CHAPTER 2

Marketing Strategy

Learning Objectives

After reading this chapter, you should be able to:

- Understand the scope of strategic marketing planning
- Identify broad organizational market strategy alternatives
- Describe the value of alternative portfolio models
- Appreciate the factors that affect the level of competitive intensity within an industry
- 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.

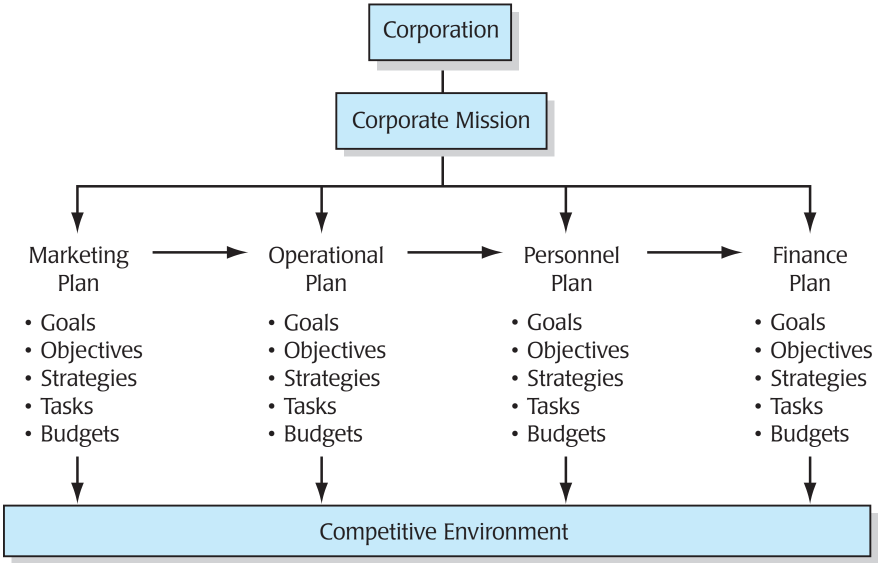


FIGURE 2-1 The Strategic Planning Process

Source: Steven G. Hillestad and Eric N. Berkowitz, Health Care Marketing Plans: From Strategy to Action, 1991: Jones and Bartlett Publishers, www.jbpub.com. Reprinted with permission.

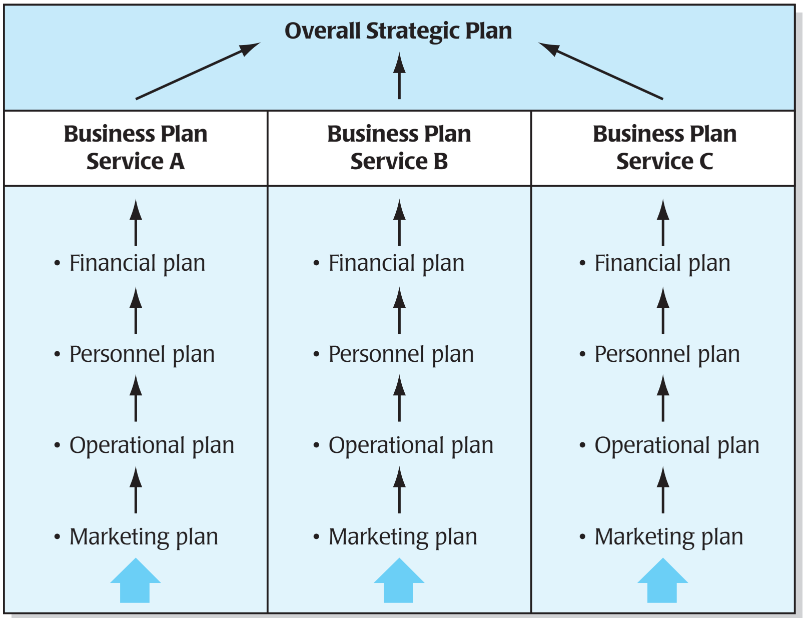


FIGURE 2-2 Portfolio Model for a Business Plan

Source: Steven G. Hillestad and Eric N. Berkowitz, Health Care Marketing Plans: From Strategy to Action, 1991: Jones and Bartlett Publishers, www.jbpub.com. Reprinted with permission.

Defining the Organizational Mission

Organizational mission refers to the organization's fundamental purpose for existing, defining who 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 Commonwealth Orthopaedics & Rehabilitation PC of Alexandria, Virginia, and the other for SwedishAmerican Health System of Rockford, Illinois. These two mission statements reflect the significant changes that health care providers face today. Commonwealth Ortho is one of the largest orthopedic groups in the United States. As its mission statement reflects, although narrowly defined within the area of orthopedics and rehabilitation, this group has great depth in its specialization. Moreover, it is responding to the challenges (to be discussed further in Chapter 3) of benchmarking to quality as well as ongoing education. SwedishAmerican is a large health system, with Swedish Hospital as its major organization, that is focused on establishing an integrated health system. SwedishAmerican Health System has a partnership between the physicians on the medical staff and the hospital.

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. FIGURE 2-3 shows the range of possibilities regarding a health mission statement.

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
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. 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

Exhibit 2-1 Alternative Statements—Commonwealth Orthopedics & Rehabilitation and SwedishAmerican Health Care System

Commonwealth Orthopaedics & Rehabilitation, PC

Mission Statement

Commonwealth Orthopaedics & Rehabilitation, PC, an orthopedic surgery group practice, provides comprehensive, high quality, cost effective care to patients with injuries and diseases of the musculoskeletal system.

We act with the best interest of our patients in mind, strive to provide the best medical care available, and treat them with respect, compassion, and confidentiality.

We attempt to minimize the inconveniences of treatment to our patients by providing prompt courteous service. To this end, we offer, as part of our practice, outpatient ambulatory surgery and physical therapy.

We promote quality medical care in the community through participation in hospital medical staff functions, benchmarking with similar organizations and participation with local and national medical societies. We participate with the local medical educational institutions to prepare new healthcare professionals for our community.

We keep the health and well-being of our patient as our top priority.

Source: Mission Statement for Commonwealth Orthopaedics & Rehabilitation from http://www.c-o-r.com. Reprinted by permission.

SwedishAmerican

Our Mission

Through excellence in healthcare, and compassionate service, we care for our community.

Our Vision

Our vision is to develop a fully integrated healthcare delivery network that will continuously set the standard for quality of care and service, accept responsibility for building a healthier population, provide regional access, improve resource utilization through collaboration with key stakeholders, and manage patient care and our resources in such a way that we create value for our patients and return an investment to our community. SwedishAmerican recognizes its responsibility to all the people of our community, regardless of their ability to pay for care. Within the capacity of our financial and medical resources, we pledge to use the resources available to us to foster our charitable, medical, and educational purposes.

Our Values

SwedishAmerican believes that its success in fulfilling its mission and vision is highly dependent upon and a product of the culture and core values of its people and its heritage. Those values are respect for people; care for patients and families; respect for the healing professions; commitment to quality, service, creativity, and innovation; empowerment and teamwork; and financial accountability.

Source: Mission statement of SwedishAmerican Health System from http://www.swedishamerican.org. Used by permission.

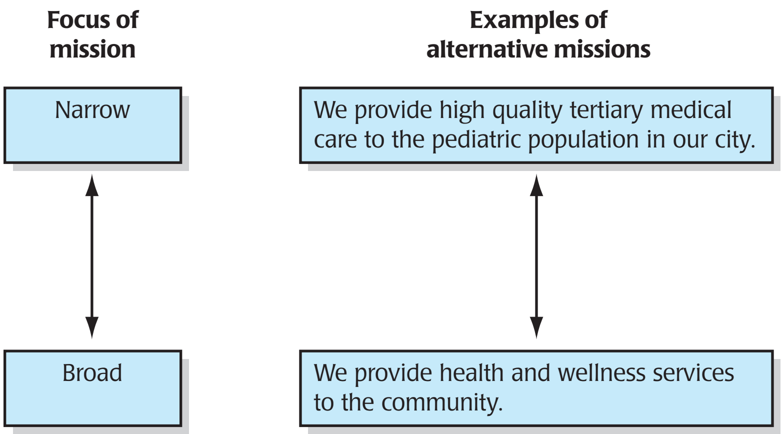


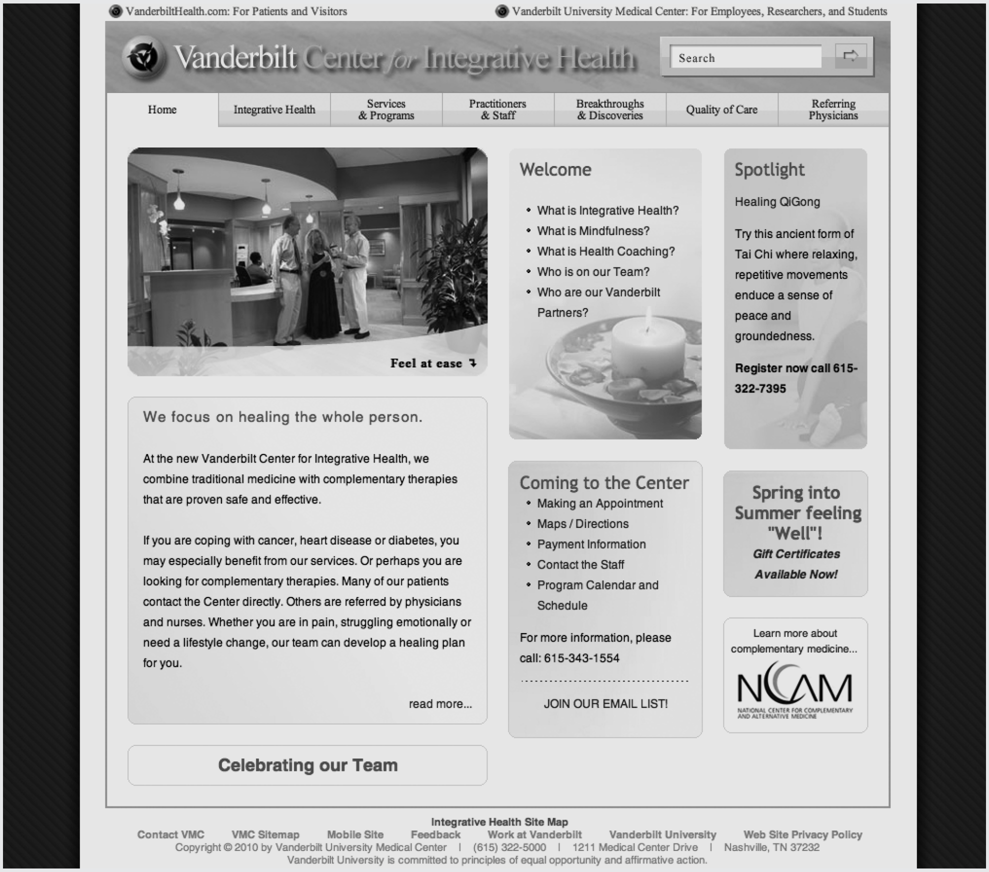
FIGURE 2-3 Strategic Mission Options

Source: Steven G. Hillestad and Eric N. Berkowitz, Health Care Marketing Plans: From Strategy to Action, 1991: Jones and Bartlett Publishers, www.jbpub.com. Reprinted with permission.

have been provided by a diversified "railroad" company.[3] 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. 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. 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. In Burleson, Texas, the Huguley Memorial Medical Center operates a full-service fitness center on its campus. The EMH Regional Health Care Systems Center for Health & Fitness in Avon, Ohio, operates a similar center. In a similarly broadened view, many health care providers are developing centers of alternative or integrative health, such as the comprehensive program at Vanderbilt University Medical Center, shown in EXHIBIT 2-2, which mirrors the major academic medical center approach to complementary therapy (and a far from myopic strategic view) followed by Stanford Hospitals and Clinics. The development of such programs has been spurred by the increased use of complementary alternative medicine by the American public. In 1998, 34% of Americans reported using some form of complementary alternative medicine, with the number almost doubling to 62.3% by 1998.[4]

Exhibit 2-2



Source: From www.vanderbilthealth.com/integrativehealth. Reproduced by permission of Vanderbilt University Medical Center.

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.

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? and (3) What opportunities do these changes present? Although these changes will be discussed in greater detail in Chapter 3, consider one demographic change—the aging marketplace—and its impact on company strategy.

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.

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

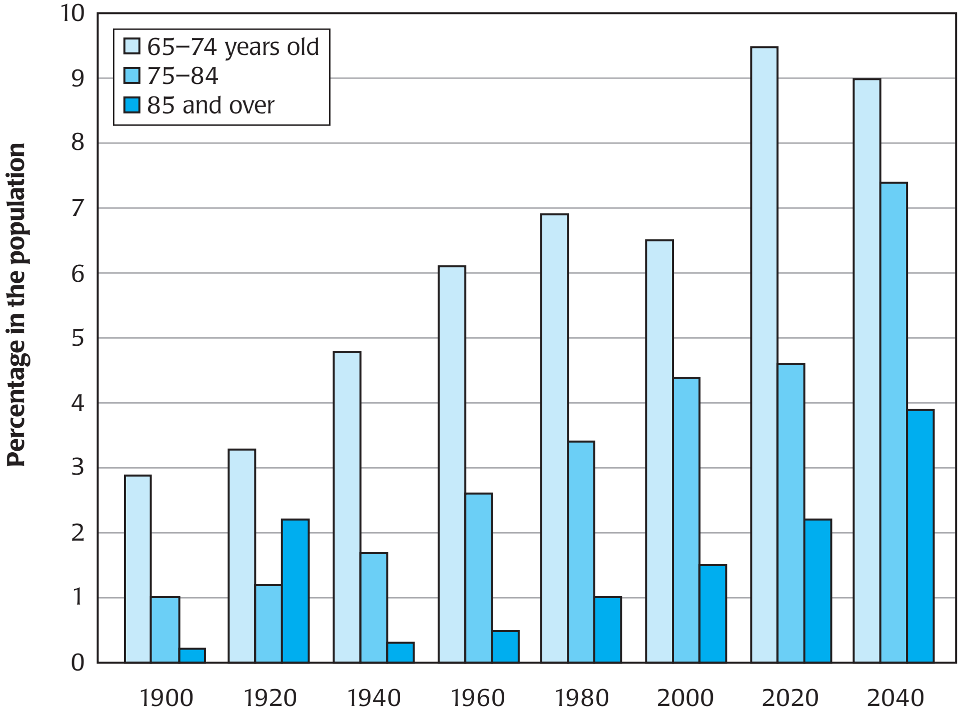


FIGURE 2-4 Changing Market Demographics

Source: Administration on Aging. Department of Health and Human Services. http://www.aoa.gov/prof/Statistics/online_stat_data/AgePop2050.asp 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?

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 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.[5]

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. 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 care. This level of care is designed for those patients who are sufficiently stabilized to no longer require acute-care services. Subacute care can be provided in a free-standing nursing home or skilled nursing facility, rather than 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 ten-fold increase.[6]

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 DaVinci 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 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.[7]

These steps serve as a catalyst for corporate strategy, as suggested by FIGURE 2-5. As seen in this representation, strengths that have no matching opportunities are of little value. A liability exists when a weakness is matched by a competitive threat. 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

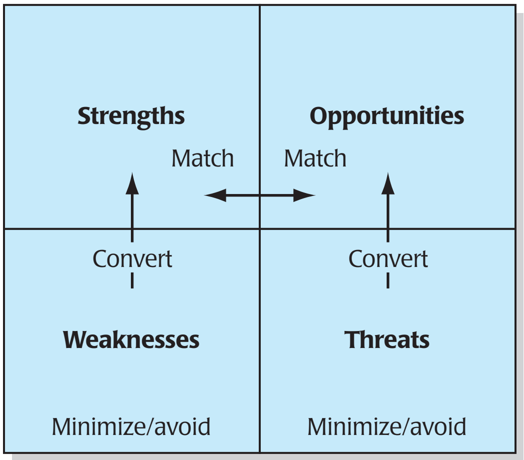


FIGURE 2-5 Four-Cell SWOT Matrix

Source: From Ferrell/Hartline, *Marketing Strategy*, 4E. © 2008 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions better than the competition and gives it a differential advantage, which has been defined in Chapter 1 as 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.[8]

Criteria for a Good Differential Advantage

There are four important criteria that 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 a more stringent quality assurance or credentialing procedure 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.
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. 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. 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—sustainable. 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, as was noted in Chapter 1, 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 health care, one can recognize two obvious examples at the hospital level and at the physician practice level in terms of this last criterion of sustainable differential advantage. Consider first the situation faced by a hospital. The federal government has passed a law that mandates that hospitals use electronic medical records as a requirement for reimbursement (see Chapter 3). However, until a few short years ago, the allocation of capital for the investment into electronic medical records by many hospitals was a decision of great significance but not always a major strategic priority. The Veteran’s Administration was one of the first health care organizations and systems to implement such an approach. These electronic medical record systems were, and still are, quite expensive. The cost prevents many smaller organizations from easily implementing these systems. The second hurdle for implementation is cultural; that is, training clinicians to use them and input the data properly. If an organization can get this accomplished, it will be a significant amount of time, and thus sustainability, before other competitors also provide such a program.

Our second example of a sustainable differential advantage, that 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.[9] 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.[10] 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.[11]

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.[12] 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, the establishment of a product-based differential advantage is difficult. To some extent one might argue that M.D. Anderson in Houston has a differential advantage that is product based with its specialized focus in cancer care. 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. Although other competitors also provide pediatric service, the differential advantage rests with Children's Hospital and its 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. Kaiser Permanente has traditionally tried to be a health care organization that is efficient and priced to be a cost advantage relative to competing managed care alternatives. The challenge for the organization, however, is that it must strive for large market share in order to receive the margin lost from a cost leadership position. Establishing a differential position in this area is closely tied to the pricing strategies the organization pursues in the market. 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.[13] Although it has many definitions, a useful operative one is that *trust* is the mutual confidence that no party will exploit another's vulnerabilities.[14] 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

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

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.[15] Therefore, trust is a valued differential advantage if a health care organization has or can acquire it. Trust has become a difficult issue for some academic medical institutions, such as Harvard, which does not own its affiliated teaching hospitals, such as Massachusetts General Hospital, Brigham and Womens' Hospital, and Beth Israel Deaconess Medical Center, all in Boston, Massachusetts. The American Medical Student Association graded Harvard an 'F' on its conflict-of-interest policy.[16]

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. 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.

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 chambermaid 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.[17] 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 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 Web site? Making value visible is essential in delivering a differential advantage that will affect buyer preference.

Oakwood Health System in Wayne County, Michigan, and the Mayo Clinic do a strong job at evidence management and demonstrating their invisible value. Oakwood Health System includes four hospitals. As shown in EXHIBIT 2-3, it has a unique Web site, where it demonstrates its price–value relationship in relation to the larger market. With this linking, it attempts to make its invisible value—clinical performance—more visible, against its visible value—its fees. The Mayo Clinic manages the group practice value 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 on to someone else within the Mayo Clinic's large structure.[18]

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 oper-

Exhibit 2-3 Oakwood Hospital: Managing Visible and Invisible Values

Source: Your Guide to Making Informed Healthcare Choices from www.oakwood.org. Reproduced by permission of Oakwood Healthcare System.

ate only in business lines in which it could be the number one or number two company in terms of market share. Similarly, a national 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 2-4 shows four broad strategies that can guide an organization's growth; they reflect the internal organization and the external market conditions. Internal capabilities and services are represented by the product dimension. External market factors, a reflection of the situational analysis, are represented by the market dimension. Using this product/market matrix as a guide, there are four broad strategies to consider.[19]

Market Penetration

The **market penetration** strategy involves increasing the sales of present products and services in present markets. This a useful approach when the current market is strong and growing. Fulfillment of this strategy might involve attracting new customers or converting nonusers. For example, a managed care product might attempt to win over subscribers from a competing health plan or to convert fee-for-service customers to a prepaid plan. A health care organization also might attempt to increase its business from existing customers. A managed care plan might try to increase the num-

Exhibit 2-4 Product/Market Opportunity Matrix

Product/Market	Present	New
Present	Market penetration strategy	Market development strategy
New	Product development strategy	Diversification strategy

Source: Reproduced by permission of *Harvard Business Review*. Product/Market Opportunity Matrix from Strategies for Diversification by H. I. Ansoff, September–October 1957. © 1957 by the Harvard Business School Publishing Corporation. All rights reserved.

ber of employee subscribers within corporations and other businesses that offer the plan to their employees.

Other ways to fulfill a market penetration strategy include more intensive efforts to distribute the product or service and more aggressive promotion. Or, the managed care plan can price itself more competitively to attract more customers.

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. This approach is followed by relocating a service to regions where it has not previously been offered. This strategy has several variations.

A health care organization might enter new geographical markets. 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.[20] 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. 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 John Hopkins, manages the Al Corniche Hospital in Abu Dhabi, a hospital that handles 12,000 births and 216,000 outpatient visits a year.[21]

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. For example, St. Vincent Charity Medical Center in Cleveland, Ohio, promotes the Joslin Diabetes Center and the Joslin Team on its Web site. In this way Joslin Diabetes Center has developed markets far beyond the reaches of the Boston and Massachusetts marketplaces.

Alternatively, a health plan can follow a market development strategy of appealing to new market segments that it has been previously unable to attract. Insurance companies, such as AETNA, are now segmenting their marketplace by life stages in order to target younger consumers whom previously would go without coverage. AETNA has a high-deductible plan called "Life Stages" that it targets to new college graduates, whose use of the health care system by traditional health statistical measures has been low. In order to penetrate this segment, AETNA is also offering value-added benefits that may appeal to this segment, such as fitness program benefits, a natural products and services program (which includes visits to acupuncturists, chiropractors, and massage therapists), a vision program, and an add on for discounts at stores such as Staples and the like.

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, multispecialty group practices or as traditional hospitals. The Scott & White Clinic in Temple, Texas, 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 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. The development and 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 can use **backward integration**, which entails becoming its own supplier. For example, many hospitals have established their own physician–hospital organizations (PHOs). These entities offer a managed care product to the market as the PHO accepts the risk. SwedishAmerican Health System of Rockford, Illinois, actively pursued risk contracts for its new entity. With **forward integration** a company offers new services or products closer to the customer than existing services. Many of these services have been previously provided by other intermediaries. PRUCARE of Orlando, Florida, has its own providers who staff an HMO at multiple locations in the community. Prudential, which once acted solely as an insurance firm, has integrated forward by now providing care directly. Each of these strategies is discussed in greater depth in Chapter 10.

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 aggressively focused on the diversification approach is the University of Pittsburgh Medical Center (UPMC). The Western Pennsylvania marketplace is nearly saturated and is not growing. As a result, UPMC, a major academic medical center, is diversifying into other opportunities. In 2005, it signed an agreement with IBM to jointly spend up to $200 million to develop computer technology for use in health care. As of 2010, however, IBM and UPMC were not able to agree on any investments. UPMC has been more successful in some of its other ventures. Its name is now on 16 hospitals, several cancer centers, and over 400 outpatient sites. It is increasingly looking for more growth opportunities by taking a global perspective. In 1999, UPMC agreed to run a specialty hospital in Palermo, Italy, on an agreement that runs through 2012. In 2010, UPMC reached an agreement with Italian officials to jointly develop a research institute as part of its diversification strategy. UPMC also signed a $100 million agreement with Qatar to consult on the country's emergency medical system.[22]

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.[23]

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.[24] 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.[25] 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 over 90 countries. Bayer and Genzyme also have plans codevelop products for the treatment of multiple sclerosis.[26]

The American Recovery and Reinvestment Act of 2009, which was passed in the first year of Barack Obama's presidency, provides strong financial incentives for health information technology, generating opportunities for new strategic alliances. In April 2009, Dell and Perot Systems announced a strategic alliance to provide fully integrated virtualized health care technology systems to reduce patient cost and improve care.[27]

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 strategy. In 2005, Hospital Corporation of America (HCA) announced the sale of four hospitals in West Virginia, two in Tennessee, and one each in Virginia, Oklahoma, and Washington in an effort to focus its business on large urban and suburban markets.[28]

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. This was the case when Sentara CarePlex Hospital in Hampton, Virginia, decided it was necessary to prune or close its 12-bed labor and delivery unit and nursery in April 2009. While no other services were immediately impacted, the hospital had faced steadily declining births over 5 years. The declining volume had significantly impacted the quality of service that could be effectively delivered within the program.[29]

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. A clinic might decide to close a primary care satellite in a neighboring community. Solaris Health System in New Jersey made a retrenchment decision by closing Muhlenberg Medical Center, shown in FIGURE 2-6. This 396-bed hospital with 350 affiliated physicians had 1100 employees, an emergency room that treated over

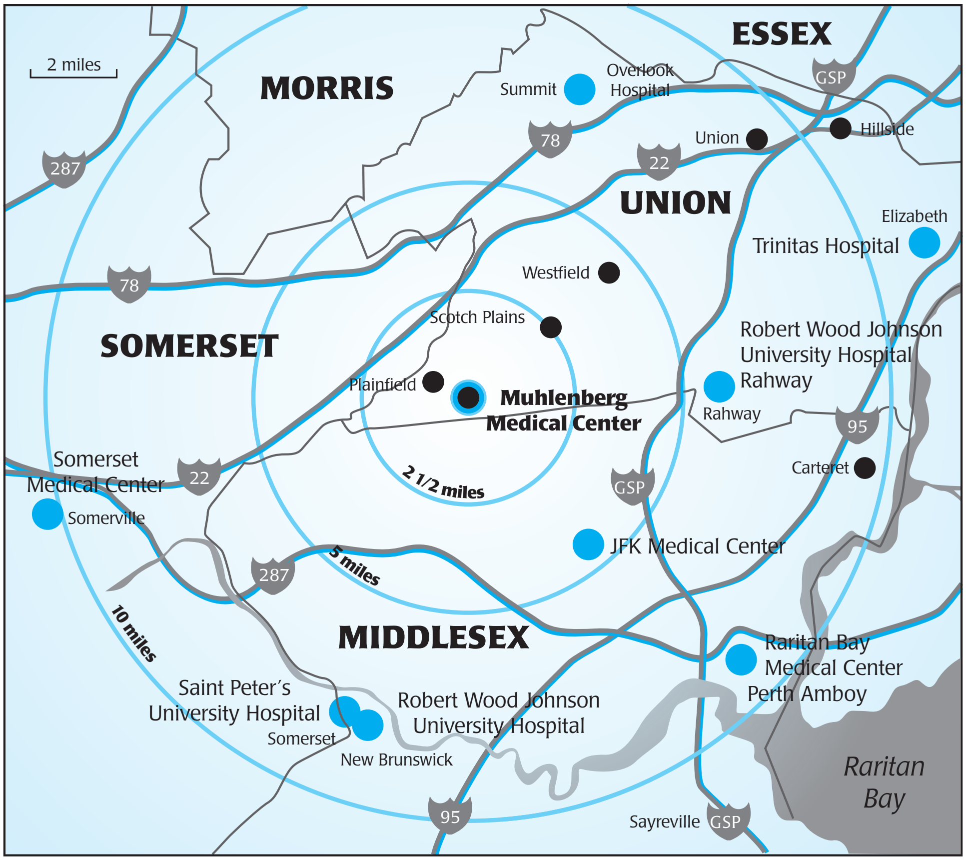


FIGURE 2-6 The Competitive Market of Muhlenberg Regional Medical Center

Source: Ken Terry, "Who Killed Muhlenberg Hospital?" (October 14, 2008), New Jersey Monthly, http://njmonthly.com/articles/topdoctors/who-killed-muhlenberg-hospital.html

35,000 patients a year, a medical residency program, and a nursing school. The hospital suffered horrific financial losses despite Solaris' investments into the facility. With state approval, and in light of the market being ringed with several competitors, the 130-year old facility was closed.[30] 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. Two well-known approaches are the Boston Consulting Group (BCG) matrix and the GE matrix. Each of these models 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.[31] FIGURE 2-7 represents the **BCG matrix.** 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 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

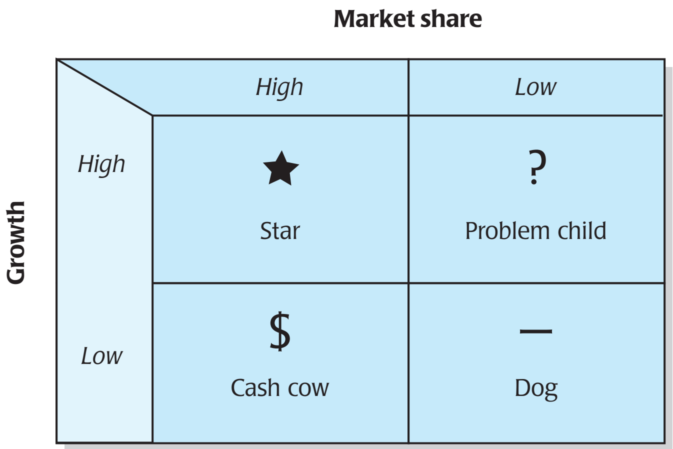


FIGURE 2-7 BCG Matrix

Source: The BCG Portfolio Matrix from The Product Portfolio Matrix, © 1970 The Boston Consulting Group. Reproduced by permission.

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. From a cash perspective, the revenues generated by these business lines 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. 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. To move 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.

The GE Matrix

The BCG matrix is limited by the consideration of only two dimensions. Yet, for most products and services, these considerations often require a multidimensional evaluation. Table 2-2 shows the considerations used in the **GE matrix**, a multidimensional model for focusing corporate strategy in organizations with multiple product lines based on the dimensions of market attractiveness and business strength.

Market attractiveness is an index composed of the following nine elements:

1. Overall market size
2. Annual market growth rate
3. Historical profit margin
4. Competitive intensity
5. Technological requirements
6. Inflationary vulnerability
7. Energy requirements
8. Environmental impact
9. Social/political/legal issues

Table 2-2 General Electric Business Screen

	Business Strength		
	Strong	Average	Weak
High	Premium—Invest for Growth: • Provide maximum investment • Diversify worldwide • Consolidate position • Accept moderate near-term profits • Seek to dominate	Selective—Invest for Growth: • Invest heavily in selected segments • Share ceiling • Seek attractive new segments to apply strengths	Protect/Refocus—Selectively Invest for Earnings: • Defend strengths • Refocus to attractive segments • Evaluate industry revitalization • Monitor for harvest or divestment timing • Consider acquisitions
Medium	Challenge—Invest for Growth: • Build selectively on strengths • Define implications of leadership • Avoid vulnerability—fill weaknesses	Prime—Selectively Invest for Earnings: • Segment market • Make contingency plans for vulnerability	Restructure—Harvest or Divest • Provide no unessential commitment • Position for divestment *or* • Shift to more attractive segment
Low	Opportunistic—Selectively Invest for Earnings: • Ride market and maintain overall position • Seek niches, specialization • Seek opportunity to increase strength (for example through acquisition) • Invest at maintenance levels	Opportunistic—Preserve for Harvest: • Act to preserve or boost cash flow • Seek opportunistic sale *or* • Seek opportunistic rationalization to increase strengths • Prune product lines • Minimize investment	Harvest or Divest: • Exit from market or prune product line • Determine timing so as to maximize present value • Concentrate on competitor's cash generators

Source: Reproduced by permission of the publisher from *Strategic Market Planning*, by B. A. Rausch, © 1982 American Management Association, AMACOM books, division American Management Association International, New York, NY. All rights reserved. www.amacombooks.org

Business strength is an index composed of the following 12 elements:

1. Market share
2. Share growth
3. Product quality
4. Brand reputation
5. Distribution network
6. Promotional effectiveness
7. Production capacity
8. Production efficiency
9. Unit costs
10. Supply costs
11. Research and development (R & D) performance
12. Management talent

Each of the factors in both dimensions is given a weight indicating its importance. A product is rated on each factor and then multiplied by the weight. Every product is assigned a value for marketing attractiveness and business strength. Calculation of the value for a product leads to its positioning within the matrix, which includes its relevant strategic direction as well.

The GE matrix has nine cells representing three broad zones of strategic corporate action. The three cells at the lower right represent businesses that are low in attractiveness and low in business strength. As suggested within the chart, these represent services for which consolidation strategies must be considered. Services that fall within the cells on the diagonal from lower left to upper right are either weak or average in attractiveness and in business strength. These are businesses where selective growth strategies or some harvesting might be appropriate. Finally, services within the cells in the upper left represent businesses with the most promise. Growth strategies need to be pursued.

The advantage of the GE matrix compared to the BCG model is that it provides consideration of multiple factors. Like the BCG model, however, it ultimately places the services along a two-dimensional framework. Also, many of the elements used within the composition of the matrix values are often considered within the BCG discussion of growth rate. The specification is helpful, yet can pose a challenge for managers considering both models simultaneously.

Analyzing the Competitive Market

Within the context of strategic planning, companies must analyze the 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.[32] As shown in FIGURE 2-8, competitive intensity is affected by four major forces: (1) the threat of new 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.

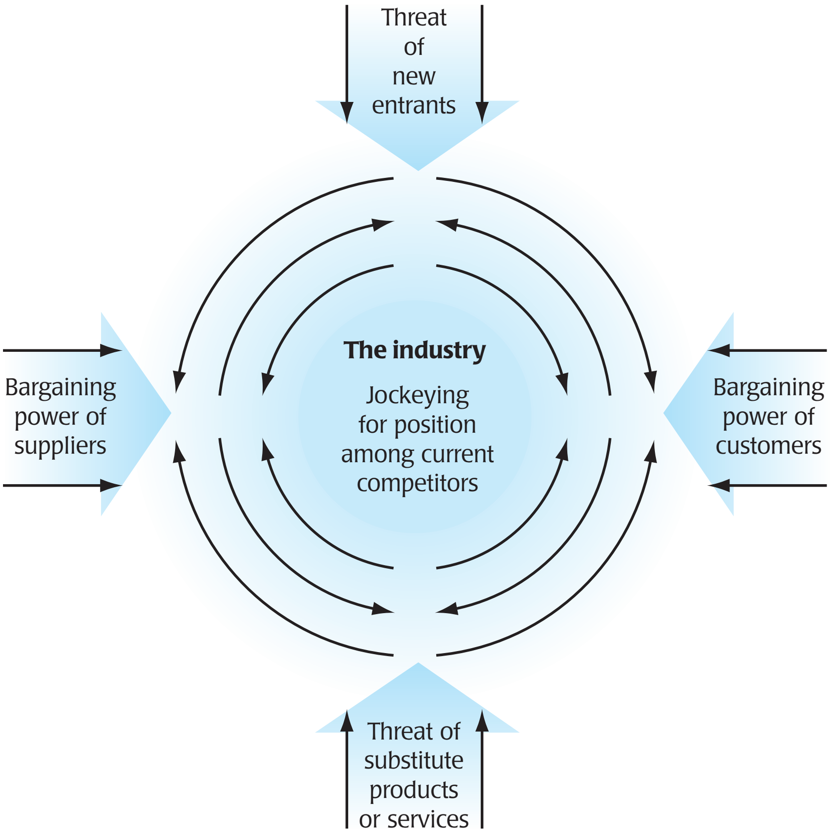


FIGURE 2-8 Forces Impacting Competitive Intensity

Source: From *Harvard Business Review*. Forces Affecting Competitive Intensity from "How Competitive Forces Shape Strategy" by M. E. Porter, March–April 1979. Reproduced by permission.

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 in-patient 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.[33] This competitive environment has continued into the twenty-first 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."[34]

New Entrants

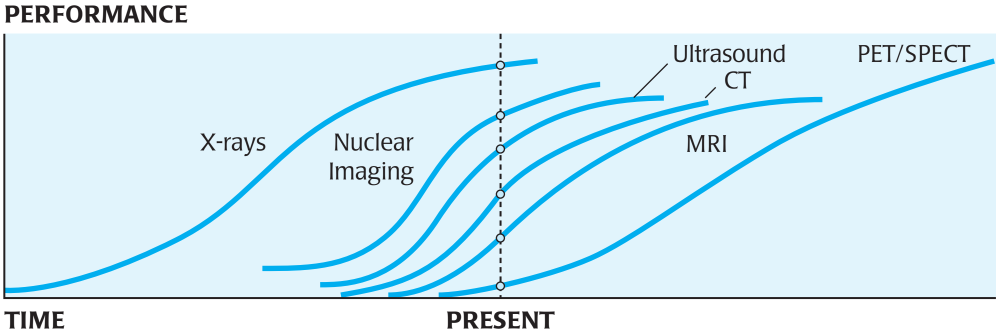
Although it is essential to consider the existing competition when developing a strategic plan, an organization must be keenly aware of new players entering the marketplace. As the market changes, so, too, does the competition. For example, many medical groups that once competed against other local providers are now finding themselves competing against insurance companies for the provision of care. Large insurance providers, such as Aetna Life & Casualty of Hartford, Connecticut, have recently acquired provider groups in Charlotte, North Carolina; Chicago, Illinois; Atlanta, Georgia; and Dallas, Texas, and are becoming major competitors for the delivery of care in many local markets.

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. Many academic medical centers, such as George Washington University in Washington, D.C., actively compete against other providers by offering their own health maintenance plans. Other academic medical centers, such as the one at the University of Minnesota in Minneapolis and University of Michigan in Ann Arbor, have established faculty practice plans as vehicles to attract, process, and organize patient revenue activities. Similarly, an employer that had purchased outside medical services might hire its own medical staff and conduct employee health programs in-house.

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 2-9 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 continually changed. Each new technological advance has provided increased performance in terms of scanning and imaging



	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 • Phillips • Siemens	• GE • Picker (GEC) • Siemens	• Acuson • Toshiba • ATL	• GE • Toshiba • Siemens	• GE • Siemens • Diasonics	• Scanditronix • Positron • Siemens

FIGURE 2-9 Impact of Technology: Diagnostic Imaging

Source: Reprinted from *Healthcare Forum Journal*, September/October 1989, Copyright © 1989, by Health Forum, Inc.

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.[35]

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 Voluntary Hospital Association, comprising hundreds of hospitals that have joined together to facilitate purchasing, consulting, and other activities, can wield significant power with health care manufacturers of wound dressings such as Kendall or 3M, because this organization represents all its member hospitals. Buyers can wield power when they purchase a relatively standard product, or when they can integrate backwards and provide a service for themselves. Similarly, hospitals are developing partnerships with physicians, forming powerful PHOs, in order to wield power when contracting with insurance companies. Research has shown that PHOs can mitigate, to some extent, the affect of buyers, as suggested by Porter's five forces model.[36] Washington County Hospital in Hagerstown, Maryland, and Advocate Health System in Chicago have developed PHOs, as have countless other hospitals around the country. The Federal Trade Commission (FTC) allows PHOs to negotiate rates with payers, providing that these structures permit employers and insurers who do not want to use the PHO to contract individually with the doctors within the PHO.[37]

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.

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 the 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 sales 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

As noted in the previous chapter, 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 2-10. 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

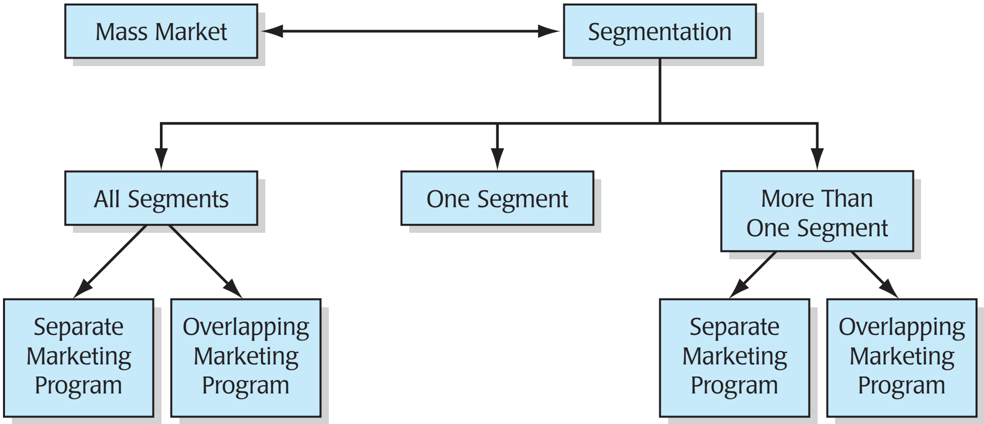


FIGURE 2-10 Segmentation Alternatives

who might tailor a marketing strategy that is more closely aligned with the needs of particular subgroups.

Figure 2-10 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 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. Yet, 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, in Boston there are a small but growing number of custom-care or boutique-style medical practices. Targeted to the group of consumers who are willing to pay additional out-of pocket dollars for more personalized, almost concierge-style, medical care,[38] these types of groups are following a market concentration strategy. In any market there are only a limited number of such people willing to pay an additional fee, which might be as high as $7500 or more for families. 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 one of several market positions it will take. The options are to be a market leader, market challenger, market follower, or a market niche.[39]

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. The market leader defends its position against all new entries and will seek to expand the market or expand its current market share. A health care study conducted in 1992 found that hospital return on investment was significantly related to market share. Hospitals that sought and attained large market share had higher profitability than those that did not.[40]

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.

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 product alternatives, 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. This approach is so common, in fact, that *Forbes* magazine has labeled its listing of the 200 best small companies as its "Niche List."[41] An interesting niche strategy is being developed by Helian Health Group of Monterey, California. This company has set up inns licensed to provide acute care. These small facilities are targeted to handle surgery and recovery for less cost than what is incurred in traditional facilities. California data indicate this recovery center concept can save 28% on the cost of recovery from an abdominal hysterectomy and 60% on recovery from a cholecystectomy.[42]

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.[43] Examples of niche hospitals include the Surgical Specialty Hospital, a 33-bed, physician-owned facility in Phoenix, Arizona, and the Indiana Orthopedic Hospital in Indianapolis, Indiana, which is a free-standing orthopedic hospital owned by the 65-person Ortho Indy group of physicians. Studies have found that these niche institutions tend to outperform general hospitals.[44] However, not all niche hospitals are successful. In 2010, an early entrant into this market, the Dayton Heart Hospital, was purchased by Good Samaritan Hospital, a large general hospital in Dayton, Ohio.[45]

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 in terms of quality, range of options, and so on.

Evaluating the Plan

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

Although each health care organization's marketing plan will vary to some degree, an outline of a basic marketing plan is provided in EXHIBIT 2-5 as a guide.

Exhibit 2-5 Marketing Plan Outline of Fidelity Bank, Philadelphia

Marketing Plan Outline

For each major bank service:

I. MANAGEMENT SUMMARY

What is our marketing plan for this service in brief?

This is a one-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.

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 organization could conceivably be considered prospects for this service?

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

IV. THE MARKET—quantitative

What is the potential market for this service?

This section will apply specific quantitative measures to this bank service. Here we want to include numbers of potential customers, dollar volume of business, our current share of the market—any specific measures that will outline our total target for the service and where we stand competitively now.

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 five years showing dollar volume, accounts opened, accounts closed, share of market, 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 bank and nonbank. It should be a thoughtful analysis outlining who our competitors are, how successful they 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.

(*continues*)

Exhibit 2-5 (*Continued*)

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?

This section will comprise a frank commentary on both inhibiting problems and unrealized opportunities. It should include a discussion on the internal and external problems we can control, for example, by changes in policies or operational procedures. It should also point up areas of opportunity regarding this service that we are not now exploiting.

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 will apply to next year. Long-range goals will necessarily be less specific and should project for the next five years. Objectives should be stated in two forms:

(1) qualitative—reasoning behind the offering of this service and what modifications or other changes we expect to make.

(2) quantitative—number of accounts, dollar volume, share of market, profit goals.

IX. ACTION PROGRAMS

Given past history, the economy, the market, competition, etc., what must we do to reach the goals we have set for this service?

This section will be a description of the specific actions we plan to take during the coming year to assure reaching the objectives we have set for the service in VIII. These would include advertising and promotion, direct mail, and brochure development. It would also include programs to be designed and implemented by line officers. 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.

Source: The Marketing Plan (New York: The Conference Board, 1981). The Conference Board Report No. 801, pp. 63–64

Conclusions

Development of marketing strategy begins with defining an organization's mission. Planning of 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 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
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
Prunes
Retrenchment
Harvesting
BCG Matrix
Market Growth Rate
Relative Market Share
GE Matrix
Five Forces Model of Industry Structure
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. In developing strategic plans, a SWOT analysis provides a review of internal and external factors that can affect strategic outcomes.
4. 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.
5. In developing strategic plans, an organization must be able to recognize the barriers to entry and exit for any new service venture.
6. 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.

7. The four broad growth strategies that any organization can pursue are:
   - Market development
   - Market penetration
   - Product development
   - Diversification
8. The BCG matrix and GE matrix are conceptualizations that can aid an organization in the review of its service portfolio. Both models encompass market and competitive considerations.
9. 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.
10. In developing a marketing plan, organizations 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. Children's Hospital in Boston, Massachusetts, has long been considered an outstanding medical center specializing in the diagnosis and treatment of pediatric problems. This facility is linked academically to the Harvard University Medical School. Conduct a brief SWOT analysis for Children's Hospital in light of the present health care environment.
3. Describe the possible barriers to entry and exit for: (a) a physician wanting to establish a solo practice office in internal medicine, (b) a company offering a health club facility in the same building where employees work, and (c) a tertiary hospital developing a coronary bypass program.
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 $5000

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 multispecialty 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: Cash cows—20%; stars—60%; problem children—15%; dogs—5%. Provide your analysis to each group.

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