CHAPTER 2

Marketing Strategy

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Understand the scope of strategic marketing planning
- Identify the importance and sources of a competitive differential advantage
- Recognize disruptive innovations as a source of new competitors
- Describe three alternative perspectives to assist in developing organizational strategies
- Understand the essential components of marketing strategy formulation

Strategic Planning Process

In order to respond to the opportunities and challenges of the marketplace, most organizations engage in a process of strategic planning. **Strategic planning** has been defined as a process that describes the direction an organization will pursue within its chosen environment and guides the allocation of resources and efforts.[1] The strategic planning process is shown in **FIGURE 2-1** as comprising four steps. It is within the context of this strategic plan that the functional areas of marketing, finance, human resources, and operations develop their own plans, as shown in **FIGURE 2-2**.

To develop an effective strategic plan, an organization must first define its mission. Second, it must conduct a situational assessment of the threats and opportunities to which the organization can respond in light of its mission. At this stage, the organization must also assess its own distinctive competencies. Last, the organization must establish a set of priorities based on organizational objectives that align with the mission. Once these steps have been taken, the organization can then determine which strategies to pursue when competing in the broader market.

Defining the Organizational Mission

Organizational mission refers to the organization's fundamental purpose for existing, defining what the organization is, its values, and the customers it wishes to serve. Mission statements are established to set the tone for the organization and provide the management with a purposely broad set of directions for how it should develop further business strategies. **EXHIBIT 2-1** shows two alternative mission statements: one for OrthoIndy, a large 70-person orthopedic group in the Indianapolis, Indiana, metropolitan area with multiple satellite

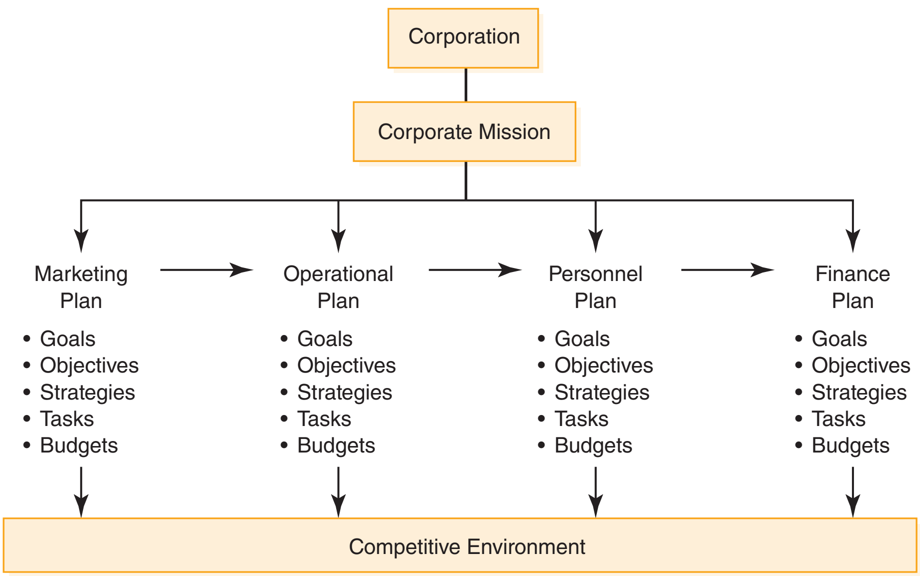


FIGURE 2-1 The Strategic Planning Process

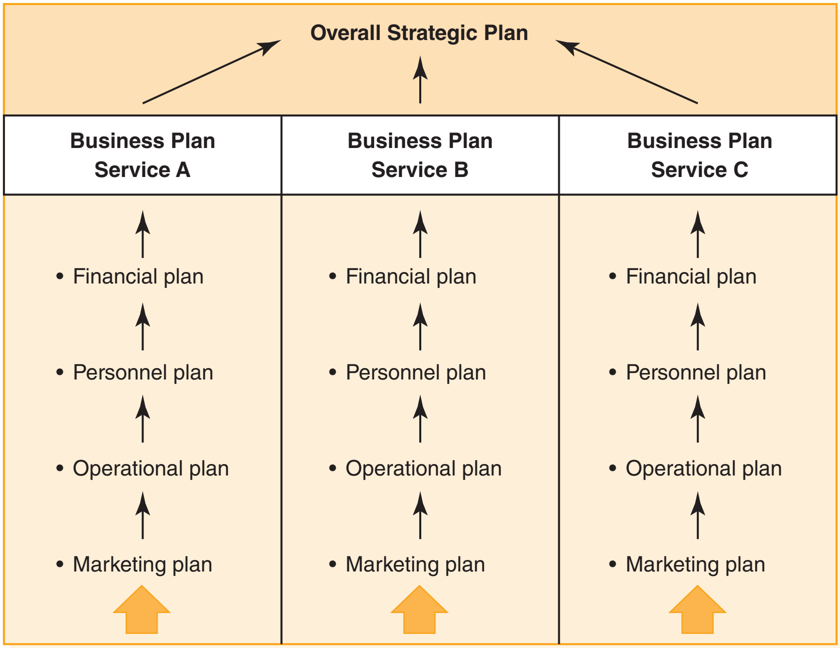


FIGURE 2-2 Portfolio Model for a Business Plan

locations as well as its own orthopedic hospital. The group also operates several orthopedic urgent care facilities in the Indianapolis vicinity. Exhibit 2-1 shows the group's mission and value statement. The mission statement is direct and clear. The values highlight the outcomes and the group publishes an outcomes publication on its website and discusses its research in line with its value for innovation. As its mission statement reflects, although narrowly defined within the area of orthopedics, this group recognizes the need for transparency as well as innovation and accountability in today's health care marketplace. UnityPoint Clinic is part of Unity Health, one of the larger health care systems in the United States, based in Des Moines, Iowa. UnityPoint Clinic in 2015 consisted of 280 clinics of more than 900 doctors in the states of Illinois, Iowa, and Wisconsin. The mission statement is clear and concise and reflects the health management environment of today. In a similar vein, consider the simple but important vision statement in Exhibit 2-1; it is a consumer-focused vision on the outcomes of the patient. And, the values are driven by five factors, which again underscore a patient-focused relationship-driven model necessary to achieve the best outcomes for patients "every time," driven by integrity, partnership across the health system, and a strong sense of responsibility to community health needs. These two mission statements reflect the significant changes that health care providers face today. These issues will be discussed in greater depth in Chapter 3.

Organizations can establish missions that are either broad or narrow, but it's important to establish a mission with the greatest likelihood of success in a competitive marketplace. For example, IPC Healthcare has a relatively narrow mission to provide hospitalist services in both

EXHIBIT 2-1 Alternative Statements—OrthoIndy and UnityPoint Clinic

OrthoIndy and OrthoIndy Hospital

Mission Statement

To provide the highest-quality, comprehensive orthopedic care to patients throughout the Midwest, the United States and around the world.

Values

- Outcomes
- Innovation
- Excellence
- Teamwork
- Accountability

Source: www.orthoindy.com/About-Us/Our-Commitment

UnityPoint Clinic Mission and Values

Mission

Improve the health of the people and communities we serve.

Vision

Best Outcome for Every Patient Every Time.

Values

The five core values of UnityPoint Clinic are the foundation of our commitment and compassion for delivering quality service to our patients.

Patients First

We provide high-quality, compassionate care by focusing our decision making on what is best for our patients. We communicate effectively with patients, families and other providers in order to improve patient experience and outcomes through care coordination.

Integrity

We earn our patients' trust and deliver on our commitments by being accountable to our patients and each other. We embrace public transparency of quality and safety metrics and always rise above self-interest for the greater good.

EXHIBIT 2-1 (Continued)

Pursuit of Excellence

We pursue excellence in every aspect of health care. We exceed patient expectations in quality and service by embracing best practices and evidence-based care. We value our providers and staff by providing a great work environment. We also pursue excellence in health care transformation by embracing innovation.

Partnership

We share common goals and work together across the system, while acknowledging and adapting to regional needs. We embrace diversity, respect differences, and value individuals across all disciplines. We are always professional and take a positive approach to problem solving. Our partners and staff are team members who share our values and visions.

Community Stewardship

We are strong, informative community partners by identifying and responding to community health needs and by promoting wellness and prevention. We also teach and develop health care providers to improve the workforce.

Source: https://www.unitypoint.org/clinics/about.aspx

A: Reproduced from Mission Statement for OrthoIndy website http://www.orthoindy.com/About-Us/Our-Commitment B: Reproduced from Mission Statement of UnityPoint Clinic System from: https://www.unitypoint.org/clinics/about.aspx

acute and post-acute care facilities (www.ipchealthcare.com). The organization provides such services in over 1,600 facilities. A broad mission is represented by that of Gundersen Health System in Wisconsin. A comprehensive health network located throughout western Wisconsin, northeastern Iowa, and southeastern Minnesota, its network includes one of the country's largest multi-specialty group practices and hospitals, and is supported by pharmacies, clinics, air ambulances, and hospitals. The organization has its own health plan along with extensive medical research. **FIGURE 2-3** shows the range of possibilities regarding a health mission statement reflected in these two organizations' statements.

An effective mission statement should clearly articulate most of the following components:

1. The basic product or service, primary market, and technology to be used in delivering the product or service
2. Organizational goals, such as growth, profitability, stability, or survival, stated in a strategic sense

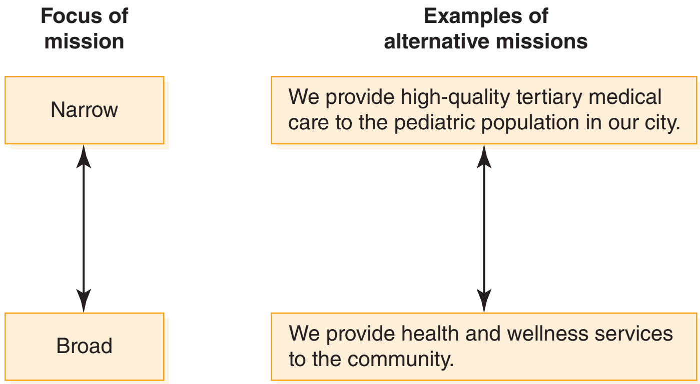


FIGURE 2-3 Strategic Mission Options

3. Organizational philosophy: the code of behavior that guides the organization's operation
4. Organizational self-concept: a self-evaluation based on a realistic determination of its strengths and weaknesses
5. Public image: how those outside the organization view the particular entity[2]

Essential to a successful mission statement is the recognition of what the business is and what the customer wants. It has been suggested that mission statements are often similar in just verbiage, with no real common *raison d'etre*. Rather, an effective mission statement must contain a verb, target market, and an outcome to measure. One author, Starr, has suggested a good mission statement need be no more than eight words long, in that it is long enough to be specific and short enough in that it forces the individuals defining the mission to drive for clarity.[3] Levitt described the marketing myopia of some organizations whose definition of their mission failed to recognize the threats and opportunities in the external marketplace. For many years, the railroads described themselves as "railroad companies." In fact, the marketplace was not so interested in railroads as much as it was in transporting goods quickly and saving time. This led other firms such as air transportation companies to supplant the service that could have been provided by a diversified "railroad" company.[4] The health care industry has suffered a great deal of myopia in the past regarding organizational mission.

A modern health care organization must decide whether providing high-quality medicine or improving societal or community health status should be the organizational goal. This transition has been described as a shift to moving the business model from a "volume-based" business model of health care delivery to a second curve of a "value-based" paradigm. In this environment the mission must reflect the changes in focus toward quality, shared risk, and population health management as it is a transformation of the business of health.[5] From a business perspective, it is requiring an alignment of organizational assets, both physical and intellectual (skilled clinical and nonclinical) to manage the population's health rather than to drive for volume and revenue. If community wellness becomes the mission, this might lead to the recognition of different trends in the environment and necessitate different responses from the organization. Many health care organizations are beginning to broaden their vision of their business, and thus their planning perspective. Yoga classes are becoming increasingly common at hospitals such as M.D. Anderson's Integrative Medicine Department and Blake Medical Center in Bradenton, Florida, while Beth Israel in New York City is offering similar classes to children with autism and attention deficit disorder.[6] In this greater recognition of health care, as opposed to medical care, Grace Cottage Hospital in Townshend, Vermont, opened a Community Wellness Center in a converted building that houses community activities, such as yoga, belly dancing, and tai chi, as well as a massage room and a community meeting room for use by nonprofit groups. The Integrative Medicine Department of the University of Iowa offers mindfulness meditation courses for adults and for middle-school-age and high-school-age teenagers.

A major trend in recent years, particularly within academic cancer centers, has been the growth of integrative medicine programs, from 13 institutions with such centers in 2002 to 57 in 2014. Integrative medicine not only combines the treatment of an individual with complementary medicine approaches such as acupuncture, but it also describes a commitment to treating the whole person.[7] In a similarly broadened view as organizations move to population health management, they need to reorient their structure and system approach to the delivery of care. One such entity, Monarch HealthCare in Orange County, California, took a broadened perspective as one of the first organizations to participate in the Dartmouth ACO pilot program. Founded in 1994, Monarch is one of the largest independent practice associations (IPAs) in Orange County, and the only one with a county-wide presence, although there are three competing organizations. Monarch contracted with all major payers. As it moved to population health, the organization made a commitment to an electronic health record (EHR) service linked to laboratories, pharmacies, imaging services, and appointment reminder tools. Monarch has instituted disease management programs for diabetes and asthma. It encourages primary care physicians to identify patients for inclusion in these programs after a confirmed diagnosis. Monarch created interdisciplinary Touch Teams that went to complex chronic patients' homes. Although these are but of a few of the many changes the health care organization has undertaken, it reflects a broadened perspective of managing a population's health in a new health care era.[8]

Avoiding Myopia in Strategic Planning

A key challenge in today's health care environment as it shifts to more of a value-driven orientation is to not be myopic in its orientation or its strategic planning perspective. It has been suggested that medical device companies have suffered from this myopic perspective when they have utilized physicians and regulatory perspectives alone as part of their staff or on their advisory boards without paying attention to a broader constituency.[9] Work by Smith, Drumwright, and Gentile suggests that the problem of myopia occurs from three systemic issues: "(1) a single-mined focus on the customer to the exclusion of other stakeholders; (2) an overly narrow definition of the customer and his/her needs; and (3) a failure to recognize the changed societal context of business that necessitates addressing multiple stakeholders."[10] In order to avoid myopia it is important to:[11]

1. Map the organization's stakeholders. For a hospital it may well be the patients, referral physicians, suppliers, regulators, community, payers, and companies among others, while for the medical device company, it is those described in the text as well as the payers and buyers such as the health systems.

2. Determine stakeholder salience. Who counts? This issue will be driven by the planning question that is under consideration. Is it a particular program being developed by the health system or a decision in terms of how to further engage individuals in the community in order to further improve overall health status, which might then identify a broader range of stakeholders.
3. It is essential to research stakeholder issues and expectations and measure their impact. This criterion speaks to the importance of marketing research in terms of understanding their requirements and needs. In doing this appropriately, both primary and secondary research methodologies might be employed.
4. Engage with stakeholders. Engaging with stakeholders implies doing more than just research; it includes actual communication and real dialogue with constituency groups.
5. Embed a stakeholder orientation. Finally, this stakeholder orientation needs to become central to organizational decision making as opposed to an occasional or a reactive approach to a crisis.

To a large degree, to avoid the problem of marketing myopia an organization must practice self-cannibalism.[12] That is, it must compete with itself. In health care this might become ever truer as organizations embrace the concept of population health management. An asset-based mentality in which revenues are derived from patients admitted to a hospital or surgical procedures even performed in an outpatient setting is counter to a large degree to "keeping a group of individuals in the community well." No doubt people will always be sick, and medical and surgical intervention will always be needed. But, that said, a restructuring of the health care system and being less myopic begin with the mission of the organization and the strategy that flows from it in a broader sense.

Situational Assessment

The **situational assessment** is an analysis of the organization's environment and of the organization itself. This process is referred to as the **SWOT analysis** (so named because it examines the Strengths and Weaknesses of the organization, as well as the Opportunities and Threats relevant to the organization's future strategy).

One aspect of this SWOT analysis involves assessing the environment. It is at this stage in the process where the organization must consider the economic, competitive, regulatory, social, and technological changes occurring in the marketplace. Scanning these dimensions of the environment yields insight into the opportunities and threats that exist, to which the organization must respond in its overall strategic plan and in subsequent functional plans. The SWOT analysis has an advantage of attempting to connect the internal and external factors in order to stimulate new strategies for the organization. It provides a firm foundation for resource- and competency-based planning.[13] Although the SWOT analysis consists at some level of a simple 2x2 cell, it has been found to be an extremely useful tool to kick-start the strategic planning process. In a comprehensive review of the literature regarding the use of SWOT analysis over a 10-year period by Helms and Dixon, these two researchers examined 142 studies of which several included health care. And although they identified several issues noted by many authors, a key to the effectiveness of the use of SWOT as a planning tool depends on the thoroughness of the internal and external analysis that is done in the completion of the input of the matrix. Without that context, key variables may well be left out for future planning purposes.

Additionally, as they noted, the timeliness of the information is another key dimension that must be recognized, as well as adequate benchmarking data of competitors.[14] And, as suggested by other researchers, SWOT is a succinct approach to providing a picture of the organization's strategic position from the corporate to functional level.[15]

In reviewing each of these environmental areas, the organization must ask: (1) What are the changes and trends? (2) How will these changes affect the organization's businesses? (3) What opportunities do these changes present?

For many years, the Gerber Products Company of Fremont, Michigan, defined its business as "Babies are our business, our only business." This was a great mission in the early 1950s, when the United States was witnessing a rapidly growing birthrate. An aging population, however, as shown in **FIGURE 2-4**, might necessitate some revisions to that mission. A review of this environmental position might lead Gerber to make some basic strategic changes. And as Figure 2-4 shows, the shift in demographics is a global trend.

As the population ages, Gerber must consider this trend and decide what implications it holds for its business. In what ways must the company respond, and what opportunities does it present? Does an aging population suggest a need for food that is easily digestible, such as baby food? Will an aging population result in a greater number of widows and widowers who will avail themselves of easily prepared food in single-sized servings? What impact will this trend of an aging population have on the future growth of a health care organization whose strength lies in pediatrics? In 2007, Nestle Corporation purchased Gerber. But, as you look at the Gerber website today (https://www.gerber.com/why-gerber), the age range has broadened to preschoolers, with Gerber's yogurts, snacks, and bottled water.

To a large degree, the global conglomerate Kimberly-Clark recognized this opportunity as it expanded its product line. Kimberly-Clark sells Huggies, the successful line of

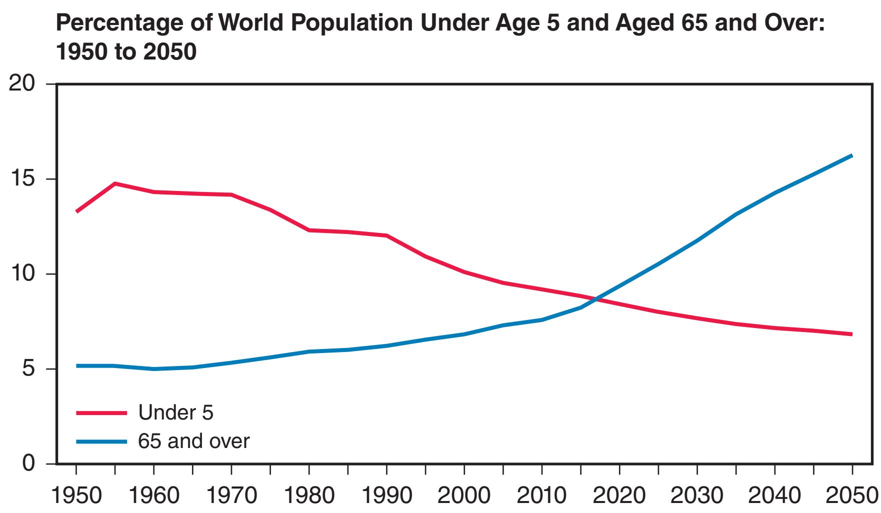


FIGURE 2-4 Changing Market Demographics

Loraine A. West, Samantha Cole, Daniel Goodkind, and Wan He, "65+ in the United States: 2010," Current Population Reports (June 2014), U.S. Census Bureau, https://www.census.gov/content/dam/Census/library/publications/2014/demo/p23–212.pdf.

disposable diapers for babies. However, as the demographics have shifted to an aging population, Kimberly-Clark has modified this product to capitalize on the needs of the older demographic and the medical condition of incontinence faced by aging consumers, offering Depend undergarments for both men and women (a gender-segmentation strategy is discussed more in Chapter 6).

In examining the environment, Detroit hospitals have recognized both the advantages and disadvantages of their location. Michigan has faced enormous difficulties due to the most recent recession, and Detroit itself has been hit particularly hard. However, the medical centers in Detroit have a geographic advantage due to their proximity to Canada. The Ontario Ministry of Health and Long-Term Care has designated 13 hospitals in the United States, 5 of which are in Michigan, to perform bariatric surgery for Canadians.[16]

With this situational analysis, it is important for the organization to consider the barriers that exist in the marketplace. In analyzing any business plan, an organization must consider the **barriers to entry**, which are the conditions that a company must overcome in order to pursue a business opportunity. Barriers to entry might be regulatory, technological, financial, or strategic. In health care, for example, the regulatory process in many states has provided a strong barrier to entry. The issue of creating barriers to entry has increasingly come to the forefront with practitioners of alternative medicine and among advanced practice clinicians. One study found that in states where the supply of alternative medicine providers is restricted due to regulatory constraints and physicians thus face less competition, with other things being equal, physician income is higher.[17] Telemedicine has encountered the barriers of technology, finance, and law.[18] The technological infrastructure has long been a barrier to entry for telemedicine but is one that is rapidly lowering as broadband penetration in the United States is expanding at a significant rate. Cost is a major factor, and legal constraints, which are discussed in Chapter 3, are a factor as some states have put legislation in place to prevent the competition of telemedicine providers from entering the market. To enter certain businesses that require the addition of resources and capital allocations, hospitals must obtain various forms of regulatory approval.

One of the fastest growing segments of the health care industry is subacute, often referred to as post-acute, care. This level of care is designed for those patients who are sufficiently stabilized to no longer require acute care services. In 2011, 40 percent of Medicare acute care patients were discharged to post-acute care facilities.[19] **FIGURE 2-5** shows the dramatic increase in post-acute care spending by Medicare from 2001 to 2013. And, although it has leveled slightly in the most recent years, there has been a consistent rise in skilled nursing facilities and home health agencies over the past decade.[20] Subacute care can be provided in a freestanding nursing home or skilled nursing facility, rather than in a hospital. Because these nursing facilities face fewer regulatory hurdles than hospitals do, the barriers to entry are often low. Hence, this segment of the health care industry grew from $1.2 billion in 1990 to $12.0 billion in 2000—a tenfold increase.[21]

The cost of acquisition of a new technology might be a barrier to entry, or the acquisition of the technology when a competitor does not have it can be a barrier. For example, when the da Vinci robotic surgery technology was made available to hospitals, the first hospital to adopt in each market area was given an exclusive lease for a limited but defined time period. Image alone can also be an effective strategic barrier. A competitor may have established a strong reputation and marketplace position regarding a particular service

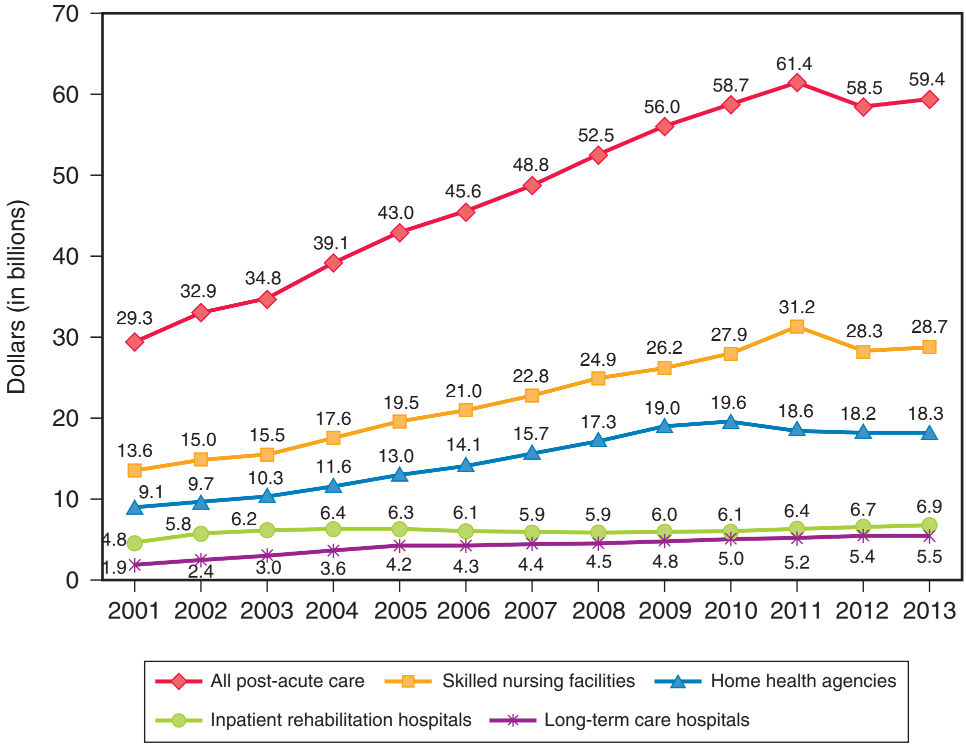


FIGURE 2-5 Growth in Post-Acute Care Spending

Medpac, A Data Book: Health Care Spending and the Medicare Program (June 2015), Section 8, p. 114, http://www.medpac.gov/documents/data-book/june-2015-data-book-section-8-post-acute-care.pdf?sfvrsn=0.

that poses a real challenge—and forms a barrier—for a competing health care organization wanting to enter the market for that service.

In the same regard, the organization must also consider the **barriers to exit**, or the costs of leaving a particular business line. In health care, many services require a large commitment of fixed assets or specialized personnel. This fact alone can make it difficult to move away from a business in spite of the environmental overview provided. This, in fact, might be a weakness highlighted with a SWOT analysis.

For the SWOT to be successful, an organization must be able and willing to do the following:

1. Turn the focus of the SWOT analysis away from the organization's products and toward its business processes that meet customer needs
2. Capitalize on its strengths by delivering better value to customers than the competition
3. Turn any weakness into strength by investing strategically in key areas[22]

These steps serve as a catalyst for corporate strategy. Several years ago, the National Health Service in Great Britain wanted to implement clinical guidelines similar to the clinical care pathways implemented here within the United States. **FIGURE 2-6** is one representation of a

Strengths	Opportunities
Supported by NHS Leadership Consistent with NHS Research Objectives Driven by Professionals within Organization Will assist in cost containment initiatives Flexible formats possible with clinical guideline development	May improve communications (Internet etc.) across the organization May further lead to development of electronic patient record Help with responding to growing movement of Consumerism of health care
Weaknesses	**Threats**
Effectiveness of guidelines are uncertain Clinical freedom may be restricted Unsure who may utilize guidelines within organization Will take significant FTE time to develop guidelines Will require constant updating of clinical guidelines May increase health care costs if implemented	Consumer may question use of guidelines Implementation may change culture of Lack of time for clinicians to participate in development Information overload for professionals to utilize appropriately

FIGURE 2-6 Four-Cell SWOT Matrix for Producing Clinical Guidelines in the National Health Service

Based on Edward Dickson, "Using Marketing Principles for Healthcare Development," Quality in Healthcare (1995), Vol. 4, pp. 40–44.

SWOT analysis of producing and implementing the clinical guidelines within the United Kingdom. This representation identifies some of the major internal advantages such as internal NHS Executive support and, as noted in the focus of consumer needs for a successful SWOT, the opportunity to respond to consumerism in health care. The external threats are major issues such as constraints on physician time and the weakness of uncertain effectiveness. Capabilities to capitalize on marketplace potential exist when one can match organizational strengths to market opportunities.

Differential Advantage

Within this situational analysis, an organization must also consider its own strengths and weaknesses. At this point, an organization should assess what it does that is better than the competition and gives it a differential advantage—the incremental benefits of a product relative to competing products that are important to the buyer as perceived by the buyer. This analysis and specification of the differential advantage are based on the core competencies of the firm that are critical to success.[23]

Criteria for a Good Differential Advantage Four important criteria are the hallmarks of a good differential advantage:

1. *Importance*—First, a differential advantage must be important to the buyer. A myriad of processes and elements are essential in the delivery of high-quality care, but if they are not important to the buyer, it is not a differential advantage. For example, one hospital may have more stringent quality assurance or credentialing procedures than another. The clinicians may recognize that this is a key in providing a certain standard of care, but again, if the buyer does not value or understand the importance, it cannot be a differential advantage. However, increasingly health care organizations are making outcomes measures and their value an important aspect of their respective differential advantage. However, it is essential that the measures be presented in a way that the patients or consumers can differentiate as to which organization is "better" and thus the differential advantage can be recognized.[24]
2. *Perceived*—A second hallmark is related closely to the first. A good differential advantage must be perceived by the buyer. Consider the previous example concerning the credentialing procedure. If the buyer, in this case the patient, does not perceive the value of a more stringent credentialing procedure, it cannot be used as a point of difference from the competition. It has been found, for example, that hospitals with more Joint Commission awards promote their quality accomplishments more than their competitor hospitals that received fewer similar awards in an approach to establish a competitive differential advantage.[25] Herein lies an important role of promotion from a marketing perspective. When an organization has elements that it considers the market would view as important, the requirement then is to ensure that these advantages are perceived by the buyer.
3. *Uniqueness*—A third important component of a differential advantage is that it must be unique from other providers. It has been suggested that accountable care organizations have a unique competitive differential advantage relative to traditional models of care in that they should or do have the ability to coordinate patient care across a continuum of services to produce the improved health outcomes of the patient populations for which the ACO is responsible. Ideally these improved outcomes should result at a greater level of efficiency and thus reduced cost.[26] This aspect of uniqueness is particularly challenging in health care. Often a medical group might state that it perceives its differential advantage to be that all the physicians in the group are board eligible or board certified. However, when an analysis is done of the second closest competing medical group, this group also has all physicians who are board eligible or board certified. They both have the board eligibility aspect as a strength, but because it is not unique, there is not an operational differential advantage.
4. *Sustainable*—It is the dimension of uniqueness that leads to the fourth major criterion of a good differential advantage—sustainability. When seeking a differential advantage, it is essential that the organization consider focusing on aspects of the operation or business that are sustainable for some period of time. To a large degree, it is this last criterion that has often led to the "marketing" function receiving the greatest criticism from clinicians.

Too often, marketing has been defined as advertising. Thus, organizations often get involved in an ad war game. One hospital places a billboard on the highway touting its concern for patients by saying, "We care!" Soon, the second hospital in the community runs a similar billboard proclaiming, "We care more!" The first hospital retaliates, "Not as much as us!" And, both competitors become involved in a never-ending advertising war that has limited sustainability. Although there are few things that can be done in most service businesses that will be totally immune from competitor imitation, the need is to focus on the most difficult challenges in service delivery. Easy improvements such as valet parking for elderly patients should be considered part of ongoing process improvement; it is the more difficult operational challenges that can lead to a differential advantage that has some protection from quick competitive imitation. In this regard, the issue is one of value creation. In order to create a sustainable differential advantage, the customer should be a co-creator in identifying where there are gaps in the service delivery mode that can lead to service or product improvements.[27] To a large degree, this aspect of co-creation of value is at the core of a market-driven planning approach. One study found that market orientation of a firm can be a competitive differential advantage and relate to a greater gain in sales and profit for firms that are early adopters of this orientation rather than late adopters. However, this advantage only lasts for 3 years. It is hard to sustain the advantage because the later adopters learn from the early firms.[28]

A real example of a possible sustainable differential advantage that occurs at the physician practice level often requires little capital investment, no allocation of resources to build out space in the facility, or any new technology, but the strategic competitive advantage it offers is substantial. This advantage might be termed "open-access scheduling," in which patients are offered an appointment the day they call or the next day.[29] Many group practices around the country increasingly use this scheduling approach. Sharp Mission Park Medical Group utilizes this approach in San Diego, as does Sage Medical Group in Chicago. Jefferson Medical and Pediatric Group in Port Townsend, Washington, posts its appointment schedules 6 weeks prior to the beginning of each month and provides open access.[30] This sustainable advantage is difficult for competitors to copy, and thus it is often sustainable in a market area for some period of time. The cultural and philosophical acceptance of this approach is key to its success, which makes it difficult to implement.[31] It's been written that, given enough time, competitors can hire away an organization's best people and reverse-engineer competing firms' processes, but it is hard to duplicate its culture. Culture comprises five components: behaviors, relationships, attitudes, values, and environment.[32]

Sources of a Differential Advantage Traditionally, in most industries there have been three areas in which an organization can seek a differential advantage: (1) product, (2) market, or (3) cost.[33] Health care organizations should also consider or recognize a fourth source of differential advantage—trust. As shown in **TABLE 2-1**, a product-based differential advantage is one in which the company has a unique technological capability or clinical expertise that allows it to establish a competitive position. In health care, an unusual problem is avascular necrosis of the talus in the ankle that is occasionally caused in nontraumatic situations. The one orthopedic surgeon at Duke has successfully developed an approach under certain conditions to repair this problem, which often requires a more common fusion alternative. This product-based differential advantage is difficult to duplicate without significant training

Table 2-1 Sources of a Differential Advantage

Product-Based	Market-Based	Cost-Based
Technological capability	Targeted segment	Operational efficiency
Clinical expertise	Narrow product line	Expense control
Name/image	Geographic focus	Experience curve
Distribution network		Government subsidy

of orthopedic surgeons. The pace of technological change is such that the advantage goes to competitors who have the resources to acquire a new technology.

A market-based differential advantage is available to those who focus on a particular market segment. For example, in the Boston metropolitan area, Children's Hospital has been recognized as a leader in pediatric care as have Children's Hospitals and Clinics of Minnesota and Cincinnati Children's Hospital Medical Center. Although other competitors also provide pediatric service, the differential advantage to a large degree rests with these highly specialized children's hospitals and their narrow market focus.

The third area in which to establish a differential advantage is cost. An organization that is highly efficient, either through the use of technology or with tight management control of expenses, can achieve this advantage. Increasingly, in health care, as the marketplace focuses on the cost of care, a cost differential advantage is becoming a strong competitive position. An innovative company, Theranos, has developed an interesting cost-based differential advantage. Founded by an entrepreneur in California, this company has developed an approach to do a wide range of laboratory tests at a fraction of the cost of the traditional laboratory with a minimal amount of blood required. Beyond the cost-based advantage, the company can also deliver the results substantially quicker to the patient and the physician. The company has developed a relationship with some health systems like the Cleveland Clinic as well as the retail chain Walgreens. However, as with many new companies, it has found itself facing scrutiny when there were questions as to whether the company claims of being able to do its tests with minimal blood were in fact accurate.[34] Establishing a differential position in this area is closely tied to the pricing strategies the organization pursues in the market. A cost-based differential advantage usually requires an organization to strive to achieve market share to make up for the margin. This issue is discussed in greater detail in Chapter 9.

Another differential advantage that should be recognized by health care providers is trust. Trust has been found to be a source of a competitive differential advantage.[35] Although it has many definitions, a useful operative one is that *trust* is the mutual confidence that no party will exploit another's vulnerabilities.[36] One can immediately consider the value of this perspective. Patients trust that physicians will not only do no harm, but that they also have the patients' best interests at heart and have no conflict of interest when prescribing a particular medicine. Trust has also been described as a **principal–agent relationship**. In such a relationship, one individual (the principal, in this case the patient) gives the agent (the clinician) the authority or power to make the appropriate decisions on his or her behalf. Trust is critical and essential in health care, because often the principal cannot easily assess whether the agent is making those decisions correctly.[37] Therefore, trust is a valued differential advantage if a health care organization has or can acquire it. Baylor Scott & White Health System actually has articulated "trust" as a core component within its vision statement by stating "To be the most trusted name in giving and receiving safe, quality, compassionate health care" (www.sw.org/about-us/mission-vision).

Regulations are increasingly making the issue of trust and the concept of the principal agent theory more salient. In September 2014, the FDA enacted their Open Payments Law as part of the Affordable Care Act. This law now requires CMS to collect information from manufacturers and group purchasing organizations in order to report their financial relationships with physicians and hospitals. These data are available for perusal on the CMS website (https://www.cms.gov/OpenPayments/Explore-the-Data/Explore-the-Data.html). Interestingly, from a trust perspective, in a PwC study, one-third of consumers indicated they would lose trust in their physicians if they learned they were receiving money from a pharmaceutical company, while another third felt it would have no effect on their opinion of their physician; 14 percent were unsure, while the remainder (13%) would trust those physicians more.[38]

Each of these respective sources of differential advantage has its own set of inherent weaknesses. In a product-based approach, the challenge is to maintain the product advantage in the face of competitors who take a low-cost position. As low-cost providers enter the market, the consumers must still value the product differential advantage. The risk also exists that the marketplace will change its preferences and no longer value the product's differential advantage. A more realistic possibility is that there are a large number of imitators, which minimizes any perceived differentiation in product.

For a market-based position, competitors might target smaller groups or submarkets to establish a differential advantage. Though not a small market in terms of population, several U.S.-based health care organizations are now targeting the wealthy consumer segment in China. There is a growing population in China that can now afford to pay for hospital care in private facilities. And, the Chinese government wants to increase the share of individuals receiving such care at such facilities to 15 percent by the end of 2015. As a result, Dr. Thomas Frist, Jr., who co-founded the Hospital Corporation of America in 1968, formed Nashville-based Chinaco Healthcare Corp. It opened its first hospital in Cixi, a growing city of 2 million 90 miles from Shanghai.[39] Partners Healthcare in Boston, Massachusetts—the parent organization of Massachusetts General Hospital and Brigham and Women's Hospital—entered into an agreement with Jiahui International Hospital to develop a women's health center of excellence. Partners also provides oversight of this facility's oncology service.[40] Or, cost factors could eliminate an advantageous position within the market. In health care, the cost position may be the most difficult to maintain. Technology has a dramatic impact on the cost position of any provider. Exclusive focus on cost can also lead to a failure to recognize market needs or new service opportunities that might present themselves.

Trust is a more difficult variable for health care organizations. When an entity loses that advantage, it is often hard to reestablish a position of trust in consumers' minds. The issue becomes one of how egregious the error or harm was. If the error or harm was with an individual patient, then the loss is a customer. However, if the of loss of trust is seen in the marketplace, the harm to the organization may be a loss of market share that is more visible and often unrecoverable. Such was the issue for St. Mary's Medical Center in Florida. A story reported by CNN discussed the high rate of mortality for children who had heart surgery at the institution. The medical center had reported a mortality rate at three times the national average.[41] With national media attention, shortly afterwards, the hospital recognized the difficulty of the situation and the loss of trust and announced the need for a comprehensive review of this clinical service. It suspended the service while criticizing the CNN report as being exaggerated.[42]

Health care marketplaces today are increasingly competitive environments. The need to establish a competitive differential advantage is a challenge to most organizations. However, it is also an age where consumers exist in a digital world of access to information; thus, health care organizations must balance the importance of truth with the importance of competitive advantage. In Orlando, Florida, hospitals were striving to attract patients to their emergency departments by advertising their wait times on billboards on the interstate. However, an investigation by a local television news bureau found that the low reported times that were posted were often off by hours. With time posted as 38 minutes, when the reporter at the station called, the individual was then told the wait was 2 hours; another hospital that posted 60 minutes had a wait of 3 hours; a third that posted 45 minutes had a real wait of 2 hours and 45 minutes.[43] The issue today is that consumers no longer need to wait for a television station or newspaper to do an investigative story to uncover the factual nature of a differential advantage. For example, in August 2015 YELP partnered with ProPublica to allow patients to access government data to find estimated hospital ER wait times.[44] The emergency watcher tool is directly available at ProPublica (https://projects.propublica.org/emergency).

Disruptive Innovations and New Competition

The issue of a competitive differential advantage and the sources of a competitive advantage are particularly relevant in today's health care environment as an organization considers its strategic planning process and crafts its marketing strategy. To a large degree, what has complicated this process and the challenge of establishing a competitive differential advantage is this concept of disruptive innovation. This concept was based on the work by Clayton Christensen titled "The Innovator's Dilemma." In this work, he identified two types of innovations: those that were classified as **sustaining innovations**, which were improvements, but to a large degree incremental, and those that were **disruptive innovations** and redefined performance trajectories by disrupting existing markets and creating new value, displacing earlier technology or products. It was also found that quite often the firms that developed the disruptive innovations were new entrants into the industry as existing firms were often more interested in sustaining innovations for fear of cannibalizing their existing business lines.[45]

As the concept of disruptive innovations has expanded, it is also important to recognize three other important attributes of these products or services that truly make them disruptive or give them their differential advantage in the marketplace.[46] They are often:

- Cheaper
- Simpler
- More convenient

Cheaper and more convenient was the disruptive innovation provided by Sarrell Dental & Eye Clinics in Alabama. Dental disease among poor children is a chronic and expensive problem. Often because dentists do not take Medicaid recipients, these children must go to the emergency room with dental issues, which means costs rise dramatically. However, Sarrell Dental has a 90 percent patient base of Medicaid children or those covered by the Children's Health Insurance Program (CHIP). This is an innovative, nonprofit model for Medicaid dentistry that is self-sustaining and takes neither grants nor cash donations. Because margins are small, the strategy is to keep the dental chairs filled.[47] Other examples of disruptive innovations in health care are Minute Clinic and dLife, which created a network for diabetics and their families.[48] Examples abound that make life easier for patients. Consider the otoscope for use with the iPhone to allow a parent to send a picture of their child's inner ear for the pediatrician to assess whether there is a possible infection.[49] One of the more interesting examples is home sleep-testing technology, a disruptive innovation that impacted hospital-based and freestanding sleep center facilities and revenues. The revenue and the product life cycles of existing service lines are dramatically impacted by these disruptive innovations as these quicker, cheaper, and not always more advanced alternatives enter the marketplace. More information concerning sleep-testing technology is presented in Chapter 8.

These disruptive innovations are important to recognize as an organization considers its competitive landscape. It requires any organization to broaden its perspective with regard to how it competes and as it considers its relative competitive differential advantage.

The Visible Value Challenge of a Differential Advantage

Ultimately, a differential advantage must be important to the buyer—the first criterion cited in the previous discussion. Organizations then must recognize that in marketing there is a related concept of visible and invisible value. **Invisible value** is the value that the producer builds into its product or service. **Visible value** is the value that is seen by the customer. In most industries, organizations can typically charge only for visible value.

Consider the challenge for some businesses outside of health care. A hotel chain might proclaim that it provides clean hotel rooms. Unfortunately, cleanliness is an attribute that is often only noted in the absence thereof. How, then, does the hotel chain make its cleanliness advantage a visible value? Notes are placed in the room from the employee who cleaned the area; lids are on top of the glasses in the bathroom; toilet tissue is folded; and a paper strip is placed across the toilet seat. Consider the challenge for Intel, the maker of processing chips. How many people would recognize one if they saw it? How could you differentiate it from others? Why does Intel place a little sticker on its computers that proclaims "Intel inside"?

The management of these values—both visible and invisible ones—has been referred to as **evidence management**. Evidence management is an organized and explicit approach to presenting the organization's capabilities to the customer.[50] It is a particularly critical strategy for service businesses such as health care, where oftentimes it is the invisible value of the organization where the real value is derived. The customer often has a difficult time understanding, fully appreciating, or discerning the differences at the level of a trained or highly educated clinician who may be performing the service being delivered.

So, too, the issue of visible value remains for health care organizations. How does a health care facility demonstrate that its staff is up-to-date in training? Is there a display board in the lobby indicating the number of continuing medical education hours the nurses and physicians

Invisible Value	Visible Value
• Better-trained receptionists • Computer-based scheduling system	• Reduced waiting time for office visit
• Medical home infrastructure	• Improved health status of patients & healthy feeling
• Ample parking • Rewards for customer service	• Easy access • Customer service

FIGURE 2-7 The Visible and Invisible Values

have obtained at a particular point in the year? Are there pamphlets with biographical sketches of the staff in a notebook in the lobby as well as on the website? Making value visible is essential in delivering a differential advantage that will affect buyer preference.

The invisible values are the operational components that the organization implements in order to deliver a noticeable, tangible outcome that the customer sees to be worthwhile. As **FIGURE 2-7** indicates, these might be a computerized scheduling system that results in less time on the phone waiting for a scheduler to book an appointment, an internal rewards system or performance evaluation system for customer satisfaction that is unknown to patients but that results in a demonstrably different and satisfying outcome for those who interact with employees and staff—a visible outcome. The Mayo Clinic manages the group practice values of its operations, which are often invisible to many of its patients. The Mayo Clinic makes sure that customers know that the doctors meet with one another and with the patients, providing visible evidence that they are collaborating to solve the patient's problem and not just referring them to someone else within the Mayo Clinic's large structure.

Organizational Objectives

The third step in the strategic planning process is the establishment of **organizational objectives**, which are the long-term performance targets the company hopes to achieve. These might include sales, market leadership position, or market share terms. In setting these objectives, it is valuable that, as much as possible, they be stated quantitatively and in realistic terms. General Electric (GE), for example, had an organizational objective that related to market share. The company would operate only in business lines in which it could be the number-one or the number-two company in terms of market share. Similarly, a national managed care organization (MCO) might set an organizational objective to compete only in market areas in which it could be the dominant plan in terms of number of subscribers. The organizational objectives set the broad targets for the operating units.

Organizational Strategy

Once it has progressed through the previous planning stages, the organization can then begin to formulate its broad strategies. For any organization, these can include either growth market strategies or consolidation strategies. With *growth market strategies*, the organization is attempting to gain more sales from an existing business line or penetrate new markets. An alternative growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers. An organization that implements a *consolidation strategy* is paring either the services it offers or the markets it serves.

Growth Market Strategies

EXHIBIT 2-2 shows four broad strategies that can guide an organization's growth; they reflect the internal organization and the external market conditions. The product dimension represents internal capabilities and services. The market dimension represents external market factors, a reflection of the situational analysis. Using this product/market matrix as a guide, there are four broad strategies to consider.[51]

Market Penetration The **market penetration** strategy involves increasing the sales of present products and services in present markets. This is a useful approach when the current market is strong and growing. Fulfillment of this strategy might involve attracting new customers or converting nonusers. One approach is to price more competitively to attract customers. This strategy has played out in the health exchange market. For example, in Portland, Oregon, Providence Health Plan, affiliated with Renton, Washington-based Providence Health & Services, reduced their rates in 2015 after attracting less than 5 percent of the Cover Oregon exchange market in 2014. Its enrollment efforts were hurt by the technology problems on the state exchange that made it impossible to sign up online. The Oregon market in 2014 was dominated by Moda Health, which captured 77 percent of exchange customers. Moda's average monthly premium for a 40-year-old buying a silver-tier plan was $51 cheaper than Providence's plans. In 2015, Providence aggressively dropped the price of its exchange plans by an average of 14 percent, and premiums for its Small Business Health Options Program exchange will decrease by nearly 10 percent.[52]

Other ways to fulfill a market penetration strategy include more intensive efforts to distribute the product or service and more aggressive promotion. Johns Hopkins promotes "Johns Hopkins Care, right in your neighborhood," with physicians in 39 locations in Maryland and

EXHIBIT 2-2 Opportunity Matrix for Market/ Product Strategy

Market/Product	Present	New
Present	Market Penetration	Market Development
New	Product Development	Diversification

Washington, D.C.; Keck Medicine of USC provides care in West Los Angeles, the San Gabriel and San Fernando valleys, and Orange and Riverside counties, while the University of Michigan has 18 related facilities for primary and specialty care throughout Michigan and Ohio, all in an attempt for market penetration.

Market Development A second growth strategy involves initiating sales of existing products and services in new markets, a **market development** strategy. This strategy is followed when existing markets are stagnant in terms of growth, and market share gains would be difficult to achieve because of strong, dominant competitors. Relocating a service to regions where it has not previously been offered follows this approach. This strategy has several variations.

A health care organization might enter new geographical markets. As discussed, many health care organizations are establishing relationships with hospitals in China. However, another attractive market is India, where the demand for private health care is increasing at a dramatic rate because of a very overburdened public health care system. Parkway Pantai, a unit of the second largest health care group by market value, IHH Healthcare Berhad, now intends to use acquisitions to quickly expand in India, where the private hospitals market is estimated to be worth $55 billion a year. The challenge in this market to any company entering is the number of government regulations and permits that must be obtained, but the size of the market and potential make it very enticing.[53] It costs $60,000 US to buy a hospital bed in India versus $1.5 million in Singapore and $100,000 US in South Africa, the data shows.[54] The push for private hospitals is reflective of the growing middle class in India, which should increase the interest of other countries in investment in India's health care system. In 1996, the middle class was estimated at a relatively small 25 million individuals, but that number increased to 160 million by 2013 and 267 million 2 years later.[55] The United Arab Emirates (UAE), for example, has been looked upon as a very attractive growth market for many U.S. academic medical centers. The UAE has the highest annual per capita consumption of pharmaceuticals in the Middle East. In 2009, the UAE had $2.9 billion in health care-related projects underway, and growth in the UAE health care sector is estimated to be $11.9 billion by 2015.[56] Dubai, one of the seven emirates that comprise the UAE, has created the Dubai Health Care City, which includes the Harvard Medical School Dubai Center. However, although the Mayo Clinic initially planned to participate in the Dubai Health Care City, after 10 years of seeing little progress in growth in the Dubai market, it decided to close its venture and move back to providing just a regional office to assist patients in receiving care in Rochester.[57] Similarly, there is a Cleveland Clinic in Abu Dhabi, the capital and second largest emirate. Johns Hopkins Medicine International, the international market development division of Johns Hopkins, has extensive and various relationships with hospitals in the Middle East, Europe, Latin American, the Caribbean, and Asia.[58]

Closer to home, the Mayo Clinic has an office in Mexico City that provides services for patients, families, and referring physicians. The office helps with scheduling appointments, travel, lodging, and follow-up visits. Joslin Diabetes Center in Boston, which is renowned for its diabetes treatment and management, undertook a market development strategy by offering its program to other hospitals in New England and then throughout the United States. In its first venture into a new market, Memorial Sloan Kettering Institute entered into an alliance with Hartford Health System to develop a collaborative alliance for cancer care in Connecticut. The two organizations planned to collaborate on disease management teams, through on-site observations of new techniques, by sharing educational resources, and by conducting quality and outcomes research.[59]

Alternatively, a health care organization can follow a market development strategy of appealing to new market segments that it has been previously unable to attract. For example, Women's Hospital in Baton Rouge, Louisiana, offers several services for men. Lab services, audiology, and imaging are all marketed to men. Magee Women's Hospital of UPMC offers a Men's Health Center that includes urology (medical and surgical care), weight and lifestyle management, cardiology, and endocrinology.

Product Development

A third organizational growth strategy is **product development**, which involves providing new products to existing markets. In this situation, a health system has a strong customer base and seeks to retain these customers by offering new services or quality improvements. Organizations pursue this strategy to meet changing customer needs, to take advantage of new technologies, or to meet the needs of some specific segment of the market. This situation is becoming increasingly typical in the health care industry. Many well-known organizations may have first entered the marketplace as fee-for-service, multi-specialty group practices or as traditional hospitals. The Scott & White Clinic founded in Temple, Texas, and now part of the Baylor Health Care system (and thus referred to as Baylor Scott & White) and the Aultman Hospital in Canton, Ohio, are examples of two different types of health care organizations that have successfully developed their own insurance products. The Scott & White Clinic operates the Scott & White Health Plan, a slightly more than 200,000-member health plan with a variety of deductible options. Since 1985, Aultman Hospital has successfully run its 500,000-member preferred provider organization, called Aultcare, in the mid-Ohio area; it contracts with 20,000 employers for coverage. The development implementation of this strategy by these institutions and others like them is a response to changing market conditions, and it provides loyal users with another option for receiving care from member physicians.

In pursuing this strategy, health care organizations will often engage in **vertical integration**, which involves incorporating related services or products previously developed or offered by others to the marketplace. There are two forms of integration strategies. A health care system or medical group can use **backward integration**, which entails becoming its own supplier. For example, The Marshfield Clinic, a large multi-specialty Clinic consisting of over 1,000 physicians in more than 50 locations in Wisconsin, announced in February 2015 its plan to vertically integrate backward. The physician clinic is going to build its own hospital of the future in Marshfield, Wisconsin, after historically admitting patients to the city's existing St. Joseph's Hospital.[60] The issue of forward integration is coming to the forefront for many medical groups as they have now accepted risk contracts with the acceptance of accountable care contracts. In this situation, the group is to a large degree acting as an insurance organization, accepting that they must now capture a population of patients, some of whom may indeed need significant medical intervention at a cost. Thus, the organizations must keep a significantly larger proportion of patients and capture their loyalty to be able to help maintain their health. In this way total system cost is minimized under risk contracts. Premier Health Plan in Dayton, Ohio, is one such example. Originally offered to employees of Premier Health Care System, it now covers over 7,000 Medicare Advantage members and 2,000 individuals and families who enrolled through the Ohio federal health exchange. And, though provider-owned plans had less than 10 percent of the

Table 2-2 Health Plans Owned by Provider Systems: Vertical Integration

Plan	Provider Organization	Premiums Collected in 2013 (in billions $)	Members covered
UPMC	University of Pittsburgh Medical Center	$4.5	2.9 million members covered (2015)
Health Alliance Plan of Michigan	Henry Ford Health System	$2.4	433,000
Priority Health	Spectrum Health System	$2.3	654,000
Select Health	Intermountain Health Care	$1.4	530,000
Health Alliance	Carle Foundation	$1.1	4000,000

Data from Bob Herman, "More Health Systems Launch Insurance Plans Despite Caveats," Modern Healthcare (April 4, 2015), http://www.modernhealthcare.com/article/20150404/MAGAZINE/304049981, "UPMS, "By the Numbers: UPMC Facts and Figures," http://www.upmc.com/about/facts/numbers/Pages/default.aspx;; Jay Greene, "HealthPlus negotiating merger with Detroit-based Health Alliance Plan," (October 3, 2015), http://www.crainsdetroit.com/article/20151003/BLOG010/151009941/healthplus-negotiating-merger-with-detroit-based-health-alliance-plan; Jay Greene, "Priority Health CEO Mike Freed to retire in early 2016," (September 3, 2015), http://www.crainsdetroit.com/article/20150903/NEWS/150909934/priority-health-ceo-mike-freed-to-retire-in-early-2016;SelectHealth in Utah, https://www.ehealthinsurance.com/health-insurance-companies/selecthealth-utah; Health Alliance Public Relations, http://www.healthalliance.org/Content/news-room.

entire privately insured market, their enrolment is growing. From 2012 to 2013, these plans saw a 4 percent increase in enrollment. **TABLE 2-2** shows some of the provider-owned plans.[61] With **forward integration** a company offers new services or products closer to the customer than existing services. The number of hospitals that have now moved forward with the establishment of such facilities can see a simpler and less complex form of forward integration. Sharp Health Care and Carolinas Health Care system in North Carolina have partnered with CVS to offer such services in their locations. Valley Health System in Las Vegas, Ochsner Health System in New Orleans, and Community Health Network in Indianapolis have all established relationships for walk-in centers with Walgreens as they vertically integrate forward.[62]

Diversification The fourth growth strategy, **diversification**, entails developing new products or services for new markets. This strategy is followed when the growth in existing markets is slowing or when environmental changes—be they societal, technological, economic, regulatory, or competitive—make it risky to remain in present markets.

One organization that has moved into an interesting diversifications strategy has been IBM with Watson. IBM has established the Watson Health Cloud to help researchers and medtech companies to effectively handle that volume of data. In doing so, it has joined with Apple's Health Kit and Medtronic for personalized care management systems for patients with diabetes. Johnson & Johnson is cooperating with IBM to develop mobile apps to support patients pre- and postsurgery, such as for joint replacement procedures.[63] In a further move by IBM, it teamed with CVS and its Watson Health Cloud to improve services for patients with chronic diseases, including hypertension, heart disease, diabetes, and obesity.[64] And, the Cleveland Clinic has also followed the path in collaboration with Watson Health Cloud to advance the use of personalized medicine based on the patient's genetic makeup.[65]

Diversification strategies are currently being followed by innumerable health care providers. Hospitals have diversified into long-term care facilities, influenced by several factors such as reimbursement, utilization, and network referrals. In studies done of companies that have diversified, a common feature shared by successful companies was the ability to identify their strengths and find diversification opportunities where their competencies could provide a real competitive advantage.[66]

Strategic Alliances For many organizations, it is often difficult—in terms of resources or for strategic reasons—to enter new markets. In such instances, many companies following a diversification strategy have established **strategic alliances**, or formal arrangements with other companies to operate in a particular market.[67] Strategic alliances can assume many forms. Some involve the establishment of **joint venture businesses**, which are new corporate entities in which both partners hold an equity position. There might be natural strategic alliances—for example, between obstetricians and pediatricians—but one might consider alliances with former competitors. For example, it has been suggested that creative relationships between nurse practitioners and primary care physicians can maximize the use of physician extenders to generate revenue for the practice.[68] As health care reform has taken hold in an era of bundled payments from Medicare, health care systems are concerned about managing the entire continuum of care in an effective cost-efficient manner. UC San Diego Health and AccentCare created a jointly owned home health agency to serve UC San Diego patients in San Diego and the surrounding communities. The goal was to improve patient care, clinical quality, and overall patient experience, even after a patient leaves the hospital. The purpose is also to further manage post-acute services and provide clinical oversight of UC San Diego patients under the changing reimbursement methodologies of bundled payments and value-based care.[69] Other strategic alliances can simply be formal agreements that give each partner some access to the distinctive strengths of the other firm.

Strategic alliances often occur in the pharmaceutical industry. In 2009, for example, Bayer HealthCare and Genzyme received regulatory approval for a strategic alliance. As part of the strategic alliance, Bayer HealthCare has licensed its hematological oncology products to Genzyme. Genzyme is then able to market the product and sell the Bayer product line in more than 90 countries. Bayer and Genzyme also have plans to co-develop products for the treatment of multiple sclerosis.[70]

It has been suggested that the American Recovery and Reinvestment Act of 2009, which was passed in the first year of Barack Obama's presidency, will lead to more strategic alliances and joint ventures in health care as the incentives for health care provider organizations is to provide better-quality care at a broader scale in the overall goal of population health management. In that regard, in recent years, Tenet has a strategic alliance with Yale New Haven to build clinical networks in the northeast. Yale New Haven brings the academic, clinical expertise and Tenet provides the financial resources. Duke and LifePoint entered into a similar alliance.[71] This is a model in which an academic medical center, be it Yale New Haven or Duke, engages into a strategic alliance with a for-profit organization. LifePoint and Duke have formed a hybrid health system that now has a presence in Michigan, North Carolina, and Virginia. These alliances do not always work as planned. The Cleveland Clinic entered into a strategic alliance with Community Health System, the largest for-profit health system in the United States. However, the first proposed acquisition of Akron General in Ohio by the partners did not come to pass. A relationship still exists around cardiovascular services, but the corporate culture of the two organizations was an issue in the failed joint acquisition and is always a challenge in strategic alliances.[72]

Consolidation Strategies

Occasionally, when examining marketplace considerations, an organization might establish strategies for **consolidation**, or focusing business on a smaller set of markets, products, or services. This objective can be accomplished in several ways.

Divestment Selling off a business or product line is called **divestment**. This strategy is often followed when an organization believes there is a weak fit between its major core business and a particular product line. The lack of fit may be due to the management resources required or the result of a product whose market differs from the core market being pursued by the company. Often, divestment is the result of an unsuccessful diversification growth. In one of the largest divestment decisions, Baxter International announced in 2014 that it would spin off its drug business to become an independent company. The decision would result in Baxter becoming a medical products company that focused on selling kidney dialysis machines, drug delivery systems, and operating-room drugs such as anesthesia. These business lines comprised over $9 billion in sales revenue in 2013. The portion of the company being divested, the drug business, was too susceptible to competition.[73]

Pruning A second consolidation strategy occurs when a firm **prunes** or reduces the number of products or services it offers to the market. The company continues to serve the market, but does so with a reduced set of products. IBM remains in the personal computer (PC) business. However, in 1984 it decided not to pursue the low-end user, and it dropped its junior PC model, which had not been well accepted. This approach is useful when certain segments of the market are too costly or too small to service. Increasingly not-for-profit hospitals are pruning service lines that are unprofitable as the U.S. economy has moved from a relatively weak recovery of the last decade. In March 2009, a survey by the American Hospital Association found that 20 percent of hospital executives reported reducing services that lost money. These included such areas as behavioral health, post-acute care, and patient education services.[74] In 1995 there were slightly more than 1,500 psychiatric units within community hospitals in the United States. By 2010, the number of inpatient psychiatric units inside these same facilities had been pruned to approximately 275.[75]

Retrenchment

In a **retrenchment** strategy, a company decides to withdraw from certain markets. This strategy might be considered the opposite of the market development growth strategy. In a reversal to what is occurring in many markets, in 2011 the Eastern Maine Medical Center closed five of six clinics that it was operating within Walmart sites. The medical center closed its locations in the stores in Bangor, Brewer, Presque Isle, Palmyra, and Augusta. Eastern Maine Medical Center and Walmart maintained the location in Waterville. The decision was made as a result of low patient volume.[76] As is often the case for retrenchment decisions, organizations follow this kind of strategy when certain market areas do not perform well or meet overall corporate objectives.

Harvesting A fourth consolidation strategy, **harvesting**, involves gradually withdrawing support from a product until there is little or no market demand. In these instances, an organization continues to support a product, but at a decreasing level. A business would follow this strategy as long as the service had some level of profitability, or had a loyal customer base that generated additional revenues through purchases of other services.

Determining Organizational Strategy

Several alternative models have been proposed to help companies develop their organizational strategies. In this section, it is useful to consider three alternative approaches that have received widespread recognition. Two well-known approaches are the Boston Consulting Group (BCG) matrix and the Five Forces Model. The third perspective is less a model than a strategic perspective referred to as the "Blue Ocean" strategy, whose orientation or philosophy, as will be discussed, runs counter to that of the Five Forces Model. Each of these approaches has received widespread recognition as useful conceptualizations for formulating organizational strategic direction.

The BCG Matrix

BCG, a well-known management consulting firm, developed a strategy based on market growth rate and relative market share to focus company strategies in firms with multiple product lines.[77] **FIGURE 2-8** represents the **BCG matrix** for Pfizer. In this model, the underlying assumption is that cash flow and profitability are closely related to sales volume. Products or strategic business units are then placed within this matrix according to their position on two

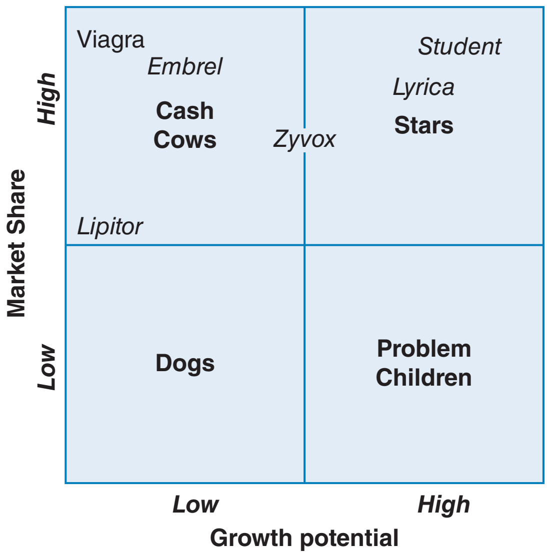


FIGURE 2-8 BCG Matrix for Pfizer

"Extended Quantitative Analysis–Pfizer," EternalYield (August 24, 2014), http://eternalyield.com/2014/08/24/extended-qualitative-analysis-pfizer.

dimensions. **Market growth rate** refers to the rate of sales growth in the market, whereas **relative market share** is the ratio of a product's share of business within the market compared to that of its largest competitor. This second measure is an indicator of market dominance. If the share equals that of the largest competitor, the measure would be 1.0. An administrator can then classify the organization's product lines into one of these four quadrants.

In examining the position of businesses in this matrix, it is important to consider the issue of control. A company cannot directly control the market growth rate. This rate is determined by uncontrollable, variable environmental forces. For example, pediatrics may be a declining business, but there is little direct control a provider can have over the overall growth rate of the number of children. A company does have direct control of its relative market share, however, which is a reflection of the success of the organization's strategy, particularly its marketing strategy relative to competitors. A company that places a service in the quadrants representing lower share must reexamine its internal strategy and its implementation.

Products and services are represented in the matrix as one of the following: stars, cash cows, problem children, or dogs. *Stars* are products with high market share and high growth rate. An organization is doing well with these products (represented by their high relative market share), and their future potential is still strong as reflected in the high growth rate. For Pfizer, Sutent® is utilized for the treatment of renal carcinoma and other tumors. It is a market leader in its segment and has patent protection until 2018. Lyrica® is used for the treatment of neuropathic pain. In 2013, it had the highest increases in revenue within Pfizer's portfolio, along with a high market share of 34 percent. The patent for this drug also will not expire until 2018.[78] From a cash perspective, the revenues generated by stars should be reinvested back into services that need additional investment in personnel or facilities in order to capitalize on the market growth rate. Growth strategies are the primary focus of products placed within this quadrant.

Cash cows are products that have a high market share but a low growth rate. These might be seen as mature businesses, but this maturity is not due to any controllable factor. Placing a service in the cash cow position means that, even though the market is maturing, a company has been able to retain a strong share position. These businesses typically generate a substantial amount of cash; in fact, they usually represent the greatest source of cash flow. There is no need to invest in new facilities or other fixed assets. Monies from these product lines should be reinvested or redirected into services whose market position is growing. Viagra®, a well-known erectile medication, is in this matrix position. In 2013, revenues for this script decreased by 8 percent, but its market share was still 45 percent. Generics entered the marketplace. The brand name still has high recognition, and it generates strong revenues. Lipitor® is also used for the treatment of high cholesterol. The patent on this pharmaceutical expired in 2011, and the market share dropped to 4 percent in 2013 with strong generic competition. However, the product still generates $2 billion in revenue. Enbrel®, a product used for treating moderate to severe rheumatoid arthritis, is the third cash cow for Pfizer. This product is sold based on a co-agreement with Amgen. Effective November 1, 2016, according to an SEC filing by Amgen, Pfizer will no longer receive royalty payments.[79] The major strategy for these products focuses on maintaining share as long as the market exists. When share drops, then consolidation strategies might be considered.

Problem children represent services with low relative market share, but high growth rate. A product could be placed into this quadrant for one of two reasons. First, a product might be classified as a problem child because it is new to the organization and has low market share. For example, for many hospitals da Vinci robot technology might be a problem child. Implementation of da Vinci robot technology presents two major challenges: (1) the learning challenge involved in training surgical staff across the specialties where this technology might be most useful, such as gynecology, urology, and the like, and (2) the related challenge of gaining acceptance of this technology by the patients. In a case such as this, the business needs to invest monies generated by cash cows into the marketing of the new product. A second, more problematic reason for a product to be labeled a problem child is an organization's inability to establish market dominance in the midst of a growth market situation. This requires a reexamination of the strategy and tactics used to support this service.

Dogs represent those products with low share and low growth. These services typically drain an organization's cash and become targets for consolidation strategy. The simplest recommendation is to drop the product or get out of the market. In health care, however, an organization must often keep one service (such as rehabilitation services) in order to deliver other services (such as orthopedics) to the market. It is important to recognize the dog only because of its resource implications.

The broad nature of the BCG matrix often makes it too limiting for significant strategy formulation. Yet, in health care organizations, it can serve as a valuable conceptual framework to engender strategy discussions. A major source of organizational conflict occurs when everybody views their clinical service in a different market position, requiring a different level of resource commitment. The BCG framework is a useful tool for focusing management attention on broad marketplace considerations and for getting participants to discuss the issues of market growth and the requirements for market dominance in a particular clinical setting.

The BCG matrix is also a useful tool for helping a medical organization assess its internal strengths and future direction. Depending on the distribution of services within the matrix, an audit might reveal an organization that needs to redirect resources to generate more new products or services. For example, if a health care organization has a large number of cash cows (60%), a reasonable number of stars (25%), a few dogs (5%), and only 10% problem children, it might indicate that the program directors of mature services have succeeded in keeping the cash within their own operations. Little revenue, therefore, has been redirected to generate new opportunities in the low-share, high-growth positions. Similarly, a business with a large number of problem children relative to the number of cash cows might need to prioritize which problems it will invest in to gain market share. Moving a service from the problem child to the star position often requires redirecting the marketing mix and infusing financial and management resources in new areas. If too many services are vying for these resources, investment must be prioritized to ensure that at least some services receive the needed support to become successful market competitors.

It is important to recognize that, in today's market environment, the issue of lack of control over growth rate of a service line must be considered. Since the BCG matrix was first proposed, the rate of change in which products and services may proceed through their life cycle has accelerated greatly. In health care, for example, a new technology may displace an existing service line and its revenue stream in a short period of time. Likewise, changes in reimbursement rules could also significantly impact a business line such as the shift that is being observed in the health care system to value-based care and population health management. In the 1970s and 1980s, half of all Fortune 500 companies used the BCG approach in their planning process. A recent analysis has found that this perspective still has greater relevance, but products move through this matrix at a greater rate of speed from problem children, where they may be introduced, to the cash cow position or the mature stage. Successful companies need to explore new products, markets, and business models more frequently to continuously renew their competitive advantage given the possibility of new forms of innovation entering their market space.[80]

Analyzing the Competitive Market

A second model that has seen significant attention as a useful framework within the context of strategic planning is based on considering one's situation relative to the competitive environment and the intensity of that competition. Firms must assess not only the existing competition but also potential competition. Porter has developed a widely accepted conceptual model, often referred to as the **Five Forces Model of Industry Structure**, that considers factors affecting the competitive intensity within an industry.[81] As shown in **FIGURE 2-9**, competitive intensity, one force, is affected by four additional major forces: (1) the threat of new

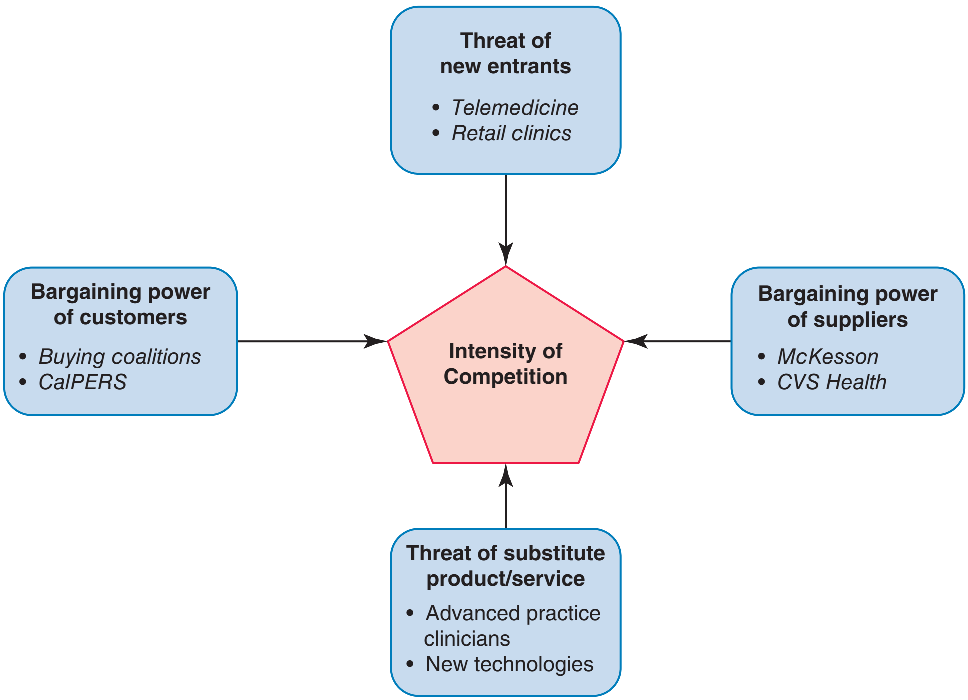


FIGURE 2-9 Forces Impacting Competitive Intensity

entrants, (2) bargaining power of suppliers, (3) bargaining power of customers, and (4) the threat of substitute products or services.

Existing Competitors

In analyzing the competitive environment, it is important to first look at the existing competitors. This analysis provides a perspective on the cost of competing and on the bases around which the competition will occur. A major focus of the competitive analysis is also to assess the degree to which competition is cost based.

Competition is intense among existing competitors when the product is relatively standardized and the competitors are relatively numerous and similar in size. This frequently describes the market for hospitals and medical groups in major metropolitan areas. Competition can also be intense when the cost of switching providers is relatively low. In health care, this is a major factor that managed care companies face. For many employers, the cost of switching health plans is often not a large obstacle. Competition also tends to be intense in industries characterized by overcapacity and among firms still in the market because of a high fixed-asset position. These latter two issues defined the competitive setting for inpatient hospital care in the 1990s. In the health care industry, the intense rivalry spurred by managed care caused many hospitals to try to differentiate themselves by investing in expensive, high-technology services.[82] This competitive environment has continued into the 21st century, resulting in the large growth of high-tech companies, such as Intuitive Surgical, the manufacturer of the da Vinci Surgical System, a robotic surgical tool. One industry analyst observed that the continued growth of Intuitive Surgical despite a significant downturn in hospital capital investment in the later part of the decade was because hospitals "were making the decision to stay competitive and drive patient market share."[83]

New Entrants

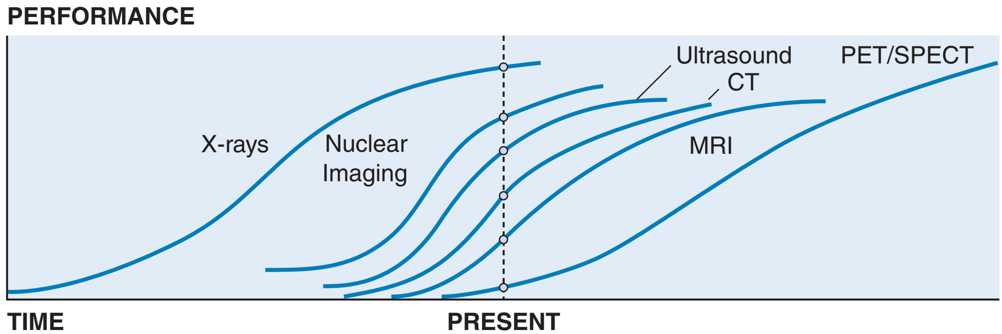
Although it is essential to consider the existing competition when developing a strategic plan, an organization must be keenly aware of new players entering the marketplace. As the market changes, so, too, does the competition. For example, many medical groups that once competed against other providers to provide care for the employees of major companies within their communities are now finding those companies providing care for their workers within their own company clinics. Cerner, a company well known in health care for its software expertise, also designs, builds, and manages medical clinics for other corporate clients besides the clinics it runs at its own facilities. Walgreens runs 500 such clinics through its Take Care Health division.[84] These are both examples of a new entrant into the competitive landscape.

New competitors can come from several sources, such as a segment or market that is underserved. Occasionally, competition comes from either competitors or customers. The academic medical group that used to supply tertiary services to a community hospital might integrate to a lower level of care and establish its own academic group of family practitioners. Common now among academic medical centers is the establishment of faculty practice plans as a vehicle to attract, process, and organize patient revenue activities. This type of plan provides an incentive and focus to the generation of clinical revenue that historically was less a major concern of the historical academic mission of teaching and research. As a result, over the past 20 years, many academic medical centers have moved to establish primary care satellites throughout their region or state and have focused on becoming a new entrant to the competitive mindscape for many other providers.

Threat of Substitution

A second major source of competition is found in the threat of substitution. In traditional businesses, this threat exists when one product class can be substituted for another. For example, plastic can be a major threat to steel as the tensile strength of the product increases.

In health care, the threat of substitution most often occurs due to technological change. Technology can eliminate a particular business line in a short period of time. **FIGURE 2-10** shows how each successive new generation of diagnostic imaging technology affected the usage of preceding technologies in a particular area. The source of suppliers of this technology has also



	X-rays	Nuclear Imaging	Ultrasound	CT	MRI	PET/SPECT
Key Skills/Technology						
	• Cathode ray imaging • Electronics	• Radio pharmaceuticals • Gamma ray detectors	• Transducer • Image enhancement	• Image enhancement • Data processing • Contrast media	• Magnetics • Data processing • Image enhancement	• Radio pharmaceuticals • Mini cyclotron • Radiation detection
Major Competitors						
	• GE • Philips • Siemens	• GE • Picker (GEC) • Siemens	• Acuson • Toshiba • ATL	• GE • Toshiba • Siemens	• GE • Siemens • Diasonics	• Scanditronix • Positron • Siemens

FIGURE 2-10 Impact of Technology: Diagnostic Imaging

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continually changed. Each new technological advance has provided increased performance in terms of scanning and imaging capabilities. The new technology moves the existing product into a mature phase of its life cycle. As can be seen in this figure, there is an ever-decreasing time before new technology with higher performance capabilities appears. Several warning signs have been identified by McKinsey et al., indicating when a technology may be nearing obsolescence and supplanted by a competing new technology:

1. Greater efforts are needed to produce even small performance improvements.
2. R&D shifts away from product improvement toward process improvement.
3. Sales growth comes from minor product modifications that serve new segments rather than from quality improvements that improve penetration across all segments.
4. There are wide differences in R&D spending among competitors, with minor differences on resultant market shares.
5. Some market leaders begin to lose share to small competitors in selected market segments. This shift may indicate that smaller competitors are being more productive with a new emerging technology.[85]

It should be noted, however, that in health care particularly, the threat of substitution also has been occurring between advanced practice nurses and physicians. Although not technology based, it is between two professionals who are now encroaching on practice privileges and respective patients. About 70 to 80 percent of all APNs work in primary care, and a comprehensive review of several studies has found that patient outcomes, including mortality; satisfaction; and physical, emotional, and social functioning among those seeing nurse practitioners were equivalent to those seeing physicians. Yet in many states there are scope of practice laws that restrict patient access as medical societies have resisted expansion of scope of practice for APNs in the face of this growing competition.[86] The issue of new competition from new entrants into the market space is also being observed in Canada, such as in the province of Ontario, where pharmacists are seeking an expanded role in the health care delivery process. Pharmacists have sought to diagnose common ailments as well as give vaccines and counsel on smoking cessation. The Ontario Medical Association has opposed the idea.[87] Interestingly, most U.S. consumers are already acquainted with retail clinics in CVS, Walgreens, or Rite Aid, where they can already receive a flu shot. These are new competitors that did not exist on the health care scene a brief 10 years ago.

Powerful Customers and Suppliers

Buyers can dramatically affect the competitive intensity in an industry. The more economic power the buyer has, or the greater the source of customer dollars that the buyer represents, or the fewer buyers there are, the more pressure the customer can exert. The health insurance industry is undergoing a major potential reshaping. Anthem has agreed to purchase Cigna. If approved by the Department of Justice, the combined insurer would cover 53 million individuals. Aetna has agreed (subject to government approval) to purchase Humana. The resulting company would cover 33 million members.[88] These two entities would be very powerful customers dealing with health care systems, physician practices, and medical suppliers around the country. The American Hospital Association provided a 13-page letter to the Department of Justice's Antitrust Division, describing the proposed mergers as anti-competitive, as the commercial insurance market would be reduced to three large companies.[89] An application of the Five Forces Model to the Emergency Department clearly articulated the buying power of the federal government, large third-party payers, and managed care organizations in their role of buyer to negotiate contracts with hospitals to pay a fraction of the charge for hospital emergency services.[90]

Suppliers are also a major threat when they can integrate forward to deliver a service. They also can exert great power when other sources of supply are few, or when it would be very costly for an organization to shift suppliers.

Blue Ocean Strategy

This planning approach is a perspective having as its overarching objective for the organization a goal to achieve high performance in what is considered uncontested market space. To a large degree, it might be viewed as the opposite of the framework of the Five Forces Model suggested by Michael Porter, in which the analysis of the five forces is to consider the strategy in light of the market conditions or environment in which the organization currently operates.

The **Blue Ocean** perspective, then, is to create demand in what is characterized as unknown market space rather than to fight for share in existing market space, termed "Red Oceans." Somewhat graphically, red oceans represent the blood of companies fighting for market share.

This framework of blue and red oceans was developed based on a study of industries presented by Chan and Mauborgne, who reported that in a study of 108 business launches, 86 percent of these were mostly line extensions that delivered 62 percent of the total revenues but only 39 percent of the total profits. At the same time, the 14 percent invested in totally new markets generated 38 percent of the total revenues. In attempting, then, to try to find value for this blue ocean market space and look for a trade-off between differentiation and low cost, which the authors believe is a key position, the framework poses four essential questions:[91]

- Raise: What factors should be raised well above the industry's standard?
- Eliminate: Which factors that the industry has long competed on should be eliminated?
- Reduce: Which factors should be reduced well below the industry's standard?
- Create: Which factors should be created that the industry has never offered?

Most organizations tend to follow a Red Ocean strategy and thus focus on the competition as opposed to trying to define and create new markets.

Walmart and eBay are two outlets that both Chan and Mauborgne classify as companies that defined a Blue Ocean strategy. As a result, they were able to achieve a barrier to entry (or imitation) by the fact that they attracted a large number of customers, making it difficult for customers to imitate their strategy. The challenge, then, is to find ways to innovate in the service space. Berry, Shankar, Parish, Cadwaller, and Doetzel have provided one possible framework for innovation.

These researchers recognized that service innovations differ from product innovations. Having conducted research on service innovations, they developed a typology that provides some direction for considering possible pathways for service innovations and ideally the creation of a Blue Ocean strategy for an organization. As FIGURE 2-11 shows, service innovations that create new markets differ from each other along two attribute: the type of benefit offered and the degree of "separability."[92] On the first dimension, a health care organization can

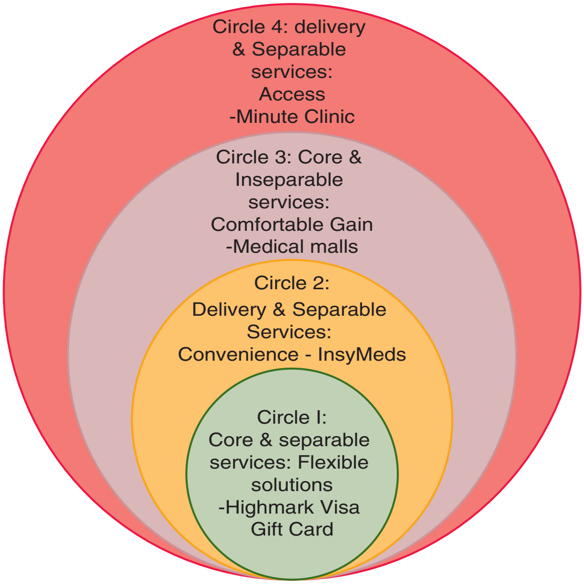

FIGURE 2-11 Typology for Creating Service Innovations

Data from Leonard L. Berry, Venkatesh Shankar, Janet Turner Parish, Susan Cadwallader, and Thomas Dotzel, "Creating New Markets Through Service Innovation," MIT Sloan Management Review, Vol. 47, No. 2 (Winter 2006), pp. 56–63.

innovate by offering a new core benefit or a new delivery benefit that dramatically changes the way a consumer accesses the core benefit. A health care organization uses telemedicine visits with an iPhone app or through a freestanding kiosk in retail stores. The second attribute is whether the service must be produced and consumed simultaneously. Historically, that has been true in health care; clinicians and patients must be in a face-to face setting.

Circle 1—*Flexible Solutions*. These are innovations that offer a new core benefit and can be consumed apart from where and when produced. Pittsburgh-based Highmark Insurance offered the Healthcare Visa card as a flexible solution innovation. This card can be purchased for an amount of $25 to $5,000 to cover prescription co-payments, elective surgery, contact lenses, and gym memberships.[93]

Circle 2—*Controllable Convenience*. These services create new markets based on new delivery benefits by letting consumers access them anytime, anyplace. InstyMeds has created a Blue Ocean strategy in this cell—the first company to develop an automated bank-like ATM for prescription medications for patients. These dispensers are available to use in outpatient settings or hospital emergency rooms to access the prescriptions whenever needed.

Circle 3—*Comfortable Gains*. These services offer a new benefit at the time of production. A possible example of this cell may well be the medical mall (also referred to as access centers) in which many different physician practices share a common area as well as related services such as radiology, lab services, and other functional services that would benefit patient delivery of care. Many of these facilities are now being developed in buildings that used to be hospitals. The advantage is the patient convenience. The benefit of medical malls for physicians is that usually these malls have only one physician and his or her practice per specialty, which is a huge plus for them.[94]

Circle 4—*Respectful Access.* A new delivery benefit is offered, and the production and consumption are inseparable. Minute Clinic walk-in facilities are located inside CVS pharmacies. CVS has locations in 32 states and almost 1,000 Minute Clinics.

Developing the Marketing Plan

After an organization develops a strategic plan, it can then formulate a business and marketing plan to implement the broad strategies identified by top corporate management. Similar to the strategic planning process, marketing planning involves the establishment of marketing objectives, formulation of marketing strategies, and development of an action plan. A sample strategic business plan is presented in Appendix A of this text. The marketing plan is contained within the business plan.

Establishment of Marketing Objectives

Marketing objectives are quantitative measures of accomplishment by which the success of marketing strategies can be measured. Marketing objectives might include retention, new patient growth, and market leadership in the form of a share gain.

Marketing Strategy Formulation

The next step is the formulation of marketing strategies. This aspect of strategic market planning involves determining the target market, specifying the market strategy, and developing the tactical plans for the four Ps.

Determining the Target Market The basic first step in this process is the identification of the *target market*, specifying whom the organization is trying to attract. Selection of the target market involves assessing the organization's own strengths, the competitive intensity for the target market, the cost of capturing market share, and the potential financial gain in attracting the targeted group.

In selecting the target market, organizations have several options, as presented in **FIGURE 2-12**. They can treat the entire market as one homogeneous group of customers or they can divide the market into segments or subgroups that are homogeneous within a particular dimension. The concept of segmenting a market is described in more detail in Chapter 6.

Treating the entire market as one target market and appealing to the broadest group is referred to as **mass marketing**. Customers are viewed as relatively undifferentiated in what they desire. This strategy tries to satisfy the greatest number of buyers with a single product. Historically, most hospitals in the United States have followed a mass market strategy in their own local areas. The advantage of this approach is that the largest number of people can be targeted. The size of the market alone can increase the likelihood of attracting customers. The disadvantage of this marketing strategy is that it leaves the organization susceptible to new competitors who might tailor a marketing strategy that is more closely aligned with the needs of particular subgroups.

Figure 2-12 shows the possibilities of a segmented strategy. An organization might consider targeting all possible segments or a number of different segments. This approach is referred to

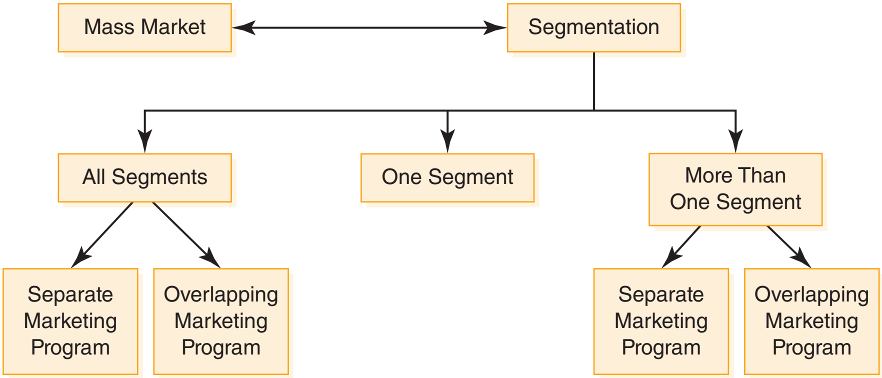

FIGURE 2-12 Segmentation Alternatives

as **multisegment marketing**, in which a distinct marketing strategy might be developed for each group. A hospital might target two segments within the female population. One program might address issues and concerns for women of childbearing age, whereas a second program targets older women, offering education and resources regarding menopause, breast cancer screening, and osteoporosis. Or, a company can recognize differences in market segments yet have an overlapping strategy that uses similar parts of the marketing mix for all groups, but different strategies for particular groups. For example, a medical group practice might have one main office where all services are delivered. However, the group has decided to target two different groups: higher-income executives and elderly consumers with third-party insurance. Although they are offering the same product and services and using the same distribution strategy, they employ different promotional strategies for each group. The group practice might advertise to executives in the metropolitan edition of *The Wall Street Journal*. At the same time, however, the group will send a representative to senior citizens clubs to speak about the health needs and concerns of older consumers.

Another option for some organizations is to pursue only a subset of market segments or just one market segment. Targeting only one segment of the market is referred to as the **market concentration strategy**. In selecting only one segment, an organization must be able to defend its choice in the face of competition. For example, there are growing new services that target the working-mother segment seeking help with common ailments for their children. Referred to as Uber for doctor house calls, these services are appearing in several major metropolitan areas. Heal began in San Francisco, where a physician arrives at your door in 20 to 60 minutes for a flat fee of $99.00. Heal is now available in Los Angeles and is set to roll out in 15 additional cities. Services are available from 8 a.m. to 8 p.m., 7 days a week. Pager is a similar service in New York City, where a first-time visit is $50, regular visits are $200, and a physical is $100. Then there is Doctor on Demand, where for $40 a physician or pediatrician will consult with you once you download the app.[95] These types of companies are following a market concentration strategy. In any market, only a segment of such people are willing to pay an additional fee and possibly seek medical advice outside their normal physician relationship but will do so for the value of access. An organization's entire future may be based on its ability to solidify its market share position within this particular group. This strategy does have the advantage of sometimes providing opportunities for efficiencies in production, distribution, or promotion, because a company can tailor its efforts to one segment's requirements.

Specifying Market Strategies

In developing marketing plans, a company must decide which of several market positions it will take. The options are to be a market leader, market challenger, market follower, or a market niche.[96]

Within a single industry, one organization usually tries to be the **market leader**—the firm that has the largest market share and dominates the competitors in a given market. This leader dictates the pricing strategies of its competitors and is the first to introduce new products. Johnson & Johnson is the market leader for medical devices. It was a $6.3 billion business in total revenue in 2015. As a true market leader and in order defend its market position, Johnson & Johnson plans to launch 30 new medical device products by 2016, thus keeping pressure on its competitors like Medtronic. It also entered into a relationship with Google to introduce a new type of robotic surgery device.[97]

A second market position is that of being the **market challenger**—the firm that attempts to confront the market leader. These companies tend to be smaller than the market leaders, but aggressive in their strategy formulation. They attack the market leader, either through directly vying for the leader's customers or by trying to attract customers or market segments where the market leader is weak. In the implantable device segment, a small, innovative company that received FDA approval was CardioMEMS. More than 5 million people in the United States experience heart failure each year and then struggle with reduced mobility, chest pain, and the need for medical care; this problem leads to over 1 million hospitalizations a year. This disease has added cost of over $32 billion to the nation's health care bill. CardioMEMS developed an implantable paperclip-sized device that is wireless to monitor blood pressure and heart rate remotely. It can anticipate when problems will arise and proactively manage medications and treatment. This device was the first such implantable to market. After receiving approval, CardioMEMS was acquired by St. Jude Medical, so its run as a market challenger ended.[98]

A market challenger can follow several approaches that might involve any one or more of the marketing mix elements, such as price cutting, less costly or better product solution, an improved distribution strategy, or a novel promotional approach.

A **market follower** is a business that competes in the marketplace by following the market leader rather than by attacking it directly. These companies try to maintain existing customers and attract new ones. In industries where there is little product differentiation and high price sensitivity, a follower strategy is often useful. By implementing this approach, an organization tries to prevent aggressive price competition. It will gain new customers by offering a quality service at a good value.

A final market position that a firm may try to create is that of a **market niche**, which it achieves by following a strategy of targeting a narrow segment or segments in a large market with specialized products or services. This is a common approach for many small, successful companies. An interesting niche strategy is being developed as health care organizations move into accountable care organizations. Service providers to this sector recognize the need for patient engagement to develop loyalty. For example, in 2015 GetWellNetwork, a developer and provider of patient engagement software and services, acquired its competitor Skylight Healthcare Systems. As a result, this newer, larger company will service more than 300 hospitals and health systems in this niche support space in an emerging area of importance.[99] Niche strategies are becoming more common in health care. This strategy is best seen in the United States with the *specialty hospital*, which the General Accounting Office (GAO) defines as a facility in which two-thirds of its Medicare patients fall into no more than two major diagnostic-related groups (DRG) or those in which at least two-thirds of its Medicare patients are classified into surgical DRGs.[100] HealthSouth has been the largest rehabilitation hospital chain in the United States. Based in Birmingham, Alabama, it recently decided to expand beyond its niche into a new niche of home health and hospice when it acquired another company. The move toward the home health care niche is again part of the population health movement, as a significant number of rehabilitation patients are historically referred to home health providers.[101] As any of these strategic positions demonstrate, as the external environment changes, the strategy must also evolve.

Development of an Action Plan

Once the target market has been selected and the broad strategy determined, an organization can specify the tactical components of the marketing plan. These tactics address each of the marketing mix elements. The tactical plan identifies actions to be taken regarding each aspect of the marketing mix. This plan will address the advertising strategy, pricing strategy, distribution issues, and the nature of the product or service in terms of quality, range of options, and so on.

Evaluating the Plan The final aspect of the marketing plan involves evaluating its results. Ultimately, the success of monitoring depends on the initial quantitative objectives used in the plan's development. The monitoring and evaluation stage is described in greater detail in Chapter 14.

Although each health care organization marketing plan will vary from the others, to some degree, an outline of a basic marketing plan is provided in **EXHIBIT 2-3** as a guide.

EXHIBIT 2-3 Marketing Plan Outline for a Clinical Service

Marketing Plan Outline

For each clinical service:

I. MANAGEMENT SUMMARY

What is our marketing plan for this service in brief?

This is a 1-page summary of the basic factors involving the marketing of the service next year, along with the results expected from implementing the plan. It is intended as a brief guide for management.

EXHIBIT 2-3 (Continued)

II. ECONOMIC PROJECTIONS

What factors in the overall economy will affect the marketing of this service next year, and how?

This section will comprise a summary of the specific economic factors that will affect the marketing of this service during the coming year. These might include employment, personal income, business expectations, inflationary (or deflationary) pressures, etc.

III. THE MARKET–Qualitative

Who or what kinds of organizations could conceivably be considered prospects for this service? Depending on the clinical program, these might include patients, referral physicians, third-party payers, employers, or other health care institutions in the value chain.

This section will define the qualitative nature of our market. It will include demographic information, industrial profiles, and business profiles for all people or organizations that could be customers for this service.

IV. THE MARKET–Quantitative

What is the potential market for this service? Can a quantitative estimate be conducted that provides a projection that leads to a financial analysis and the reimbursement of the costs of the investment?

V. TREND ANALYSIS

Based on the history of this service, where do we appear to be headed?

This section is a review of the past history of this service. Ideally, we should include quarterly figures for the last 5 years showing dollar volume; patient volume; share in primary, secondary, and tertiary service areas; referral flow sources and volume of business from each service over the past 5-year period; payer mix data, and all other applicable historical data.

VI. COMPETITION

Who are our competitors for this service, and how do we stand competitively?

This section should define our current competition, both on the immediate service area, regionally, and depending on the service beyond the service area. It should be a careful analysis outlining who the competitors are, what their market position and share are, why they have (or have not) been successful, and what actions they might be expected to take regarding this service during the coming year. This section might describe the changing shift in the competitive landscape.

VII. PROBLEMS AND OPPORTUNITIES

Internally and externally, are there problems inhibiting the marketing of this service, or are there opportunities we have not taken advantage of?

Continues

EXHIBIT 2-3 Marketing Plan Outline for a Clinical Service (Continued)

This section will comprise a discussion on both inhibiting problems and unrealized opportunities. It should include a discussion on the internal and external problems that can be controlled. Are there policies or operational procedures that will need to be adjusted if this service is offered or enhanced? It should also point out areas of opportunity regarding this service that we are not now exploiting. How strong is the brand equity as an opportunity to leverage or must it be considered as a weakness? Does the opportunity have synergistic effects for the organization? Are there internal resource constraints? Cultural issues that will be problematic in the implementation of the service? What are the barriers to entry for new service opportunities? Regulatory concerns? Buyers whether they are third-party payers or employers with significant power? How does the service further improve population health management initiatives?

VIII. OBJECTIVES AND GOALS

Where do we want to go with this service?

This section will outline the immediate short- and long-range objectives for this service. Short-range goals should be specific and apply to the next fiscal year. Long-range goals will necessarily be less specific but still have defined metrics and should project for the next 3- to 5-year planning horizon. Objectives should be stated in two forms:

(1) Qualitative—reasoning behind the offering of this service and what modifications or other changes may be anticipated in light of a potentially changing external environment.
(2) Quantitative—likely future growth in patient volume, future forecasted revenue growth, anticipated increase in market share over planning horizon, anticipated increase in profit.

IX. ACTION PROGRAMS

Given past history, the economy, the market, and the competition, what must be done to reach the goals set for this service?

This section will be a description of the specific actions we plan to take during the coming year to assure the objectives set for the service in item VIII are achieved. These would include advertising and promotion, web strategy objectives, and sales strategy. It would also include programs to be designed and implemented by service line managers. The discussion should cover what is to be done, schedules for completion, methods of evaluation, and officers in charge of executing the program and measuring results.

Conclusions

Development of marketing strategy begins with defining an organization's mission. Planning a firm's final marketing strategy must include an examination of the market environment as well as a SWOT analysis. Understanding the nature of the competition allows a health care organization to develop the appropriate response in order to face the challenges of a changing health care market.

KEY TERMS

Strategic Planning
Organizational Mission
Situational Assessment
SWOT Analysis
Barriers to Entry
Barriers to Exit
Principal–Agent Relationship
Sustaining Innovation
Disruptive Innovation
Invisible Value
Visible Value
Evidence Management
Organizational Objectives
Market Penetration
Market Development
Product Development
Vertical Integration
Backward Integration
Forward Integration
Diversification
Strategic Alliances
Joint Venture Businesses
Consolidation
Divestment
Pruning
Retrenchment
Harvesting
BCG Matrix
Market Growth Rate
Relative Market Share
Five Forces Model of Industry Structure
Blue Ocean Strategy
Marketing Objectives
Mass Marketing
Multisegment Marketing
Market Concentration Strategy
Market Leader
Market Challenger
Market Follower
Market Niche

CHAPTER SUMMARY

1. Marketing plans—along with finance, production, and human resource plans—form the core elements of an organization's strategic plan.
2. An organization's strategic plan is guided by the mission that defines its purpose for existing. The mission must recognize who the customer is and what the customer wants to buy.
3. To avoid marketing myopia, an organization must: (a) map the organization's stakeholders, (b) determine stakeholder salience, (c) research stakeholder issues and expectations, (d) engage stakeholders, and (d) embed a stakeholder orientation.
4. In developing strategic plans, a SWOT analysis provides a review of internal and external factors that can affect strategic outcomes.
5. A differential advantage is essential in the development of an effective plan for a program or service. A differential advantage can be derived from the product or service, cost, or market. Health care organizations also need to recognize trust as a key source of a differential advantage.
6. In developing strategic plans, an organization must be able to recognize the barriers to entry and exit for any new service venture.
7. Disruptive innovations that are simpler, cheaper, and more convenient are usually developed by new entrants to the marketplace. These innovations represent new

forms of competition for existing services and products.

8. Invisible value is the value a producer builds into its product or service; visible value is the value that a customer sees. Typically, a company can only charge for visible value. Managing these values has been referred to as evidence management, which involves presenting the customer with the organization's visible and invisible capabilities.
9. The four broad growth strategies that any organization can pursue are:
   - Market development
   - Market penetration
   - Product development
   - Diversification
10. The BCG matrix is a conceptualization that can aid an organization in the review of its service portfolio. The model encompasses market and competitive considerations.
11. In any industry, the level of competitive intensity is affected by the threat of new entrants, the bargaining power of both suppliers and customers, and the threat of substitute products and services.
12. The Blue Ocean perspective is a planning perspective to focus the organization on creating demand in unknown markets as opposed to fighting for share in existing competitive space.
13. In developing a marketing plan, an organization can pursue a mass marketing or a market concentration strategy.

CHAPTER PROBLEMS

1. At a strategic planning retreat of a six-person general surgery group, the senior partner begins by stating, "Our mission is to perform the highest-quality invasive surgery procedures in the community." In what ways might this view of the organization's mission suffer from the myopia that afflicted the railroads in an earlier era?
2. After several years of internal debate, the Steig Primary Group has decided to offer a walk-in clinic for patients. Many of the physicians were not happy with the change as it meant that one day a week, one of the physicians in the group would be responsible for staffing the clinic's early hour opening, which began at 7:30 a.m. (90 minutes before the office's regular 9:00 a.m. offering). The physician was supported by a nurse practitioner and a nurse, along with a front-desk person. The six-person primary care group believed this would help them in the increasingly competitive medical market. Conduct a brief SWOT analysis for Steig's Clinic's walk-in clinic in today's health care environment.
3. Describe the possible barriers to entry and exit for (a) a group of nurse practitioners who specialize in primary care wanting to establish their own independent office to care for patients with primary care medical needs, (b) a pharmaceutical company considering offering a new drug for the treatment of renal disease, and (c) an entrepreneur wanting to establish a mobile-based physician consult service for minor medical problems.
4. You have been hired as the senior marketing officer for a new high-deductible health plan. There are two existing plans in the market that have been operating for the prior 2 years. One plan is operated by a midsized insurance company. It has been targeting employers in the region with a minimum of 500 employees and has penetrated this market fairly successfully. The second plan is operated by a nationally based insurance company with a fairly strong brand presence and heavy advertising budget. Its deductible offering is at the \$5,000 level for singles and the \$10,000 level for couples. You are trying to decide

how you might establish a differential advantage relative to these two offerings as the third entrant. What are some alternatives to consider?

5. Retin-A is a topical ointment originally developed for the treatment of severe cases of acne and related skin disorders. An observed side benefit resulting from use of this product is its beneficial effect on aging skin. If the manufacturer of this product decided to pursue the latter market, what type of a growth strategy would it be pursuing?
6. As the marketing director of a major capital equipment manufacturer, you are presenting at an upcoming meeting of the American College of Health Care Executives. Hospital chief executive officers as well as chief financial officers are at this meeting. Occasionally, chief medical officers will attend. You are responsible for two product lines. The first involves technologies that have been in existence for 20 years and are core to the surgical process. The second involves new technologies that will revolutionize the way in which gastroenterological surgeries are performed. The major obstacle to the purchase of the new product line is the initial investment requirements. You expect some initial resistance at your trade booth. Prepare a presentation that you will give to the exhibit staff prior to the meeting as to how they should handle buyer resistance.
7. Two large multi-specialty medical groups have recently asked you to conduct audits using the BCG matrix. For the first group, your analysis reveals the following distribution of services: cash cows–65%; stars–10%; problem children–20%; dogs–5%. In the second group, the distribution is as follows: cash cows–20%; stars–60%; problem children–15%; dogs–5%. Provide your analysis to each group.
8. Consider the following companies from the perspective of the four cells identified in the context of the Blue Ocean strategy (Figure 2-11). Each company was discussed in this chapter as being somewhat disruptive innovations. Where would you classify these companies in terms of the four-cell perspective that was presented? The companies are:
   - **a.** Theranos (https://www.theranos.com)
   - **b.** Sarrell Dental Center (www.sarrelldental.org)
   - **c.** Walgreen's Take Care Health System's Division employer-based health clinics at Intel
   - **d.** CarioMems monitoring system (https://health.sjm.com/heart-failure-answers/treatment-options/pulmonary-artery-pressure-monitoring/cardiomems)

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