Chapter 15: Marketing and Strategy

Teaching Goals

Students should finish this chapter with five concepts hardwired:

1. Marketing is ubiquitous. Good organizations market themselves to both customers and associates all the time.
2. Marketing is by “segments,” grouping people by interests/needs and responding to those interests/needs.
3. “Listening” is where marketing begins. Finding out what people want is the first step to any sound activity.
4. The four Ps must be in order. When the product (service) and the placement are right, the rest is downhill. When they are not right, it’s climbing a cliff.
5. Strategy is integrating the services of the organization with each other, with competitors and partners, and with changing environment.

The chapter is a foundation for these concepts and for further study of marketing and strategy, either in the classroom or the world. It attempts to show what an HCO must do to be successful.

It’s important for even first-line managers to know these concepts; they apply as much to a single unit as they do to a healthcare organization (HCO). Beyond that, it’s valuable to understand the “whys” behind the concepts.

1. If you build a better mousetrap, darn few people will ever know about it. We live in an age of massive communication, a bombardment of words and ideas. If the HCO does not get into mix, it simply gets ignored. Winning market share is essentially convincing people to select you from the options open to them. You convince them with excellent service, word-of-mouth, branding, and specific service promotion. If you don’t, your competition will.
2. The way to reach people economically is to target the message to the receptive group. (The same logic drives the diagnosis/treatment decisions [Figure 5.1, p. 159] and the use of secondary prevention [p. 181].) It happens that healthcare is easily segmented and most of the segments follow disease incidence. Segmentation is the same process as “specification,” introduced in Chapter 10, p. 386, and pursued in Chapter 14, p. 555.
3. Listening is how you identify opportunities for improvement about relationships. HCO relationships to customers and associates are frequently difficult. Most of healthcare is things people don’t want, and a lot of healthcare is hard work to give. HCOs get to excellence by overcoming these
realities, by maintaining quality, making the hard parts as comfortable as possible, and for associates, by celebrating the rewards. Places that listen discover ways to make care more acceptable and work more rewarding. Because they find and implement those opportunities, they become preferred places to get care and give care.

4. In service industries, nothing is finished until it’s delivered to the customer. So any service must be systematically designed, thought through step by step, from inputs to final delivery. The natural tendency is to focus on some part and ignore the rest. The four Ps and “listening” are designed to prevent that error.

5. The organization must always be more than the sum of its parts. Strategy is about how to put the parts together. It turns out that there is a very large number of possibilities. HCOs own, partner, joint venture, contract, and merge their units, creating complex and dynamic structures. They monitor the whole environment, not just their own operation. If best practice changes, the structure may change. Evaluating the strategic opportunities is challenging; they involve long-term uncertainties and large-scale commitments. As the Miles and Snow typology shows (p. 611), prudence prevails over high-risk behavior, and avoidance finishes last.

In a Few Words
Marketing and strategy are intertwined activities relating the organization to all its stakeholders, even including competitors. Marketing includes identification and segmentation of exchange partners, extensive listening, branding, promotion to both customers and associates, and management of relations with competitors and other community agencies. In strategy, one selects the organization’s direction and relationships, positioning the organization through its mission, values, services, and partnerships. Extensive discussion processes, including but going beyond governance, identify, prioritize, and implement strategic opportunities. The managerial role emphasizes the leadership necessary to keep large groups of people with inherently conflicting agendas aligned toward the mission. Alignment is achieved through the tools for continuous improvement, the processes for building consensus, and continuing rewards. Success builds on itself.

Chapter Outline

*Marketing is a broad approach to building exchange relationships*

- Not limited to patients, it applies to all relationships
- Not simply promotion, it includes all aspects of the organization’s interfaces to the world

*Markets are “segmented”*
Segments are subgroups with similar needs
Both strategy and marketing are usually targeted to specific segments

“Listening” is fundamental
- Goal is to understand the perspectives of customers, associates, and suppliers
- Both qualitative and quantitative approaches are used
- Approaches are often designed ad hoc

Strategies are framed using the tools of evidence-based management
- Integrating the results of listening and the environmental assessment
- Conducting extensive discussions to gain stakeholder understanding and agreement

Senior management and governance manage strategic discussion and implementation
- Commitment to long-term benefit for all, rather than expedient gains for a few, is central to success
- Large healthcare systems can strengthen both the commitment and the evidence-based tools

Powerpoint Slides
See Learning Tools.

Questions to Debate
Slides of the individual questions are downloadable. We have prepared some summary thoughts on the content of class discussion. Obtain this information by writing (conventional mail) on academic letterhead to:

John R. Griffith
School of Public Health
The University of Michigan
109 Observatory St.
Ann Arbor, MI 48109-2029

(Please include an academic (dot edu) e-mail address.)

1. Why are the “Four Ps” important? Why are they ordered as follows: product, place, price, promotion? What sorts of questions would the four Ps prompt for implementing the new well-baby programs suggested in the Figure 15.3 analysis?
2. How does “listening” affect performance improvement teams? Consider a team designing a major renovation or expansion of a service. Focus groups and surveys will cost nearly $100,000. What should senior management consider in deciding whether to spend the money? What is your backup plan if you think that’s too much money?

3. Successful efforts in health promotion and palliative care could mean less income for the hospital and its doctors, and even reduced employment. How would you justify a hospital’s investment? Identify the stakeholder segments that must be sold on the concept, and propose the best arguments for each.

4. The chapter suggests that good strategy results from a systematic process of information analysis and consensus-building discussion. “The Managerial Role” suggests that the functions described in the preceding chapters are important and that multihospital systems can help. Others argue for more independence—“focused factories.” Who is right?

5. The first paragraph of “The Managerial Role” section is an indictment of American healthcare that concludes “the typical hospital is not strategically managed; it is simply drifting.” How could this be true? If it’s false, how do you prove that? If it’s true, what should be done about it?

### Additional Discussion Questions

**Marketing**

1. What is the philosophy of relationships that underlies this chapter? What do customers, members, and competitors have in common? How does marketing approach these groups?

2. **Market segmentation**
   
   2.1. Why and how do you segment markets? What are the parallels between market segmentation, care protocol designs and prevention strategies (Chapter 5)?

   2.2. What dimensions of segmentation (e.g., age, sex, income, geography) would you need to evaluate the following opportunities:

      2.2.1. A community outreach program encouraging routine preventive care for infants and preschool children?

      2.2.2. A breast screening program for commercial and Medicare patients?

   2.3. A promotional campaign designed to promote pediatric preventive care will cost $1 per exposure and yield $20 benefit per new young mother recruited. Unfortunately, it will take eight exposures per young mother to generate a new patient. If you use general community media, only 20 percent of the population are young mothers. A $1,000,000 campaign will
generate 200,000 exposures to young mothers, 25,000 new visits, and $500,000 yield. What is necessary to make the campaign cost effective?

2.4. A test that identifies a certain disease (e.g., AIDS, certain cancers, genetic diseases) costs $100 and saves the lives of half the people identified. Unfortunately, only about 20 percent of the community are at risk for the disease. (The rest are the wrong age, sex, or lifestyle.) What is necessary to make the test optimally cost effective?

3. What are the moral issues in advertising healthcare? Is it wrong to change attitudes of customers, members, or competitors? Why or why not? When, and why, is a relationship adversarial, and is an adversarial relationship consistent with the chapter’s (and the book’s) philosophy? Is it moral to advertise prescription drugs to consumers, cosmetic surgery, experimental procedures, weight loss programs, smoking cessation? Why or why not?

4. Market share enhancement. Assume that your organization has a market share for a certain service of 33 percent. How might it increase market share for the service? How might market share decrease?

5. Why is “service excellence” a marketing program? Is it better to consider it a human resources program? What would make a service excellence program successful? How could it fail?

6. How do you measure the effectiveness of the HCO’s relationships? How do you measure the effectiveness of specific campaigns or activities designed to improve relationships?

7. How do you determine if the marketing unit is appropriately funded? If promotional expenditures are achieving the desired objective?

Strategy

8. What sorts of information should a governing board receive about the environment? When? How? Who else should share this information?

9. How can you characterize HCO strategy? What constitutes “good” or “bad” strategy? “Community focused” or “special interest” strategy? “Aggressive” or “risk averse” strategy?

10. What is strategy, and who actually formulates it? How do you distinguish “strategic” from “programmatic”? Why is a distinction necessary?

11. What parts of strategy can a local HCO “buy” (from consultants or a central system), and what parts must it “make” locally?

12. Alliances

12.1. “New Program 1” in Figure 15.3 (p. 591) may require collaboration with a competitor, other community agencies, and local or state government. Outline the arguments you would use to convince all these people to participate in a collaborative program of well-baby care for babies not now receiving care. Would you anticipate that any groups in the
community would object to your proposal? Why, and how would you deal with their objections?

12.2. Why would two competing HCOs collaborate?

12.2.1. Under what conditions would a collaboration expand, either by internal growth or by involving other competitors?

12.2.2. Why do collaborations not lead to outright merger or acquisition?

13. Pursuing comprehensive care strategies

13.1. "Mangled care." HMOs and risk contracts have been loudly criticized, with the implication that patients are denied important or necessary care in an effort to save money. (The criticism is based almost exclusively on anecdotes; it lacks any statistically sound justification.) Outline a strategy for a well-managed HCO that wishes to convince its market that it provides all appropriate care, while sparing the patient and family the expense and inconvenience of unnecessary tests and treatment. (Hint: a good strategy would be comprehensive across Figure 15.6, p.603).

13.2. Promoting healthy lifestyles. A great many high-risk behaviors are more common in lower socioeconomic populations. How would you design a strategy to influence these behaviors? Given that your proposal is likely to be expensive and returns will be slow in coming, how will you justify it to the governing board? What objections would you expect, and how would you deal with them?

13.3. Promotion to providers. Both questions 15.1 and 15.2 have serious implications for individual physician caregivers. Reconsider your strategies from their perspective, and revise them as appropriate.

14. Optimization concept (Fig. 14.1, p.554). A group of doctors comes to you with an idea for expanding the scope of services (e.g., adding a new specialty, a new clinical support service, or both). They would like to win support of their medical colleagues and the governing board. What would they look for as benefits from the proposed service? What would constitute costs? What are the risks involved, and how would they deal with the risks in their presentation to colleagues and the board? (This question can be simplified by specifying the service, such as hospice care, intensive neonatal care, an expanded primary care geographic scope, or a direct service contract with a local employer. The discussion can be generalized to show the underlying principles.)

15. Environmental assessment. Covering all the issues outlined on pages 558 through 559 will generate a thick document for a well-managed, comprehensive HCO. It is not realistic to expect all participants to read the whole document. An executive summary must identify the most critical points. Go through the bulleted list, and for each bullet, identify the kinds of findings that must go in the summary.
Questions for Examination

These questions are less ambiguous than the discussion questions. Obtain these questions and the authors’ answers by writing (conventional mail) on academic letterhead to:

    John R. Griffith
    School of Public Health
    The University of Michigan
    109 Observatory St.
    Ann Arbor, MI 48109-2029
(Please include an academic (dot edu) e-mail address.)