

FOURTH EDITION

Essentials of Health Care Marketing

Eric N. Berkowitz, PhD, MBA

Professor Emeritus
Isenberg School of Management
University of Massachusetts
Amherst, Massachusetts



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World Headquarters
Jones & Bartlett Learning
5 Wall Street
Burlington, MA 01803
978-443-5000
info@jblearning.com
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For Alexandra
Who we all know and love as
"Alex"

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Few industries are as dynamic as health care. Regulation, technological changes, mergers, changes in reimbursement—all impact the environment in which marketing strategy must be formulated. Health care accounts for a significant proportion of the U.S. economy in such a way that the stakeholders whom it affects all comprise segments on which marketers must be focused in terms of planning and assessing the changing trends and forces that affect these varying groups. It is the ever-evolving nature of this industry or profession (depending upon who is discussing health care) that makes marketing within this field both challenging and interesting. Consumers are facing new health care plans and are more engaged because they are interacting through social media to seek out information on health care and clinical alternatives; consumers also interact with other individuals regarding their health care experiences with providers and treatment alternatives. These influences of the environmental forces and the marketplace require greater sophistication and precision in the marketing strategies developed by health care organizations today.

Given health care's large percentage of the gross domestic product; the concerns of price, value, and transparency with regard to that cost; and the quality received for the dollars paid for that service, these concerns are ever more central to stakeholders. And, these issues are central to marketing in an era in which technology allows any customer group to access information regarding these dimensions about a health care organization.

Health care marketing today is increasingly affected by two major issues that are reflected in this text and are foremost in organizational strategy, whether it is a provider organization, pharmaceutical company, or third-party payer. First, there is the ever-increasing impact of technology. As briefly mentioned, technology places more information in the hands of consumers and patients, as it most certainly does for clinicians, with the use of electronic medical records. Second, there is the dramatic shift in population health management with accountable care systems that are rewarded for the health of a patient population and the efficiency of the care delivered. This paradigm shift in the health care system has dramatic implications certainly for care management but equally important for the marketing challenges this environment represents. Successful organizations in an accountable care era must be the Amazon.coms of the health care world.

There may be no more interesting field in which to be a manager than that of health care. Two criteria allow one to make such a statement. First, health care is the most important service dealing with people's lives and well-being. Second, health care is always changing and evolving, affected by a myriad of forces, and the manager is not always in control when attempting to craft a strategy for the organization. This rapidly changing world with its new, disruptive technologies and competing service delivery models has demanded a new edition of this text.

The health care marketing field has long passed the time of debate as to whether marketing is appropriate within this setting. However, as discussed within the text, some tactics, such as whether salespeople should call on physicians or the role of direct-to-consumer advertising, are being

reexamined today. The reality is that marketing as a discipline has evolved over the past 40 years to be a core functional area in most major health care organizations. In this revised edition of the text, the need for utilizing marketing approaches in an era of health care reform and accountable care organizations requires capturing patient loyalty. And, with the greater utilization of data mining to identify the market segments that more heavily use and need clinical intervention, a greater integration of marketing principles is needed in order to achieve better clinical outcomes.

Health care marketing today is a data- and technology-driven enterprise. Personal sales strategies increasingly use e-visits, and more sophisticated promotional plans use social media approaches because market research utilizes a different approach to analyzing consumer responses on social media platforms. As this revised edition of the text underscores, no element of the marketing mix is unaffected by dramatic changes in technology, data, health care restructuring, and the competitive landscape. All of these factors require the essential elements of marketing to be refined and reshaped in today's new environment.

INTRODUCTION

This book is divided into three main parts. Part I, “The Marketing Process,” looks first at what marketing is, the nature of marketing strategy, and the environment in which marketing operates. Chapter 1 provides a perspective on the meaning of marketing, how marketing has evolved in health care, and the marketing process. Additionally, this chapter outlines how marketing health care is evolving in light of a changing industry and the impact of technology on the four Ps. As we move further into the 21st century, Chapter 1 begins to cover the concept of accountable care organizations (ACOs) and the challenge of population health. Chapter 2 provides an overview of marketing strategy and an understanding of the strategic options available to a health care organization. It also presents how having a differential advantage for a health care organization is an important part of marketing strategy as well as the sources of that differential advantage. In health care, a key differential advantage that is unique and has been recognized is trust, which this edition covers. In strategy, a consideration of the competition is important; an important source of new competitors, disruptive innovations, is discussed. Three alternative strategic frameworks are presented in this chapter: the Boston Consulting Group Portfolio Matrix (BCG); the Five Forces Model; and the Blue Ocean perspective. Chapter 3 focuses on the environment in which health care marketing plans and strategy are formulated, and the impact that the environment has on these plans. There are multiple dimensions of the environment to consider: technological, sociological, competitive, and regulatory. Technology, a key change today, is highlighted in terms of its impact on four dimensions: quality, cost, information, and behavior. In this edition, how health care organizations are responding to the changing demographics of an aging population and the cultural and attitudinal shifts in the marketplace are highlighted. The shifting demographic movement to a more suburban location’s effect on health care organizations is also underscored. This fourth edition discusses the dramatic consolidation that is occurring among insurers and provides the government formula that is used to assess overall competitiveness in a market. The text also presents a discussion of the HealthCare.gov health exchange website and the level of plans among which consumers can choose on the federal exchange. An added discussion about medical tourism, both international and domestic, is presented, as consumers and corporations seek to save on the cost of care.

At the core of marketing is the consumer, which is covered in Part II, “Understanding the Consumer.” The consumer can be the individual patient, the referral physician, a company buying care for its employee base, a judge making a referral for a mental health consultation for a person under state care, or an insurance company deciding with whom to contract. Chapter 4 provides an overview of consumer decision making as it pertains to both consumers and organizations. The external search process for consumers has changed dramatically with transparency and with Web access.

Multiple factors can affect a consumer's search process. The fourth edition presents several alternative decision models that a consumer may use in making a choice. Industrial buyer behavior involves a decision-making unit consisting of multiple participants playing different roles. Chapter 5 describes the marketing research process with primary and secondary data. Primary data is presented along the dimensions of alternative qualitative and quantitative methodologies used within marketing research. Increasingly, organizations are using Big Data and data mining techniques to analyze their customer base and the Web to conduct surveys; both of these concepts are discussed within Chapter 5. The refinement of marketing strategy often occurs as a result of market segmentation, which is discussed in Chapter 6. Marketing organizations have recognized that gaining customer loyalty is the key to long-term success; this concept is the focus of Chapter 7. Loyalty is an increasingly important concept as individuals whose health must be managed are attributed to an accountable care organization.

The last section of this book, Part III, covers the "Marketing Mix." The Four Ps—product, price, place, and promotion—are the basis on which all organizations develop their marketing plans and strategies. Chapter 8 reviews concepts involved in the product or service. Strategies change over the stages of a product (service) life cycle. In the adoption of health care products and technologies, this edition identifies the multiple criteria that affect the adoption of new services and technologies in health care. Chapter 9 discusses pricing objectives and strategies and how not only objective but also subjective considerations play a role in positioning an organization. The chapter also provides an overview of the alternative reimbursement approaches that have been utilized in health care. New pricing approaches such as reference pricing and Centers of Excellence contracting are presented. Delivery of services is the concept of distribution covered in Chapter 10. In today's health care marketplace, this element of the marketing mix may well be the most dynamic with the utilization of technology as a distribution channel. This alternative is leading to greater conflict, a concept that is discussed in this edition of the text. Three chapters in the text, Chapters 11, 12, and 13, are devoted to the promotional mix. Understanding the promotional mix and the communication process is the focus of Chapter 11. A major addition is the discussion of integrated marketing communications of earned, owned, and paid media. Now, with the wide array of media vehicles including social media, an integrated marketing communications strategy is ever more essential. Because significant attention has been paid to the use of push and pull strategies among physicians and pharmaceutical companies' promotions to consumers, this aspect is discussed in detail. Advertising, historically seen as the only role of marketing, is the focus of Chapter 12. An important addition in this chapter is the discussion of evaluating the cost of digital media. And, the importance of an inbound marketing campaign has been included in this edition in the context of a discussion of digital media. Chapter 13, the last chapter on the promotional mix, involves sales and sales management. Here, too, the Internet has had an impact, changing the definition of personal selling by no longer requiring face-to-face interaction and leading to increased use of e-detailing. Chapter 14, the final chapter, provides an overview of control and monitoring. Measuring the outcome of marketing decisions is necessary in order to continue to refine effective marketing strategies. This edition highlights the components of an effective measurement system for any health care organization.

Appendix A provides "A Sample Business Planning Manual" to help readers of this text understand the structure of all the components of a detailed and well-constructed business plan. Marketing, finance, human resources, and operational components are all part of the plan structure in Appendix A. This appendix also includes questions throughout that need to be addressed in developing a plan for a new service to be implemented.

Chapter Organization

Readers of this book will find that six key sections appear in each chapter. These are Learning Objectives, Conclusions, Key Terms, Chapter Summary, Chapter Problems, and Notes. All key terms appear with their definitions in the glossary. At the end of the book is an index for the reader's convenience.

■ New to This Edition

For users of previous editions of this text, it may be useful to briefly highlight some of the additions and changes that have been made throughout each chapter. As noted in the "Introduction," these changes reflect the ever-evolving health care environment, the growing influence of technology, and the greater influence of population health as all may impact health care marketing.

In Chapter 1, the concept of HCAHPS is presented within the discussion of culture. This metric is mentioned throughout the text in several chapters, as it has relevance for service delivery and other factors relating to marketing concerns for health care organizations. A new section, titled "The Hallmarks of a Market-Driven Planning Approach," has been added to Chapter 1 to underscore the difference between a market-driven and a nonmarket-driven approach. Chapter 2 has several changes, but particularly of note is a new section titled "Avoiding Marketing Myopia"—an important topic because health care is changing dramatically. A significant new discussion focuses on disruptive innovations as a source of new competition. This chapter now presents the Blue Ocean perspective for strategy. In Chapter 3, technology that is having a great impact on health care and marketing is discussed in an expanded formulation. Since the previous edition, there has been an appearance of domestic medical tourism, which is a significant, new alternative to international medical tourism.

In Part II of the text, Chapters 4 through 7, several important changes and additions have been included. Chapter 4, "Buyer Behavior," has a new section on the factors that affect the search process for consumers, which in today's environment of the Web is important to consider. As there are now social communities accessed by consumers with serious diseases, Chapter 4 includes a discussion of the "wisdom of crowds" as it relates to sites such as Patientslikeme.com and how they play into research and decision making for patients. The market research chapter, Chapter 5, has been reorganized to better aid students in understanding the array of research tools. The concepts of Big Data are introduced, as well as data mining in greater detail. Social media have now been included within the context of qualitative research methods. Chapter 6, "Market Segmentation," now includes a discussion of micro-segmentation. Additionally, two health care segmentation schemata are presented: One has been developed by Deloitte, while a second—referred to as the PathValue graphic segments—has been suggested to lead to greater efficiency in health care. Chapter 7, "Developing Customer Loyalty," is a chapter of increasing importance in an era of accountable care and population health. A new discussion is added to highlight the level of customer bonds and how to create customer bonds, which is essential in terms of managing population health.

Part III of the text focuses on the marketing mix. In Chapter 8, "Product Strategy," the life cycle concept relative to proton beam therapy centers is utilized. There is an expanded discussion of the attributes that affect the adoption of new services or products in the diffusion of innovation. Chapter 9, "Price," includes a new section titled "Trends in Pricing," which specifically highlights three important areas affecting the pricing environment for marketing: price transparency, consumer response, and organizational response. Another new section in this chapter, called "Price or Reimbursement," provides a brief description of cost-based

reimbursement, fee-for-service, diagnostic-related groups, capitation, pay-for-performance, and HCAHPS. Chapter 10, “Distribution,” introduces the concepts of asynchronous and synchronous value utility in health care. Another new discussion concerns disintermediation and reintermediation in the channel. Chapter 11, “Promotion,” and Chapter 12, “Advertising,” begin differently from the previous edition by putting advertising in a greater historical context. A new section has been added in terms of how digital media is valued. And, there is a shift in how advertising agencies are being compensated. Chapter 13, “Sales and Sales Management,” has changed substantially in this fourth edition, as technology has affected this element of the promotional mix. Greater detail and discussion are provided regarding e-detailing and e-sales. A new section, “The Legal Challenges to Sales,” which highlights some of the issues around academic detailing, has been included. Finally, as the sales process is reviewed, through each step, the impact of technology and social media is presented. Chapter 14 has been revised with the addition of a new section regarding the monitoring of investments in digital and web-based investments. The second major enhancement and revision to this chapter is in the section “Marketing Audit.” Users of earlier editions of this text will note that there is a significant revision to the audit questions, which are updated to today’s health care environment.

■ Acknowledgments

It has been my good fortune, since my early days as an assistant professor at the Carlson School of Management, to have had the opportunity to gain an early interest in health care and live in a vibrant health care community. Early on, the University of Minnesota recognized the importance of studying health care from a multidisciplinary perspective, and, while I was in the business school, I was able to have an appointment in the Center for Health Services Research. Thus, my early years in studying and researching health care were with a colleague, William Flexner. Bill and I began to do some of the early writing on marketing applications within the context of health care. A good friend, Steven Hillestad, a vice president at Fairview Health Systems at the time and later Abbott Northwestern, was a collaborator on many challenging and interesting consulting engagements, as health care changed from a fee-for-service to a capitated system. Steve and I also coauthored a text, *Health Care Marketing Strategy*, also published by Jones & Bartlett. My own education was greatly enhanced by my professional collaboration with the American College of Physician Executives, now named the American Association of Physician Leaders, with whom I have worked since the mid-1970s. Roger Schenke was the visionary leader of that organization for more than 30 years and contributed greatly to my knowledge and perspective of health care and to whom I will always be indebted. The renamed American Association of Physician Leaders continues to grow as a major organization in influencing the direction of health care change, not only in the United States but also globally. I have been fortunate to have many-decades relationship with this professional organization.

For more than 35 years, I have had the opportunity to work with many physicians and health care executives too numerous to mention who have always helped me understand the challenges of this environment and, in reality, provided greatly to my ongoing education in the challenges of health care management. Over these past years, many of these individuals kindly invited me into their organizations to work with them or to meet with the medical staff or boards. I am always impressed that, regardless of the country or continent—be it here in the United States, Europe, Africa, or Asia—providers, health care organizations, and marketing issues often seem to have an underlying similarity. There is always complexity in the reimbursement systems, the impact of social media, the new forms of competition, and new challenges from transparency and calls for greater quality metrics. Throughout this text, I have tried to incorporate some international examples to

underscore these very same points that I have learned from so many others who have educated me and to what I have been exposed in my travels, interactions, and work.

I cannot name all the physicians and colleagues who have personally added to my education over these past years for fear that I would not recognize those who would deserve it. One close friend and colleague who I must note is Rob Kauer, from Case Western Reserve University, a gifted teacher, who passed away prematurely. We worked at many health care organizations together and taught many health care executive seminars together. Doing research and collaborating with Rob was great fun. And he will always be missed. I have had many good colleagues at the University of Minnesota and the University of Massachusetts at Amherst. My recent time at Babson College has afforded me the opportunity to meet new colleagues engaged in global entrepreneurial ventures for which I am most appreciative. I do want to note that I have been on the Board of the Cooley Dickinson Hospital in Northampton, Massachusetts, serving for 15 years, my last 3 years as Board Chair, and for 9 years on the Board of Reliant Medical Group in Worcester, Massachusetts. These experiences have further added to my knowledge and shaped my insights into what is an exciting and challenging industry and profession.

For many years over what has now been four editions, I have had the good fortune to work with the most professional and dedicated people at Jones & Bartlett Learning, who have been committed to ensuring this book makes a positive experience for both students and faculty. The production of any text is no easy task. In that regard, Integra Software Services, and the good people there, have been of the greatest help, and my appreciation for their services in producing this text goes without saying for their fine work. At Jones and Bartlett Learning, many people contributed in so many ways to this edition, for which I am most grateful. I want to express my gratitude to Nick Alakel, who worked with me in the early stages of the revision process. I have to express my great appreciation to Lindsey Mawhiney Sousa and to Meredith Tumaszk, who has dealt with all the figures, exhibits, and permissions that any author knows are so critical to any text. Meredith had to deal with my countless revisions of figures and tables and incessant questions and iterations through many emails. On my third edition and on this new fourth edition, I was fortunate to have the opportunity to again have the assistance and guidance of Tina Chen, who was able to keep the process moving smoothly even when I had at times the greatest concerns over an issue or dilemma. She was always calm, positive, and responsive. I am indebted to her for her continuous help throughout this edition. Finally, I want to especially note my continuous appreciation to Mike Brown, publisher at Jones and Bartlett Learning. We have had an author–publisher relationship that goes back 20 years. Mike has been kind enough every few years to ask for another edition. And, with this fourth edition, I now envision a few years off from sitting at the keyboard working over another possible revision, which is fine with me.

Finally, and most importantly, I want to express my greatest appreciation and love to my family. My first academic text was written when my oldest daughter was born; this text was revised as my first granddaughter, to whom this book is dedicated, was born into a world with great new health care possibilities. My daughters are now both professionals themselves. Both were born as various editions and texts occurred. Sandy, my best friend and partner of more than 40 years, my wife, is the consummate professional and, again, watches me henpeck away at another revision because I never learned to type. My second Labrador retriever, Gracie, has patiently sat by my desk through most days as I have worked on this edition, wondering when we are going out for a walk or to play ball. She, too, may be most happy for my few years off from another edition.