked you to provide a brief overview of the five major aspects of your first-year marketing plan to the community that will differentiate it, as an ACS, from other hospitals in the Bay Area community. Provide this overview.
NOTES


10. This conceptualization of the four P was first proposed by J. McCarthy, Basic Marketing: A Managerial Approach (Homewood, IL: Richard D. Irwin, Inc., 1960).


65. This discussion is drawn from an unpublished working paper, E. N. Berkowitz and M. Guthrie, “The New Health Care Paradigm” (November 1994).


73. “Health Savings Accounts and Account-Based Health Plans: Research Highlights,”

