FIFTH EDITION

ESSENTIALS OF Health Care Marketing

Eric N. Berkowitz

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For Alexandra “Alex” Isabel and
Charlotte “Charlie” Mary, and
Genevieve “Stevie” Anne

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PREFACE

The first edition of this text was published in 1996. In the preface to that initial book, I wrote, "the reimbursement, competition, and structure of health care is undergoing massive change." Now through the publication of this fifth edition some 25 years later, these words still describe one of the most interesting and challenging industries and professions globally for students to study and for managers to have careers. The stakeholders who must be served represent important implications for marketers unlike few other industries. In that regard, the many concepts and issues in this text are presented in the context of the broad environmental forces that impact the healthcare ecosystem and the marketing implications that flow from them. It is not just that health care in the United States is such a large part of the gross domestic product that underscores the importance of the healthcare system, but rather the implications for the end user, the patient, who is at the core of the system's purpose. In this context, healthcare marketing plays an important role whether it is in a healthcare system, a medical group practice, a pharmaceutical company, or a not-for profit organization assisting in providing care that marketing strategies and tactics are increasingly significant.

In this edition, the concepts and changes are now all affected by the digital environment that impacts both consumers and companies. Although the influence of the web and the Internet were part of earlier editions, the disruption of the digital environment is less a new force than an integral part of how consumers proceed on their patient journeys and how healthcare organizations deliver their services and inform various market segments of the value of their products and services. Healthcare marketers in the most recent past have had to consider the challenges of a global pandemic in communicating and integrating new forms of care delivery with their customers and other stakeholders in the channel. All these new externalities now are integrated in this edition to reflect the dynamic nature of an industry that must always be able to pivot in response to rapid change. Consumers are searching for care solutions online, rural hospitals are closing, and companies are increasingly direct contracting for care to leverage their power in the increasing equation of relationship power of channel intermediaries as consumers balance the healthcare decision of care and cost.

From the first edition to this new fifth edition, the need to justify marketing within healthcare has disappeared. Rather, the concepts in this text now explore the sophistication being brought to healthcare marketing in this digital age from virtual asynchronous focus groups to artificial intelligence in marketing research. Streaming and podcasting are promotional tools, digital billboards are being integrated into communication plans by healthcare organizations, and digital phenotyping is considered to aid the elderly as in target market strategies to assist aging-in-place strategies. Technology and digital transformations have increased the sophistication of healthcare marketing as it has marketing for all industries. For students, practitioners, and healthcare professionals involved in precision personalized medicine, this is the most interesting time to study healthcare marketing.

INTRODUCTION

This book is divided into three main parts. Part 1, "The Marketing Process," looks first at what marketing is, the nature of marketing strategy, and the environment in which marketing operates. Part 2 is a section containing multiple chapters on "Understanding the Consumer." This section begins with a focus on buyer behavior, an exploration on market research and methodologies, the approach to segmenting markets, the value of and strategies used to gain customer loyalty and engagement, and the importance of marketing in the digital age along the patient journey. Part 3 of this text is an in-depth focus on the marketing mix. This portion of the text has distinct chapters on product, price, and distribution aspects as they pertain directly to health care and the marketing implications. The promotional aspect of marketing has three distinct chapters on promotion, advertising, and sales. The last two chapters in this third section cover controlling and monitoring marketing activities and ethical issues involving marketing in health care. Throughout this text, concepts are presented with current examples of healthcare organizations applying these marketing strategies digitally as well as in face-to-face contexts with patients or other stakeholders in the healthcare ecosystem. In addition, in this new edition, many video links are also provided to support the examples that are discussed. Each chapter has a summary of major points, end-of-chapter questions, and key terms presented for useful reference.

Chapter 1 provides a perspective on the meaning of marketing, the prerequisites for marketing, how marketing has evolved in health care, and the marketing process. This chapter also provides the common and important discussion in health care regarding the dilemma of needs versus wants and its relevancy to marketing. Identifying stakeholders is central to this discussion and explanation of the target market. Finally, this chapter ends with a central question asking, Are there only four P's? A major discussion in Chapter 1 is the importance of a marketing culture and the difference between a market-driven versus a nonmarket-driven planning approach. In addition, this chapter outlines how marketing health care is evolving within a changing industry and with the impact of technology on the four P's. Chapter 2 provides an overview of marketing strategy and an understanding of the strategic options available to a healthcare organization. It also presents how having a differential advantage for a healthcare organization is an important part of marketing strategy as well as the sources of that differential advantage. In health care, trust is a key differential advantage that is unique, which this edition covers. In strategy, a consideration of the competition is key; an important source of new competitors—disruptive innovations—is also discussed. Four alternative strategic frameworks are presented in this chapter: the Boston Consulting Group Portfolio Matrix (BCG); the Five Forces Model; the Blue Ocean Strategy; and the McKinsey 7-S framework, which is particularly relevant to health care in an era of mergers and acquisitions. Chapter 3 focuses on the environment in which healthcare marketing plans and strategy are formulated and the impact that the environment has on these plans. There are multiple dimensions of the environment to consider: economic, technological, sociological, competitive, and regulatory. Economically, the

United States spends a significant percent of its gross domestic product on health care, although compared to several other Western economies, its health outcomes on major dimensions are much worse. Technology, a key change today, is highlighted in terms of its impact on four dimensions: quality, cost, information, and behavior. This edition describes how healthcare organizations are responding to the aging population in terms of new structural models affecting distribution of care and aided by the technological advances to assist the goals of aging in place are described. This chapter also discusses the information value role of technology that people access in terms of health care and its impact on healthcare transparency. This edition provides a detailed description of the changing face of healthcare competition from the erosion of rural hospitals to the increasing mergers occurring among healthcare systems. At the same time, as the text describes in the section on regulation, the Covid-19 crisis has demonstrated the increasing use of telemedicine and the need to streamline licensing of physicians to use this technology as described in this chapter.

As previously described, Part 2 of this edition focuses on "Understanding the Consumer." The consumer can be the individual patient, the referral physician, a company buying care for its employee base, a judge making a referral for a mental health consultation for a person under state care, or an insurance company deciding whom to contract. Chapter 4 provides an overview of decision-making as it pertains to both consumers and organizations. The external search process for consumers has changed dramatically with transparency and web access. Marketers must be aware of how information is presented to consumers in this environment. Multiple factors can affect a consumer's search process. This fifth edition presents several alternative decision models that a consumer may use in making a choice: a compensatory decision model, a Fishbein choice model, the Health Belief Model, and a model of decision-making based on loss aversion, often referred to as *nudging*. Several important concepts affecting consumer decision-making are also described in this chapter such as cognitive dissonance, triangulation of information, and involvement. This chapter also describes the important consumer decision journey and the recognition marketers must place on the complete set of experiences a customer or patient has at each stage. The final portion of this chapter focuses on industrial buyer behavior involving a decision-making unit consisting of multiple participants playing different roles. Chapter 5 describes the marketing research process with primary and secondary data. Primary data are presented along the dimensions of alternative qualitative and quantitative methodologies used within marketing research. Increasingly, organizations are using big data, data-mining techniques, and artificial intelligence to analyze their customer base and the web to conduct surveys as discussed in Chapter 5. Increasingly, big data are providing value to market research information. As described in the earlier chapters, technology has impacted the collection of primary data as well as survey response rates. As described in this edition, virtual focus groups are increasingly used, and mobile survey platforms have improved response rates among younger cohorts. The refinement of marketing strategy often occurs because of market segmentation, which is discussed in Chapter 6. This edition describes the multiple bases for segmenting consumer and business markets and their application to health care. Several interesting video links are provided in this chapter that demonstrate healthcare applications of segmentation approaches. A healthcare-specific approach to segmentation—population segmentation—is also discussed in this edition that is most relevant in an accountable care organization environment.

Marketing organizations have recognized that gaining customer loyalty is the key to long-term success; this concept is the focus of Chapter 7. Loyalty is an increasingly important concept for healthcare organizations as they prevent leakage and understand the concept of the lifetime value of a customer described in this chapter. This chapter underscores the need for loyalty as a concept beyond satisfaction and the dimensions of value to create such loyalty. Related to loyalty and

engagement is the importance of an omnichannel customer experience. New to this edition is "Marketing in the Digital Age" (Chapter 8), which discusses how all of today's marketing strategies exist in a digital environment. As described in this chapter, all companies face new competition as a function of technology and the impact of its disruption. The digital impact on health care has occurred throughout the ecosystem. The patient's journey is explained through the successive steps from awareness of a condition to the final stage of behavioral change and proactive health. At each step, examples and video links are presented in terms of how the steps are impacted by apps, websites, and related technologies. Company strategies to change behavior, impact the competitive environment, or provide cost-competitive approaches are highlighted with web links, explanations, and video links. This chapter concludes with a discussion of the Internet of Things (IoT) and its impact on healthcare marketing.

As noted, Part 3 covers the "Marketing Mix." The four P's—product, price, place, and promotion—are the basis on which all organizations develop their marketing plans and strategies. Chapter 9 reviews concepts involved in the product or service. Strategies change over the stages of a product (service) life cycle. In the adoption of healthcare products and technologies, this edition identifies the multiple criteria that affect the adoption of new services and technologies in health care. This chapter also describes the multiple branding strategies that are being implemented by healthcare organizations and the advantages and risks associated with each alternative. Chapter 10 discusses the price aspect of the four P's, which has many significant issues of currency influencing healthcare marketing. This edition presents the increasing role of price transparency and recent government requirements. Corporations, consumers, and healthcare organizations are having to respond as described in this chapter, which also provides an overview of the alternative reimbursement approaches that have been used in health care such as diagnostic-related groups, pay for performance, capitation, and value-based payment approaches, among others. This edition's chapter describes a range of pricing strategies for a healthcare marketer with examples being used by healthcare digital apps in today's marketplace. Delivery of services is the concept of distribution covered in Chapter 11. Distribution includes fixed assets, face-to-face (f2f) alternatives, and such digital methodologies as telemedicine and apps. Multiple examples being provided in the marketplace are presented with video links and websites. This chapter discusses the evolving channels in marketing, the conflict that is occurring and the resulting functional shifting.

Three chapters in the text—Chapters 12, 13, and 14—are devoted to the promotional mix. The focus of Chapter 12 is on understanding the promotional mix and the communication process. Beginning with the communication model, this chapter highlights the importance of the sender in a message within a healthcare marketing context. This chapter also presents the evolving stages of the Internet and the implications for promotion. This chapter also presents a discussion of an integrated communication mix of earned, paid, and owned media within that context. The major promotional tools are discussed, and the digital aspects of such tools as e-selling are also highlighted. Because significant attention has been paid to the use of push and pull strategies among physicians and pharmaceutical companies' promotions to consumers, this aspect is discussed in detail. Advertising, historically seen as the only role of marketing, is the focus of Chapter 13. This chapter describes the various forms of advertising and the steps in developing an advertising campaign from defining the target audience to setting objectives, determining the budget, developing the message, and scheduling and selecting media. As in previous chapters, there is now an array of digital media vehicles available to marketers such as podcasts and streaming media now available as well as the technological advances in formerly long-standing media vehicles such as billboards that make them more valuable in targeting strategies today. Different considerations in the testing of digital advertisements are also discussed in this chapter that reflect today's evolving media environment.

Chapter 14, the last chapter on the promotional mix, involves sales and sales management in which the digital impact has affected both processes. This chapter describes the variety of sales roles and how e-detailing is a factor within technical sales. Because of the increasing digital influence, this chapter discusses the issue of hybrid selling in this new environment. Because the healthcare environment is unique, the role of academic detailing is presented. This chapter describes the sales process and alternative sales methods. The challenge of controlling and monitoring marketing activities is the focus of Chapter 15. The chapter discusses the importance of market share as a measure to monitor in a competitive market. Sales, profitability, contribution, and variance analysis are also reviewed. Specific issues for monitoring aspects of marketing in the digital age are also discussed. Measuring the outcome of marketing decisions is necessary to continue to refine effective marketing strategies. This edition highlights the components of an effective measurement system for any healthcare organization along with the details of a marketing audit. Chapter 16, the final chapter of the text, presents the ethical considerations in marketing. Beginning with a discussion on the meaning of ethics, this chapter does not intend to present a 'correct' ethical position but raises the ethical questions that may exist in some of the marketing areas or concepts presented in this text. The chapter presents a common question within health care as to whether the patient is the customer and proceeds to some of the ethical issues involved in market segmentation. This latter discussion has interesting video links. In the digital age, there are ethical issues such as privacy and notification of choice that are presented along with social media concerns. Finally, the chapter has an array of ethical issues within each of the four P's.

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

Chapter Organization

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

New to This Edition

For users of previous editions of this text, it may be useful to briefly highlight some of the additions and changes that have been made throughout each chapter. As noted in the "Introduction," these changes reflect the ever-evolving healthcare environment, the growing influence of technology and the digital influences that result, along with the greater influence of population health because all may impact healthcare marketing. In addition, two new chapters have been included in this fifth edition. As noted in an overview of the text, one chapter is titled "Marketing in the Digital Age" (Chapter 8); this addition led to the renumbering of chapters from the previous edition for previous users of this text. Chapter 16, the second new chapter, concludes the text with an important discussion of today's marketing environment titled "Ethical Considerations in Marketing."

In Chapter 1 is a significant discussion of the meaning of a marketing culture and the growing digital influence in marketing. These two issues have significant impact on current marketing approaches in the coming years. Digital influences are highlighted throughout this text. In this new

edition's first chapter is a greater discussion of transparency and pay-for-performance models. A significant and important addition to this first chapter is a discussion of stakeholders. As marketing must consider the range and identification of stakeholders in developing any plans, this new section presents a discussion on the subgroups of stakeholders and how they may affect an organization. A perspective is provided in terms of the primary and secondary stakeholders to factor into an organization's planning perspective.

There is an updated discussion of the "Market-Driven Organizational Culture." Recent perspective is increasingly providing a broadened view that suggests that a market-driven organizational culture is a customer-centric approach. To a large extent, this perspective works with the concept of engagement, today's important healthcare organizational challenge.

The last portion of this chapter concludes with a new and important discussion titled "Are There Only Four P's?" Not all academic writers have agreed that the four P's originally elaborated by Jerome McCarthy in 1960 of product, place, price, and promotion are sufficient to encompass the marketing paradigm. This section of the text discusses, along with a new graphic presents the other variables for consideration and how some of these other P variables may have specific applicability to health care. Chapter 2 has several new additions and expanded discussions from the previous edition. As past to get space for earlier changes users will find, there is a new planning model, the McKinsey 7-S framework, that has been added to this text that is particularly relevant in an era of healthcare mergers and acquisitions given the importance and interrelatedness of culture when organizational changes occur. Because this model highlights factors that influences an organization's ability to change, it is a particularly relevant consideration. In the section on "Organizational Strategies," more detailed subsections pertain to approaches such as *market development*, *product development*, *diversification*, *strategic alliances*, and *pruning*. Instructors will now find detailed healthcare examples within these concepts to assist students by providing real-word examples of how organizations are implementing these tactics. The strengths, weaknesses, opportunities and threats (SWOT) analysis highlights a detailed discussion of the recent expansion of CVS Caremark's expansion to help students understand the relevancy of this perspective in understanding the applicability of SWOT to an actual business marketing situation. As throughout this text, this chapter discusses the digital influence on health care. For example, the section on barriers to entry that was presented in the previous edition is now updated with a telemedicine application. Similarly, when discussing a cost-based differential advantage, the applicability for utilizing apps by healthcare organizations is also presented in that discussion. Users of this text will find similar technology and digital presentations examples throughout every chapter.

This third chapter pertains to the environment; as expected, each edition requires an updating given the dynamic nature of the healthcare environment. As a result, much of the content in this chapter has been updated along with some new sections.

The discussion on income also has been revised. It reviews the income disparities that exist in the U.S. population, gains made by subgroups, and the effects of income on life expectancy. Technology is a major healthcare issue, and this section has been significantly revised in terms of four dimensions: quality, cost, information, and behavior. The section on quality presents a discussion on precision and personalized medicine. The cost discussion maintains the perspective of four bins, with added new examples as to digital apps that relate to potential cost savings. Instructors will find links to examples of relevant digital healthcare apps throughout this edition. In terms of information, examples are provided using Lean processes, whereas Internet use as it affects behavior is an extensive discussion in this edition.

In the discussion of transparency are significant updates based on the 2019 all-payer mandated claims databases, the challenging problem with surprise medical bills, and the federal regulations

requiring the posting of the chargemaster by hospitals. An interesting YouTube video link is referenced in the section on surprise medical bills and the company EmCare that will be valuable for a postclass assignment or classroom discussion. In this edition, users of this edition will find several such links to videos throughout this text. Users will also note a useful video link to help students understand the *chargemaster*. In this edition, there is a more in-depth discussion on third party transparency sites. Users of this edition will note an interesting new discussion of studies comparing popular websites such as Yelp with more quantitative data sites rating hospitals. A significant change has been made to the section entitled "Healthcare Organizations Responses to an Aging Population." The major revision is heavily centered on a new discussion on "geotechnology" helping consumers to age in place with significant digital and technology support such as apps, sensors, remote monitoring tools and artificial intelligence. In terms of culture, the increasing shift of women in the labor force is noted in this edition. One of the beneficiaries of this shift has been telemedicine providers. Most interesting is the fact that more women comprise a greater percentage of medical school classes than males. In the section of regulation, a major update reflects the new digital and Internet age. An extensive new section has been added to the regulations regarding telemedicine.

In Part 2 of the text, Chapters 4 through 8, several important changes and additions have been included. Chapter 4, "Buyer Behavior," has been updated along several perspectives. In this edition, the chapter begins with an explanation of the stages of the "Decision-Making Model." In this edition, there has been a significant enhancement to the discussion of each of these stages. Users of this edition will note significant changes to the stages of *external search*, which discusses the influence of consumers' utilization of the Internet and how consumers interact with clinicians after searching for this information. Two new significant consumer decision models as well as additional discussion of new concepts in the decision models have been included in this edition. One model is referred to as the *Health-Belief Model*, and the second is based on the principle of loss aversion and "nudging" individuals to their decison. The third major significant addition to this edition's chapter revision is a new section titled "The Customer Decision Journey." The market research chapter, Chapter 5, has been updated in several areas with new content and the impact and influence of technology and digital to the market research process as discussed in previous chapters. A new section has been added to this chapter in terms of using *artificial intelligence* for marketing research. The section on "Data Collection" has been significantly enhanced because of new technology applied to focus groups with a review of both the application of synchronous and asynchronous alternatives. Virtual focus groups are a valuable addition to the application of technology to market research data gathering and has been reorganized to help students better understand the array of research tools. The concept of *big data* is introduced, as well as data mining in greater detail. Social media have now been included within the context of qualitative research methods.

Chapter 6, "Market Segmentation," now includes a discussion of microsegmentation and attempts by pharmaceutical companies to determine physicians' sales responsiveness curves for engagement strategies. In the "Bases for Segmentation" section, users of this edition will also find a new concept originally used by Disney referred to as *share of wallet* and promoted by the Health Advisory Board presented in this edition within the concept of *brand loyalty*. Finally, the "Bases of Segmentation" section has a revised presentation of the "Benefits Segmentation" section from the previous edition with a more direct healthcare-specific example of relevance for health care. A new segmentation section titled "Population Segmentation" that has been used within health care in recent years is now presented. This approach segments a patient base by risk levels and has significant implications under today's value-based payment system. As necessary the "Cohort Segmentation" section has been updated, with the Gen Z cohort now added to this discussion. Chapter 7,

"Developing Customer Loyalty," is a chapter of great importance in achieving engagement and contains several significant enhancements and aspects to its revision. Two important new concepts introduced in this edition are *leakage* and a customer's *lifetime value*. A new discussion on "The Customer Experience: The Omnichannel Challenge" is added to highlight the need for healthcare organizations to create a seamless customer experience which begins before the customer is physically in the healthcare organization; it must be an end-to-end experience. In this edition, a fourth form of informational justice relevant to health care has been included in the discussion of the section on "What Customers Want: Forms of Justice."

The new Chapter 8 added to this Part 2 of the text reflects the digital age of marketing and is titled "Marketing in the Digital Age." It describes how few industries have been untouched by digital disruptions to their business model; the discussion is organized around the patient journey. Initially, the discussion focuses upon new forms of competition that are emerging in the digital age. This chapter also introduces a new concept for marketing, the patient journey. The remaining portion of the chapter proceeds through the stages of wellness through prevention and how digital and other technologies impact marketing. Within this chapter is also a section on the "Internet of Things (IoT)" and its marketing relevance.

Part 3 of the text focuses on the marketing mix and concludes with a summary perspective on ethical issues in marketing. In Chapter 9 (Chapter 8 in the earlier edition), "Product Strategy," the life-cycle concept relative to proton-beam therapy centers continues in this edition. Users of this text should note the video link identified in the growth stage of the life cycle and highlighted in the promotion element of the marketing mix. There also has been a significant expansion of the discussion of the mature phase of this life cycle. Chapter 10 (Chapter 9, fourth edition) has a new section titled "Corporate Response to Price Transparency." This section reviews some of the proactive approaches that corporations are taking to understand the prices in different states as well as a RAND Corporation initiative that underscores the large variance between Medicare and private insurance prices being paid by corporate buyers of health care. In addition in the discussion of "Consumer Response" there is again a more in-depth discussion within this new edition because some of the digital advances that have emerged in the market to assist consumers' decision-making in this era of price transparency. A new section has been added in terms of payment models. This section pertains to "Value-Based Payments," which is increasingly common for many healthcare provider organizations today. Within this discussion is a brief overview of the variations of pay for performance, bundled payments, shared savings, and shared risk variations. Chapter 11 (formerly Chapter 10), "Distribution," highlights the significant impact of digital on this aspect of the marketing mix with the revision of this edition. Direct channel apps are introduced and discussed in the section on "Functions in the Channel." Similarly, the impact of digital is also introduced in the discussion of the "Retail Positioning Matrix." Chapter 12, "Promotion," contains a more in-depth discussion of the use of a spokesperson and the potential risk that may be involved in using a famous or visible person. Again, a useful video link is provided to highlight the challenging issues of this promotional approach. A new section titled "The Evolving Web: Moving to the Stage of WEB 3.0" discusses the way in which health care has and will continue to use the web through each stage of its evolution. This new section describes the three stages of web evolution and will integrate with material in Chapters 7 and 8. A new concept is introduced, *inoculation theory*, because it is used in two-sided messages, which is an important consideration for marketers when creating promotional messages whether in digital or traditional format. Finally, in the section on "Sales Promotion" there is a new added discussion of *event marketing* and *sponsorship* in this edition.

Chapter 13, "Advertising," has a different beginning from the previous edition by putting this P in a greater historical context. In this edition, users will find many new apps and video links useful for discussion of concepts contained in this chapter. New to this edition is a section titled "The Digital Environment for Creating Copy," which presents the need to do A/B testing. Recognizing the impact of technology, in the section on "Television" has an added discussion of over-the-top (OTT) distribution models such as Apple TV+ and Roku and their implications for marketers. Within the section of medium, "Podcasting" is now included in this edition as an alternative vehicle along with a discussion of digital billboards. A new section also has been added titled "The Web, Social Media, and Health Care" that focuses on the holistic approach being undertaken by some healthcare organizations in their advertising strategies. It notes a shift in how advertising agencies also are being compensated.

Chapter 14, "Sales and Sales Management," has several new sections in this fifth edition. The chapter begins by outlining the multiple objectives of a physician liaison program. It highlights the fact that today's "sales" role is increasingly part of the healthcare ecosystem. A new addition to this edition is entitled "Hybrid Selling: The Changing Face of Sales in the Digital Age." This section provides a perspective as to where the various digital tools and the f2f approach might be brought to bear in terms of effectiveness in the sales process. The value of social media in this process also is highlighted. An additional section included in this edition is "Telemarketing." Used by some segments within healthcare, this tactic has resulted in some legal challenges. Chapter 15 has been revised with an expanded discussion of "Customer Satisfaction Control." The second major enhancement and revision to this chapter is in the section of "The Marketing Audit." Previous users of earlier editions of this text will note a significant revision to the audit questions that are updated as well as added to reflect today's digital environment.

The second new chapter added to this edition, Chapter 16 "Ethical Considerations in Marketing," begins with a basic question for students as to "The Meaning of Ethics." The purpose of the initial section is not to provide an answer but to provide the perspective that it must be considered from the perspective of the different stakeholders. The chapter contains a section titled "The Marketing Segmentation Ethical Dilemma of the VIP Patient" and the issues of unequal care along with a video link of an international facility. A broader discussion is contained in the section "Ethics in the Digital Age," which focuses on issues such as privacy and digital phenotyping. Finally, the chapter focuses on separate ethical issues as they pertain to the four P's.

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This text originated from my early academic work at the University of Minnesota. In that regard, I am indebted to the early research and publications that my colleague William Flexner and I did at the Center of Health Services Research. I also collaborated in consulting and writing with Steven Hillestad while he served initially as a vice president at Fairview Health System and then at Abbott Northwestern Health Care System. In our work together, Steve and I have published a text, *Health Care Market Strategy: From Planning to Action*, also published by Jones & Bartlett Learning, that is now in its fifth edition (2020).

My perspective in this text is greatly influenced by the exceptional healthcare professionals, both executives and providers, with whom I have had the great fortune to interact since first deciding to study the healthcare industry. Having met and worked with Mr. Roger Schenke, the visionary leader in the early years of the American Academy of Medical Directors (which ultimately became the American Association of Physician Leaders), I met outstanding physicians and had the opportunity to work with and conduct educational sessions on marketing and strategic planning at medical groups and hospitals and health systems in all 50 states and in many other countries. I learned about their approaches to service delivery and observed marketing from its early evolution to today's more sophisticated digital transformation. To name all the physicians and executives to whom I am indebted risks leaving out many people important to me over these many years, but they collectively have made my professional career exceptionally rich and rewarding. My early participation in the Alliance for Health Care Marketing and Strategy with other healthcare marketing professionals brought together practitioners from the healthcare industry at a time when marketing was beginning to be established as an important and recognized functional area within the industry. This experience as an academic again provided me the added value of understanding how practitioners were bringing marketing to health care at the highest level.

Over my academic career, I have had the opportunity to work with many good colleagues at three academic institutions: the University of Minnesota at Minneapolis, the University of Massachusetts at Amherst, and Babson Global at Babson College. Serving on the Board of the Cooley Dickinson Hospital and Reliant Medical Group further added to my knowledge and shaped my insights into the challenges faced by those who practice and manage the delivery of care as well as the responsibilities and ethical standards theses professionals strive to achieve in the care of patients.

The production of any text is no easy task and involves many individuals. In this edition, I want to express my appreciation for the work of Exela Technologies and Upendra Kumar Pandey, Premavathi Subramaniyan and the team in all stages of production, copy editing, composition, and proofreading during the final months before publication. For many years and over what has now been five editions, I have had the good fortune to work with the most professional and dedicated people at J&B Learning, who have been committed to ensuring this book creates a positive

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Finally, and most important of all, I want to express my greatest appreciation and love to my family. In writing an acknowledgement, however, no contribution surpasses that of a spouse, accomplished daughters, son-in-law, and granddaughters who always make me smile.

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Professor Berkowitz has published extensively in both marketing and health care. He is the author of six books in addition to *Essentials of Health Care Marketing*, fifth edition (2022) (Jones & Bartlett Learning); *Marketing*, eighth edition (2006) (Richard D. Irwin); *Marketing in Canada*, fifth edition (Richard D. Irwin); *Health Care Market Strategy From Planning to Action*, fifth edition (2020) (Jones & Bartlett Learning); *Strategic Planning in Health Care Management: Marketing and Finance Perspectives* (1981) (Aspen); and *Health Care Market Research* (1997) (Richard D. Irwin).

Dr. Berkowitz is a past editor of the *Journal of Health Care Marketing*. He also served as Chairperson of the Alliance for Health Care Strategy and Marketing. In 1985, Dr. Berkowitz was named an honorary member of the American College of Physician Executives. In 1988, Professor Berkowitz received the Frank J. Weaver Leadership Award from the Alliance for Healthcare Strategy and Marketing for his contributions to the advancement of healthcare marketing. He was twice named the outstanding teacher in the School of Management at the University of Minnesota. For 15 years he was on the Board of Cooley Dickinson Hospital in Northampton Hospital, serving for three years as Board Chair, and he was on the Board of Reliant Medical Group, a multispecialty group practice in Massachusetts for nine years.

PART 1

The Marketing Process

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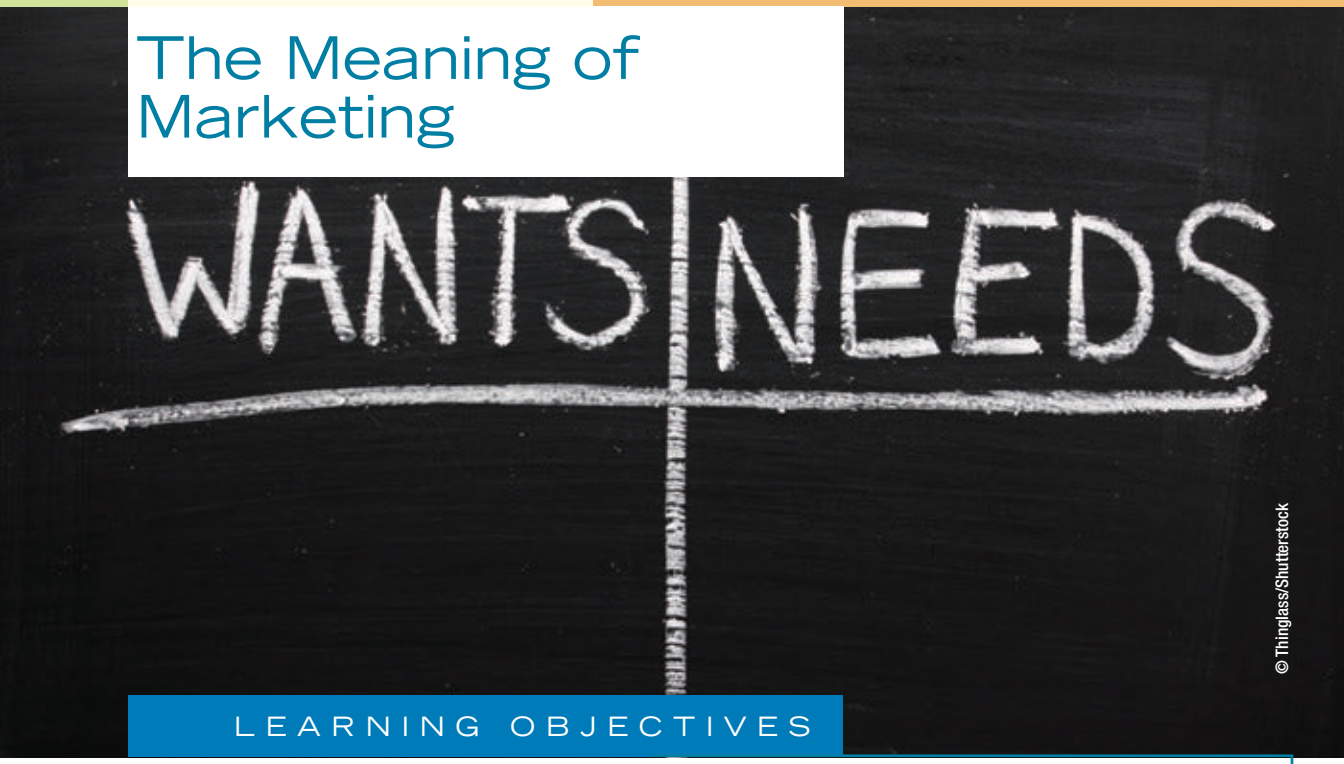
CHAPTER 1

The Meaning of Marketing



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LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Define marketing and differentiate between a marketing-driven and nonmarketing-driven process
- Distinguish among marketing mix elements
- Delineate between healthcare needs and wants
- Understand the dimensions of the environment that affect marketing strategy
- Appreciate the ongoing restructuring of the healthcare industry

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

Marketing

For anyone involved in health care since the beginning of the 21st century, the term *marketing* generates little emotional reaction. Yet healthcare marketing—a commonplace concept today—was considered novel and controversial when first introduced to the industry in the mid-1970s. In 1975, Evanston Hospital, in Evanston, Illinois, became one of the first hospitals to establish a formal marketing staff position. Now, more than 45 years later, marketing has diffused throughout health care into hospitals, group practices, rehabilitation facilities, and other healthcare organizations. In this text, fundamental marketing concepts and marketing strategies are discussed. Although health care is undergoing significant structural change, the basic elements of marketing will be at the core of any organization's successful position in the marketplace.

The Meaning of Marketing

There are several views and definitions of marketing. The most widely accepted definition is that of the American Marketing Association, the professional organization for marketing practitioners and educators, which defines **marketing** as "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives."[1]

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

The Joint Commission, the industry's major accrediting agency for operating standards of healthcare facilities, requires—per its 1994 accreditation manual—that hospitals improve on nine measures of performance, one of which is patient satisfaction. A similar requirement is also in place for long-term care facilities. This focus on patient satisfaction is an overt recognition of the need for healthcare facilities to be marketing oriented and, thus, customer responsive. Moreover, the Center for Medicare and Medicaid Services (CMS) requires all hospitals to distribute to patients and publish the results of its standardized survey instrument and

data-collection methodology for measuring patients' perspectives of hospital care. This 27-item survey underscores the focus on the consumer (patient) (https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/HospitalQualityInits/HospitalHCAHPS).

In January 2009, the Joint Commission posted these results for all hospitals on its website so that consumers could search for CMS patient satisfaction data for all hospitals and view state and national averages.[2] The importance of customer satisfaction is now a recognized and central component to the operations of healthcare organizations as hospitals are financially impacted by the satisfaction of patient evaluations in a system referred to as Hospital Consumer Assessment of Healthcare Provider Systems (HCAHPS). This standardized survey instrument measures patients' perspectives on hospital care across nine dimensions: communication with doctors, communication with nurses, responsiveness of hospital staff, pain management, communication about medicines, discharge information, cleanliness of the hospital environment, quietness of the hospital environment, and transition.[3]

Prerequisites for Marketing

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

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

The limitations to advertising were in the original 1847 Code of Ethics of the American Medical Association (AMA) that banned advertising for healthcare services. These ethical codes stated, "It is derogatory to the dignity of the profession to resort to public advertisements or private cards of handbills inviting the attention of individuals affected with particular disease. These are the ordinary practices of empirics and are highly reprehensible in a regular physician."[4] Communication to facilitate exchange occurred by word of mouth. One would consult with a physician, and that individual, in turn, recommended the physician to other consumers who would then seek out that particular physician. Although the AMA's 1957 "Principles of Medical Ethics" continued to judge the practice of soliciting of patients to be unethical, these prohibitions were struck down in 1980 in a Second Circuit appellate court decision in which the AMA was ordered to cease and desist from such restrictions on advertising. The court stated that such restraints violated Section 5 of the Federal Trade Commission Act prohibiting "unfair or deceptive acts or practices in or affecting commerce."[5] The AMA revised its code of ethics

to be less stringent regarding advertising. Further legal actions between the Federal Trade Commission (FTC) and the AMA had removed even those restrictions by 1982. The FTC believed the restriction on advertising deprived consumers of the free flow of information regarding healthcare alternatives and services. The FTC and the federal courts recognized the value of communication to consumers. Communication is a prerequisite for marketing. It is only in the last three decades that more formal means of communication have evolved within health care, and marketing strategies have become more visible, whether it is formal advertising in traditional media, the personal sales representative who might be at a trade booth displaying a new medical device at a physician specialty meeting, or on a social media platform or through podcasting.

Who Does Marketing?

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

In 1969, two marketing academics—Philip Kotler and Sidney Levy—at Northwestern University in Illinois published an article about broadening the concept of marketing. Their writing was the first attempt to recognize that for-profit and nonprofit businesses engaged in marketing activities. They recognized that marketing activities occurred in both service and product businesses. At the core of these organizations' activities was the notion of "exchange."[6]

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

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

In health care today—as there is an increasing focus on managing an individual's health given the emerging nature of the healthcare reimbursement marketplace—it is increasingly relevant to consider the aspect of marketing and exchange as has been discussed within a social marketing concept—that is, the issue of exchange may well involve third parties, and the transfer can be values, attitudes, or beliefs.[7] Implicit in this concept of exchange, then, is the recognition that marketing and thus social marketing involve a voluntary action on the behalf of the individual customer or consumer that focuses on a behavioral change to improve their health status. It is not a regulatory or enforced action being imposed on the person to change behavior and thus comply with some mandated action to improve his or her health behaviors, for example.[8] What might be considered as a difference of social marketing from marketing in

general is that social marketing has as a goal of getting individuals to change their behavior in measurable ways.[9] Within this text, several examples of social marketing will be integrated because the outcome metric may be different, but the tactical elements are similar in terms of what will be described later as the marketing mix.

The Elements of Successful Marketing

Marketing Research

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

The Four P's

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

Product, price, place, and promotion are referred to as the **four P's** of marketing strategy.[10] A firm uses these four controllable variables to define its marketing strategy. The mix of these four controllable variables that a business uses to pursue a desired level of sales is referred to as the **marketing mix**. The definitions of the four major elements of marketing as discussed here provide the focus of this text.

Product **Product** represents goods, services, or ideas offered by a firm. In this text, the term *product* also will be used interchangeably with healthcare services and ideas. In health care, the nature of the product has changed dramatically. In the 1980s or 1990s, we could define *product* simply as a medical procedure or as an orthotic device to correct a physical disability. In today's climate, the discussion of the healthcare product includes not only these traditional products but also products and services. Examples of such products and services include a contracted services organization (e.g., CEP America) that runs a hospital's emergency room, hospitalists, anesthesia services, and other necessary elements as needed by acute care facilities; a group purchasing contract, such as that offered by Premier, Inc., an alliance of independent hospitals in 50 states; or even a web-based telemedicine provider such as Amwell (https://business.amwell.com/), a major telehealth provider that provides services to healthcare systems and hospitals nationally. During the COVID-19 crisis of 2020, many American consumers in large numbers for the first time experienced this form of access to the healthcare system. During the crisis, traditional barriers to telemedicine reimbursement by private insurers and Medicare and Medicaid were also removed, leading to almost 15,000 televisits a day by one national virtual provider.[11]

Price **Price** focuses on what customers are willing to pay for a service. What price represents is addressed in the definition of marketing in terms of exchanges. A company provides a service, and customers exchange dollars for receipt of a service that satisfies their needs. For example, an employee paying an annual premium to an insurance company and a physician fee for an office visit both encompass exchange behaviors involving a predetermined price. The issue of pricing for healthcare services has become a major concern of marketing strategy as the healthcare environment changes, with companies shifting an increasing amount of the responsibility to employees or consumers moving to health exchanges or high-deductible healthcare plans; individuals are more sensitive to the price of healthcare services. For many years, the price aspect of healthcare services has been a challenging variable for consumers. One healthcare economist likened it to a situation in which a consumer as a shopper entered a department store blindfolded and put clothes in a shopping cart, only to be sent a bill for the items several months later.[12] In this scenario, it would be difficult to be a judicious shopper. However, there is a greater movement to price transparency to aid consumer decision-making as will be discussed in greater detail in Chapter 3.

Several factors are contributing to the greater role that the pricing variable plays in developing marketing strategy. In many countries, the rising cost of health care has been a major cause of concern. Between 1990 and 2005, U.S. healthcare costs grew at a rate of 5.8% but began to show signs of slowing. Between 2008 and 2013, average healthcare spending slowed to an average of 3.7% per year. However, over the next several years, average costs again began to rise to a 5.3% increase in 2014 and to 5.8% the following year. The two largest categories accounting for healthcare costs are hospital services followed by physician services.[13] Compared to other developed nations, the United States spends almost twice as much on health care. In 2016, the United States spent 17.8% of its gross domestic product (GDP) on health care while other countries ranged from a low of 9.6% of GDP (Australia) to 12.4% in (Switzerland). Much of this higher cost in the United States as previously noted has been attributed to hospital care. Physician care but also administrative complexity and higher drug prices contributed to higher U.S. costs. The lack of price transparency also has been cited as an issue in this this higher contributing expenditure by U.S. consumers.[14]

From 2008 to 2018, premium contributions for employers climbed from $9,325 per employee to $14, 069, while the average employee premium per family during that same time increased from $3,354 to $5,547.[15] On average, employers bear about 71% of the cost of an employee health plan, with employees paying the balance.

Finally, within the healthcare system itself, different approaches are being undertaken to control costs and reduce costs to employers and consumers in the long run. The federal government is implementing a **pay-for-performance (P4P)** model through Medicare. Under this approach, financial incentives are provided to providers to improve the quality of care they deliver and to reduce costs in the process while meeting agreed-upon performance measures. The CMS, which oversees Medicare and Medicaid, accounts for 40% of the healthcare spending in the United States. This agency has developed three P4P models that affect hospital reimbursement:

- The Hospital Value-Based Reimbursement Program (VBP), established in 2010, was designed to improve quality and patient experience based on hospital performance on

four measures: (1) safety, (2) clinical care, (3) efficiency, and (4) patient and caregiver experience.

- The Hospital Readmission Reduction Program penalizes hospitals with a higher rate of readmission relative to other acute care hospitals with a reduction in reimbursement rates. In 2019, Congress passed legislation to adjust hospitals into peer groups based on socioeconomic statuses of their patient populations; even when adjustments were made for risk and demographics, however, hospitals with higher proportions of lower socioeconomic patients were penalized disproportionately.
- The Hospital-Acquired Condition Reduction Program reduces payment 1% for hospitals in the bottom quartile based on risk-adjusted measures of hospital-acquired conditions such as surgical site infections, pressure sores, and the like.[16]

The interest in P4P models has been significant in both the private and public sector. The programs have rewards but can also impose penalties if certain goals are not met. The quality measures tend to be grouped into one of four categories:[17]

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

Because of the significant percentage of the healthcare spending accounted for by Medicare and Medicaid, a recent trend in attempting to control the Medicaid portion of this expenditure has been to institute a work requirement on the Medicaid portion of the allocation. Under the work and reporting requirements, Medicaid enrollees must work 80 hours per month in qualifying activities unless they receive a waiver. Arkansas was one of the seven states that applied for a Section 1115 waiver to condition Medicaid eligibility on meeting work and reporting requirements. In 2018, more than 18,000 individuals were disenrolled from Medicaid as a result of this plan.[18] In early 2019, Arizona became the eighth state to introduce a work requirement for Medicaid; as of January 1, 2020, an estimated 120,000 low-income nondisabled adults between ages 18 and 49 must report at least 80 hours per month of employment, educational activity, job search or training, or volunteer community service to keep their coverage under the Section 1115 waiver.[19]

Place **Place** represents the manner in which goods or services are distributed by a firm for use by consumers. Place might include decisions regarding the location where or hours a medical service can be accessed. With the advances in technology, the place component of the marketing mix has become one of the more dynamic aspects of the marketing variables with a wide range of alternatives in which services may be distributed to consumers for their access: Fixed assets such as walk-in centers or physicians' offices, distance distribution such as with teleradiology services, and mobile access all represent part of the place component of the marketing mix. Chapter 11 reviews the marketing considerations for place that have assumed greater importance in today's healthcare environment.

As discussed in Chapter 11, place component services can now be done virtually such as that by Providence St. Joseph Health in Washington state or by Mercy Virtual Care (https://www.youtube.com/watch?v=jAQuEZUdB-A), often called the first hospital without beds and located in a suburb of St. Louis. At Mercy's virtual care centers, nurses and assistants hold video calls with patients who are at their own homes. The issue for Mercy virtual care, however, is that Medicare as described in the previous section (the largest healthcare payer) does not pay for virtual visits unless it is provided to patients in rural settings where there is a shortage of rural doctors.[20] During the COVID-19 pandemic crisis rampant throughout the United States in 2020, a large majority of Americans were introduced to telemedicine visits with their physicians as office practices closed to onsite visits. As previously noted, insurance companies like Aetna waived the $45 copayment visit during the COVID-19 pandemic for telemedicine visits to allow their enrollees to access virtual visits. And as referenced, Medicare, which had only reimbursed telemedicine for rural enrollees, also expanded coverage for all subscribers during the health crisis.[21]

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

Promotion The final "P" represents **promotion**. For many people, this has historically meant advertising, and advertising has meant marketing. Yet, as can be seen in the definition, promotion is just one part of marketing; promotion alone is not marketing. Promotion represents any way of informing the marketplace that the organization has developed a response to meet its needs and that the exchange should be consummated. Promotion itself involves a range of tactics involving publicity, advertising, and personal selling, which are described in Chapters 12, 13, and 14, respectively. However, as this text will describe, technology and the Internet have changed or impacted the promotional element of the marketing mix in interesting, useful, and also challenging ways for marketing.

As previously discussed, formal communication in the form of advertising was not allowed as recently as 1975. Although the years since have seen a change in terms of the

amount of advertising and the vehicles used by which advertising occurs, other promotional tactics such as personal selling have become more relevant to compete effectively in today's marketplace. Health insurance companies, pharmaceutical companies, and many health provider organizations all employ sales forces. Today, acute care hospitals, academic medical centers, and many physician groups have physician referral staff who call on referral sources to ensure that their needs are being met at the facility where they admit patients or send their employees for care.

The Dilemma of Needs and Wants

One of healthcare marketing's major concerns pertains to the issues of needs and wants. Physicians often speak of the fact that what consumers want may not be what they need. Clinical and professional responsibility demands treatment of the need. A **need** has been defined as a "condition in which there is a deficiency of something, or one requiring relief."[22] A **want** is a good or service that is desired but not necessarily needed and defined as the "wish or desire for something."[23] A consumer needs to have medication for hypertension. A person may want medication to suppress the appetite and thus lose weight. To which need or want should the healthcare marketer respond?

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

Identifying the Customer

In health care, this need–want dilemma often masks the major question, "Who is the customer?" Consider recent trends in the field of obstetrics. For many years, the consumer—the expectant mother—wanted to have her significant other with her in the delivery room. The medical community responded by claiming that this want was inappropriate and would compromise good standards of care. In fact, the issue had less to do with standards of care and more with standards of convenience for the provider. Now, in most delivery rooms in the United States, a woman in labor will be accompanied by her significant other, a nurse midwife, and, possibly, the obstetrician.[24]

The medical community argued that the need to restrict access to the labor suite was for "good standards in obstetrical care." In reality, medicine lost sight of who the customer was and how her needs and wants could be met. In the delivery process, the physician may be viewed as part of the production line, not as the customer. Medical needs are not compromised in modern labor rooms, but customer needs are being more closely addressed. To some degree

in this example, the issue was more one of viewing the mother as a patient (not necessarily inappropriately, of course) as opposed to also a customer. The labels connote decidedly different sets of behavioral expectations for the individuals involved. A physician treats a patient purely from the clinical perspective. However, a customer involved in a clinical situation may certainly have all the expectations of high-quality clinical outcomes and also may "shop" for additional services to accompany that high-quality outcome, such as unrestricted access to the labor–delivery suite and a private room.[25]

This issue is not a U.S.-based challenge regarding the question of who the customer is. Interestingly, the same question was debated in Great Britain when the National Health Service was undergoing significant reform in the latter part of the previous decade; the term *customers* was used in the context of patients because there was an increasingly consumerist approach toward health care under both Conservative and Labour governments. Like the United States in this model, patients were to be empowered by giving them more choice and information in a partnership model with the patient and the provider, ideally leading to better outcomes and a focus on primary care.[26]

Multiple Markets In our current healthcare marketplace, most healthcare organizations have multiple markets or customers to whom they must be attentive. This reality is similar, however, to what exists for most every traditional business outside of health care. **TABLE 1-1** shows a comparison of the multiple customers that a healthcare organization versus a typical consumer product company such as Pillsbury must recognize as potential markets (or consumers) and consider in the planning process. As these two columns are compared, the end customer can be readily recognized be it the customer for Pillsbury's products or the patient in need of care. However, similarities should also be noted by what will be discussed further in Chapter 11 in terms of the concept of the *channel of distribution*. For some hospitals or physician practices, the important market may be the referral physician; for Pillsbury as a manufacturer, the important markets may be the retailer or wholesaler. In both instances, these are intermediary customers for Pillsbury (the retailers and wholesalers) or the physician for the hospital. For the healthcare organization, this list of potential customers in Table 1-1 may well not be all encompassing, depending on the level of the institution as to whether it might be an acute care facility or a tertiary-level institution. An organization offering a mental-health or substance-abuse program for adolescents might need to accommodate the diverse needs of some of their potential customers such as judges, probation officers, or social workers.

Consumer Product Company	Healthcare Organization
Homemaker	Patients
Family member	Family member
Retailer	Physician
Wholesaler	Referral physician
Institutions (schools, cafeterias, restaurants, etc.)	Companies
Government	Government
Military	Third party payers

TABLE 1-1 A Comparison of a Consumer Product Company Versus a Healthcare Organization: Alterative Customers

An acute care institution or orthopedic group practice offering a sports-medicine program would well have as a primary market middle or secondary schools with sports teams. Long-term care facilities might be the market for a geriatric-assessment program. Markets that also should be included are the more traditional considerations of physicians, nurses, patients, referring physicians, employee-assistance personnel at companies, managed care plans, and regulators. Companies also are an important market to consider because they, too, are directly trying to control their rising healthcare costs by dealing directly with providers through direct contracting for care or by other means as discussed in the following chapters in this text.

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

The Evolution of Marketing

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

Production Era

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

Pillsbury located itself in the Minneapolis–St. Paul market in the 1800s. The location along the Mississippi River offered the company a source of waterpower to run mills. (In that era, the Mississippi River had waterfalls that far north.) This location was also close to the raw materials needed for the production of Pillsbury's product. Robert Keith, a former Pillsbury president, described the company at this stage of its development. "We are professional flour millers. Blessed with a supply of the finest North American wheat, plenty of waterpower, and excellent milling machinery, we produce flour of the highest quality. Our basic function is to mill high-quality flour, and of course we must hire salesmen to sell it, just as we hire accountants to keep the books."[27]

At this stage of the company's evolution, the primary focus of the business was producing a high-quality product—flour. The sales and even the consumption or purchase of the product were incidental to the firm's focus; it was assumed people would buy Pillsbury flour because it was high quality.

Many hospitals were and are at this stage in their own evolution. One might rewrite Keith's statements for a production-oriented hospital to say, "Our basic function is to provide high-quality medicine. Accompanied by the highest forms of technology, we have physicians, nurses, and allied health personnel to provide this service, and we have administrators to keep the books." For a production-oriented hospital or healthcare organization, the focus is on providing high-quality medicine. As shown in **TABLE 1-2**, the healthcare organization's focus is on delivering clinical quality.

Table 1-2 **The Evolution of Marketing**

Orientation	Pillsbury	Hospital
Production	Product quality focus	Clinical quality focus
Sales	Generating volume	Filling beds
Marketing	Satisfying needs and wants	Identifying healthcare needs and meeting them

Sales Era

For many traditional businesses such as Pillsbury, the production orientation worked well until the early 1900s. By 1920, the automobile became part of our way of life and changed the world for consumers and companies. The federal government began to finance the construction of a roadway system in the United States. Consumers became more mobile in their everyday lives of work, shopping, and recreation. For companies, the strategic change was the hiring of traveling salespeople. Competition heightened as competing sales forces fought for customers who formerly were the domain of manufacturers in their particular region. Robert Keith so characterized Pillsbury's business focus at this stage: "We are a flour-milling company, manufacturing a number of products for the consumer market. We must have a first-rate sales organization which can dispose of all the products we make at a favorable price."[28]

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

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

At this time, hospitals also recognized that the patient might play a role in the hospital-selection decision.[29] A second concurrent strategy of selling to the public also occurred. In the mid-1970s, many hospitals adopted mass-advertising strategies to promote their programs, including the use of billboard displays and television and radio commercials touting a particular service. The advertising goal was to encourage patients to use the hospital facilities when the physician presented a choice or to self-refer if necessary. In health care, this was the evolution to sales.

Marketing Era

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

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

Successful firms today in most cases are marketing oriented.[30] In this context, the firms are focusing on the needs and wants of the customers and delivering value.

The Marketing Culture

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

The evolution to this stage may be seen in organizations that have adopted a patient-focused system. A patient-centered or patient-focused healthcare system, rather than being physician centered, is focused on the patient in terms of improving the quality of the doctor–patient relationship, while at the same time decreasing the use of diagnostic testing, prescriptions, hospitalizations, and referrals.[31] It has been found that physicians' empathetic communication skills significantly increase and influence patients' satisfaction and compliance behavior.[32] The need for empathy in the healthcare system has been found to be a real concern. The results of a survey published in *Health Affairs* reported that among 800 recently hospitalized patients, compassionate care was critical to having a positive medical outcome; 510 physicians agreed. However, only 53% of patients and 58% of physicians indicated that the healthcare system succeeded in delivering this important dimension of compassion.[33] This result has been found for patients in terms of diabetes control.[34] In addition, a study in 2014

published in *Plos One* reviewed a dozen clinical trials in which physicians learned empathy building skills, some of which were as easy as making eye contact with patients. Results reported that even in those instances patient outcomes with physician eye contact were better than in studies in which such training did not occur.[35]

Medical schools and provider organizations are responding to such findings regarding compassion needs. The Duke University medical faculty, the University of Pittsburgh, and others developed "Oncotalk" as part of an effort to help teach such empathy skills. Massachusetts General Hospital psychiatrist Dr. Helen Reiss has developed an online course titled "Empathetics" to help train physicians.[36] In a randomized study of more than 500 patients, patient-centered care was found to result in decreased healthcare utilization even when controlling for age, gender, education, and health risk factors such as obesity, alcohol abuse, and smoking.[37] Transfusing a culture of focusing on the customer (patient) throughout the organization has significant benefits in satisfaction and most importantly in clinical outcomes. To accomplish these outcomes, a customer focus must be a part of the organizational culture. At the Medical College of Georgia (MCG), an academic institution, behaviors for customer service and for patient- and family-centered care have been defined, and both sets of behaviors are included in position descriptions and MCG's performance-review system for employees. Teaching empathy and the recognition of making this important attribute a key element is increasingly found to improve patient outcomes. Healthcare organizations also recognize that with Medicare's value-based purchasing program described previously in this chapter, providers are incentivized to have better performance on measures of quality outcomes and patient satisfaction. Empathy can play a key role on both elements that are contained with this P4P program. At Cincinnati Children's Hospital, families are no longer viewed as visitors, and units are open to them 24/7. Families are encouraged to participate in rounds.[38]

Organizations that are patient focused redirect their processes when feasible to make them customer centric. Admitting is accomplished on the floor where the patient is assigned a bed; employees cross-train for skills that allow them to be the patient responsive without compromising the quality of care delivered. Whenever possible, certain diagnostic equipment is brought to the patient rather than moving the patient through the hospital. It is the primary responsibility of each employee to respond to customer needs first. The development of patient-focused care in such organizations is the transference of a marketing culture throughout the organization. Rather than having the patient (customer) go to the provider (such as when the patient moves through the delivery system for treatment or clinical testing), the provider goes to the patient whenever possible to administer the necessary clinical interventions.

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

1. Customer orientation—having a sufficient understanding of the target buyers to be able to create superior value for them continuously.
2. Competitor orientation—recognizing competitors' (and potential competitors') strengths, weaknesses, and strategies.
3. Interfunctional coordination—coordinating and deploying company resources in a manner that focuses on creating value for the customer.

4. Long-term focus—adopting a perspective that includes a continuous search for ways to add value by making appropriate business investments.
5. Profitability—earning revenues sufficient to cover long-term expenses and satisfy key constituencies.[39]

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

The Nonmarketing-Driven Planning Process

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

To understand the difference between a marketing-driven and nonmarketing-driven process, it is important to recognize the implications of the difference between the two concepts on long-range planning.[40]

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

The second step of the strategic-planning process—strategy formulation—is often difficult and time-consuming. At this point, members of the long-range planning committee debate which objectives should be included in the hospital's five-year plan. Now the real implications

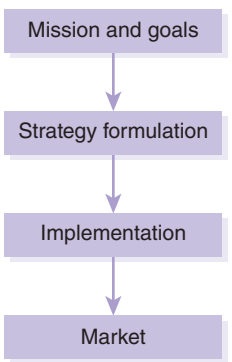


FIGURE 1-1 Nonmarket-Based Planning Sequence

of the nonmarketing-driven approach become evident. Often a senior physician stands up at the strategy-formulation stage and makes a speech such as the following:

> I've been at this hospital since the day I entered the medical profession. This hospital is my life and I never even admitted a patient to another facility. Of course, I'm also being recognized as an expert in the future of medicine. I've been invited to conferences to speak on the future of medicine and I've just published an article in the *New England Journal of Medicine*. As I think about what services we need to provide in the new ambulatory care wing of the hospital, it's clear to me that we need a sports-medicine program.

Usually, the physician making this recommendation appears to be a self-serving orthopedic surgeon.

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

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

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

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

This scenario is a common result of a nonmarketing-driven planning process. The problem with a nonmarketing-driven process is that it requires a group of people (or one powerfully

persuasive committee member) to have insight into what kinds of healthcare service the marketplace wants, how it wants that service configured, and what it is willing to pay for it. This approach to delivering a service or healthcare product to the market is an internal-to-external development process. The product is sold first. The challenge then is finding enough buyers willing to use the service or product at a level sufficient to make a profit. This approach is risky at best because it relies on the market-forecasting ability of people within the organization.

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

A Marketing-Driven Planning Sequence

A marketing-driven planning sequence is dramatically different from a nonmarketing-driven process, as illustrated in **FIGURE 1-2**. The first step is the same; every organization has the right to determine its mission and goals. Yet the marketing-driven approach is substantially different at step two. At this stage of needs assessment, market research begins to make its contribution, as will be discussed in Chapter 5. The hospital conducts a survey to determine which services are most needed. Should sports medicine, geriatric medicine, or women's health services be offered in the new ambulatory care wing of the hospital?

When determining the most needed service, it is essential to examine the competition. If there are existing competing services in the market, the necessary differential advantage for these new offerings must be identified. Although the sources of a differential advantage are discussed later in this chapter, a **differential advantage** is the incremental benefits of a product relative to competing services that are important to and perceived by the buyer. In our example, the hospital's survey reveals that 20% of the market wants sports medicine, 25% would

FIGURE 1-2 Market-Driven Planning Sequence

like to see a new geriatric program, and 50% wants women's health. Further research shows that the major differential advantages that would lead women to use this service over their existing providers are convenient location and hours.

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

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

Is a Marketing Planning Approach Needed?

A comparison of Figures 1-1 and 1-2 shows that using market research can bring dramatically different results in long-range planning. But is a marketing-driven planning process needed in health care? Thirty or forty years ago, a nonmarketing-driven process was enough. Competition was not a prime factor. In most communities, including major metropolitan areas, demand exceeded supply. A hospital would offer a new service, and the major issue was how to meet demand for it. Whether in mid-1960s or the 1970s, most healthcare organizations were in reasonably strong financial positions because of cost-based reimbursement and unrestricted lengths of stay. Efficiency and financial prudence were nonissues.

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

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

We have described a nonmarketing-driven approach to planning as an internal-to-external methodology.[41] In other words, members inside the organization try to foretell or dictate what the market wants and how the service should best be configured to meet those wants. In contrast, a marketing-driven approach follows an external-to-internal methodology. First, there is an assessment of what the market wants and then the organization's response. Healthcare providers must realize that a marketing-driven planning process does not guarantee success, but it does minimize the probability of failure.

The Hallmarks of a Market-Driven Planning Approach

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

- Inside–outside–inside sequence: In the market-driven approach, the process begins internally in the organization with a review of its mission and goals. This is essential to recognize in the realm of healthcare organizations. Then market needs are assessed and considered as to whether they fit within the context of the organization's mission and goals (that is, once identified, they are brought back inside for review relative to the mission). An organization may decide not to do something it learns based on the market research. The only essential caveat to recognize is that in a dynamic and ever-changing competitive market such as today's health care, the organization may learn what the market wants and decide not to respond, such as desiring access to physician consults online, and a competitor may respond first.
- Market research at two points—service development and pretest: The market-driven approach and, in fact, the core element of the marketing approach is the reliance of understanding the customer through market research. However, market research needs to occur at two stages. First, it should occur at the service development stage, which is the initial point of understanding the wants and needs of the customer. What are the service gaps in the marketplace? Too often organizations stop after this first phase of market research, believing now that they have identified what is needed, they can formulate the service or identify what service needs to be delivered without testing whether the distribution site is, in fact, accessible from the target market's perspective. Without conducting the phase two market research (pretest), it greatly minimizes the value of the initial market research and often leads to service failures.
- Customer-driven differential advantage: At this point, it is essential to recognize, from the perspective of a market-driven approach, that too often organizations believe that they have a good product or have a better service than competing offerings in the market. The essential element is whether the customer believes there is greater value at a price or effort worth seeking out or buying. To a large degree, this element is one of the primary purposes of the initial phase of market research. Uncovering what critical elements to the customer would make them switch suppliers, referral sources,

or providers is a key challenge for market research. Chapter 2 contains an in-depth discussion of the concept of differential advantage.

The Strategic-Marketing Process

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

Stakeholders

Stakeholders is a term that is commonly used in business planning and is a major consideration in setting marketing strategy. A classic definition of stakeholders was presented as "any group or individual who can effect or is affected by the achievement of the organization's objectives."[42] Some people have defined stakeholders as *primary stakeholders* or those who continue to have interaction or participation with the organization and are essential for the survival or the organization. These stakeholders would comprise but not be limited to employees, customers (patients), investors, suppliers (for a hospital one might consider pharmaceutical firms), possibly even referral physicians, and, in a voluntary staff, the doctors. Within this

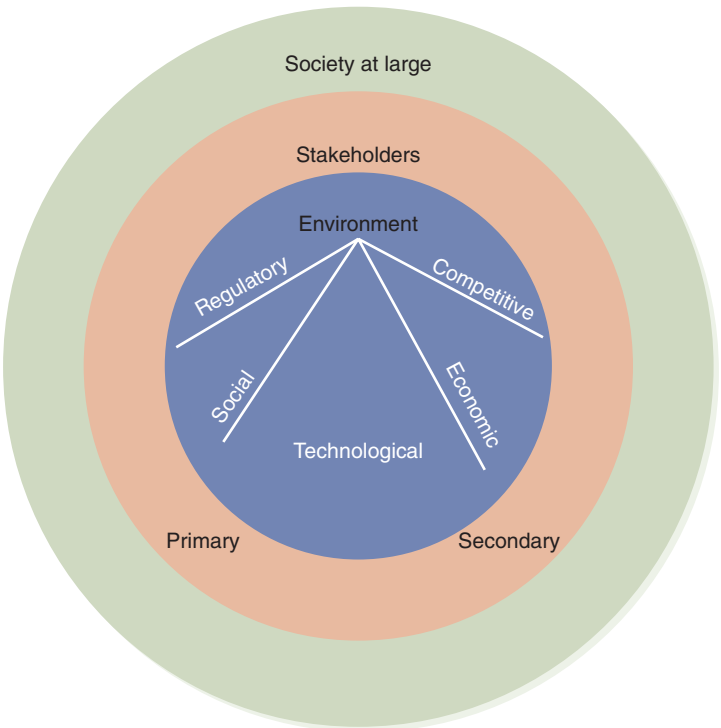


FIGURE 1-3 The Marketing Environment

consideration of primary stakeholders, one must recognize that there are in effect subgroups of stakeholders.[43] These are:

- *Enabling stakeholders* might be considered those who have some control of authority over the organization. These could be stockholders in a for-profit organization, boards of directors, governmental agencies such as CMS, and regulators at the state or federal level.
- *Functional stakeholders* are some of the examples shown in **FIGURE 1-4** that provide input functions and output functions for the organization. The input functions are the clinical staff and other employees, suppliers, pharmaceutical firms, medical supply companies, and other ancillaries.
- *Normative stakeholders* shown in Figure 1-4 describes linkages to organization such as associations or groups with whom there is a common interest; other healthcare associations, peer institutions, and even competitors might be within this set.
- *Diffused stakeholders* are often the most challenging to identify and consider in an environmental assessment as the organization may have far more infrequent interaction with these groups. Often, these are special interest groups and members of the community at large such as news media.

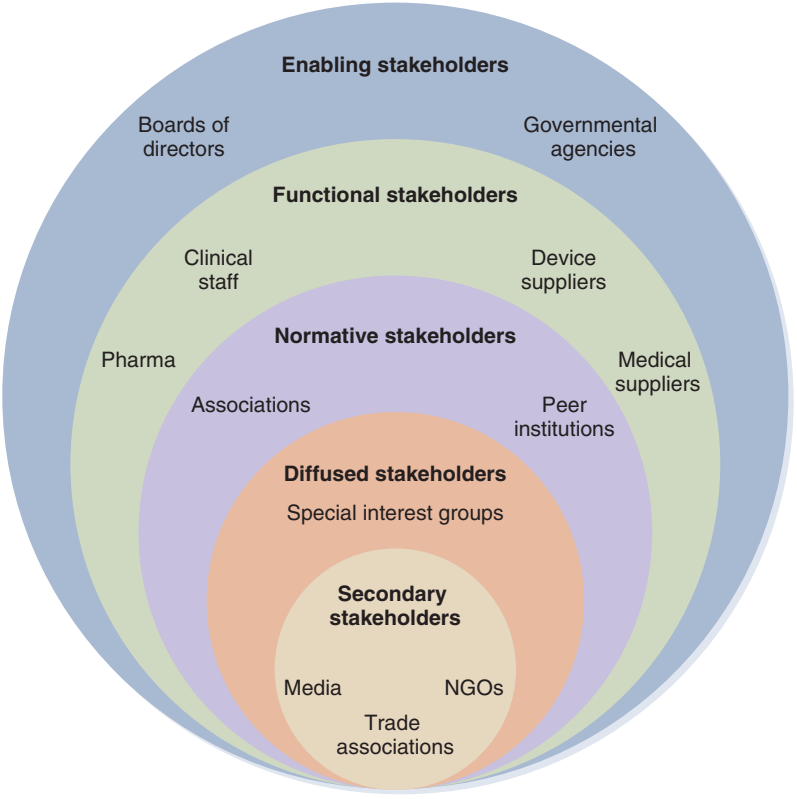


FIGURE 1-4 Stakeholder Segments: Primary and Secondary

- There is a second level of stakeholders who would be those who provide the necessary infrastructure but do not engage in transactions with the organization. These would include media, trade associations, and nongovernmental organizations.[44] The importance of stakeholder identification for any healthcare organization is essential. Studies have demonstrated that stakeholder identification is a crucial aspect in problem solving and from a marketing research perspective may be a major source of important information.[45] Hospitals often encounter the importance of stakeholder identification when it is not recognized and their views are not assessed or views are not heard and internalized into the plans of the institutions. The result is that appropriate new organizational initiatives might well be undermined.[46] For example, in early January 2019, California Northstate University had proposed to build a new teaching hospital in the Stonelake neighborhood adjacent to its Elk Grove campus. The university planned for groundbreaking in the latter part of the year. Although city officials had not formally reviewed or approved the plans, some small business owners and residents have begun to express strong concerns and dissatisfaction with the hospital's plans and the lack of communication. The hospital's CEO had indicated the desire to work with the business community, neighborhood leaders, and local organizations, recognizing important stakeholders.[47] The University of Pittsburgh Medical Center, the largest private employer in Pennsylvania, planned to build a trio of specialty hospitals in Pittsburgh (https://www.youtube.com/watch?v=CdjnGaedOXo) However, in summer 2018, a march was planned by a coalition of community organizations saying that the $2 billion being spent on these facilities could be better spent on opioid addiction, diabetes, mental health, and primary care.[48] These are but two examples that underscore the importance of stakeholder identification and consideration in the environment.

Stakeholder Identification Identifying stakeholders is essential for both profit and not-for-profit organizations. As described in the previous examples, not recognizing the influence of stakeholder groups can often led to potential negative publicity in the community at large and potentially affect organizational plans. The alternative, however, is using appropriate identification to develop a marketing strategy in which stakeholder identification can be appropriately mapped by an organization and then determine the best approach to integrate the attitudes and concerns of appropriate stakeholders. By following this approach, plans can be modified, or the communication of those plans can be better positioned to appropriately address issues that are being raised among respective groups. It has been suggested that stakeholders should be framed along four possible positions with major central constructs: interest, power and support or opposition. Along this second construct, the stakeholders would either support or oppose whatever issue or proposal is being considered. **FIGURE 1-5** shows a bubble map of the four possibilities of stakeholder positions on the issue.

Considering these potential possibilities for stakeholders' positions and recognizing the segments as shown in Figure 1-4, an organization can then prioritize which stakeholders within the environment should be factored into the planning for marketing efforts based on the issue under consideration. For example, in an issue such as building a new parking garage, a hospital may consider buying abandoned housing that is also being sought by community groups for mixed housing. One can readily envision that several of the stakeholder

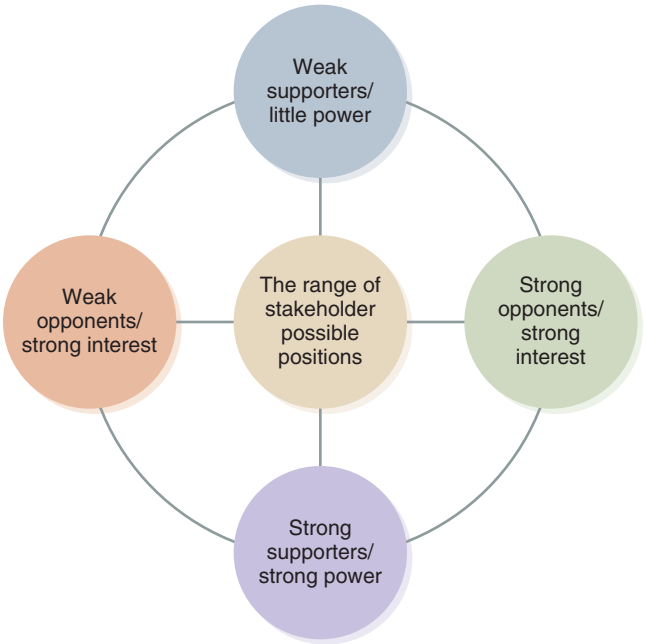


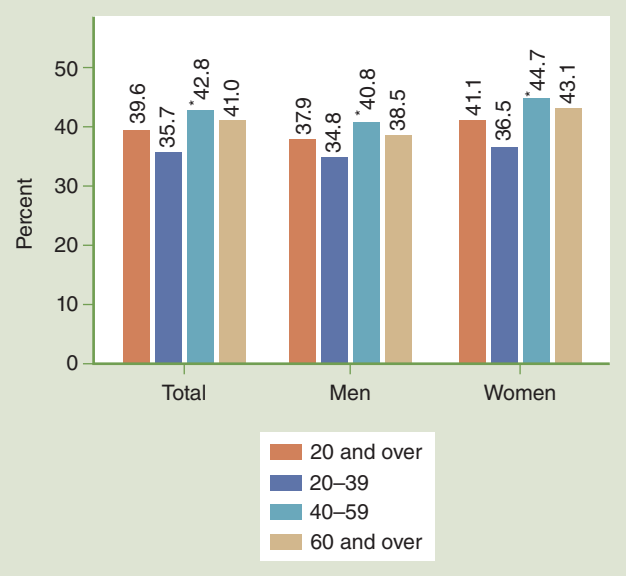
FIGURE 1-5 The Range of Stakeholder Possible Positions

Data from DfID (Department for International Development, UK). (2002). Tools for development: A handbook for those engaged in development activity. http://www.unssc.org/web1/ls/downloads/toolsfordevelopment%20dfid.pdf (accessed March 24, 2006); Bryson, J. M. (2004). What to do when stakeholders matter: Stakeholder identification and analysis techniques. *Public Management Review, 6*(1), 21–53.

segments shown in Figure 1-4 must be identified for consideration in a marketing plan for this proposal. Working from the enabling segment towards the center in Figure 1-4, both the board as well as government agencies would be essential. So, too, talking points and rationale must be explained to the internal staff of the institution. Diffused stakeholders such as the community groups must be brought into the conversation along with the secondary stakeholders because this issue and competing plans by those seeking affordable housing in this same location will rapidly become a story in the local media. In considering each essential stakeholder, the issue to consider then is where each subsegment is in terms of their stakeholder points as shown in Figure 1-5; it is this position on that bubble diagram that provides direction to the marketing plan.

Environmental Factors

Any marketing strategy is developed within the context of a broader environmental perspective. The **environment** pertains to regulatory, social, technological, economic, and competitive factors that the organization must be sensitive to when developing a strategy. These elements, which are discussed in greater detail in Chapter 3 (and briefly described here), are uncontrollable but affect marketing strategy. A company cannot change the uncontrollable element that certain trends exist in society. However, data from the National Health and Nutrition Examination Survey showed in 2015–2016 that the prevalence of total U.S. adults classified



*Significantly different from those age 20–39.
Notes: Estimates for adults aged 20 and over were age adjusted by the direct method to the 2000 U.S. census population using the age groups 20–39, 40–59, and 60 and over. Crude estimates are 39.8% for total, 38

FIGURE 1-6 U.S. Obesity Rates Among Adults Age 20 and Older by Age and Gender, 2015–2016

Data from NCHS, National Health and Nutrition Examination Survey, 2015–2016. https://www.cdc.gov/nchs/data/databriefs/db288_table.pdf##1

as obese reached a high of 39.8%. **FIGURE 1-6** shows a breakdown in the percentages for adults in defined age groups as well as the overall population as provided by the U.S. Department of Health and Human Services. As shown in the figure, this is above 40% in the 40- to 59-year-old age segment.

Since 1999–2000, childhood obesity in the United States has also steadily risen. By 2015–2016, the percentage of children classified as obese has climbed from 13.9% to 18.5% of children. Within certain ethnic and racial groups, those percentages are even higher. Among Latino children, the percentage of obesity is 25.8%, whereas the percentage is 22% among African Americans.[49] The estimated annual medical costs of individuals who suffer from obesity was $1,429 higher than those of normal weight. These individuals often have conditions such as type-2 diabetes, strokes, and certain types of cancers that can lead to premature deaths.[50]

In response to this growing obesity trend, many hospitals have developed bariatric surgery programs. **FIGURE 1-7** is a graph of the number of bariatric surgeries in the United States from 1992 through 2017. From 1998 to 2004, the total number of bariatric surgeries increased ninefold in response to this dramatic rise in obesity. The number of such surgeries grew from slightly more than 13,000 in 1998 to 121,055 in 2004.[51] Recent growth has been moderate at best. A study conducted by the American Society of Metabolic & Bariatric Surgery and the

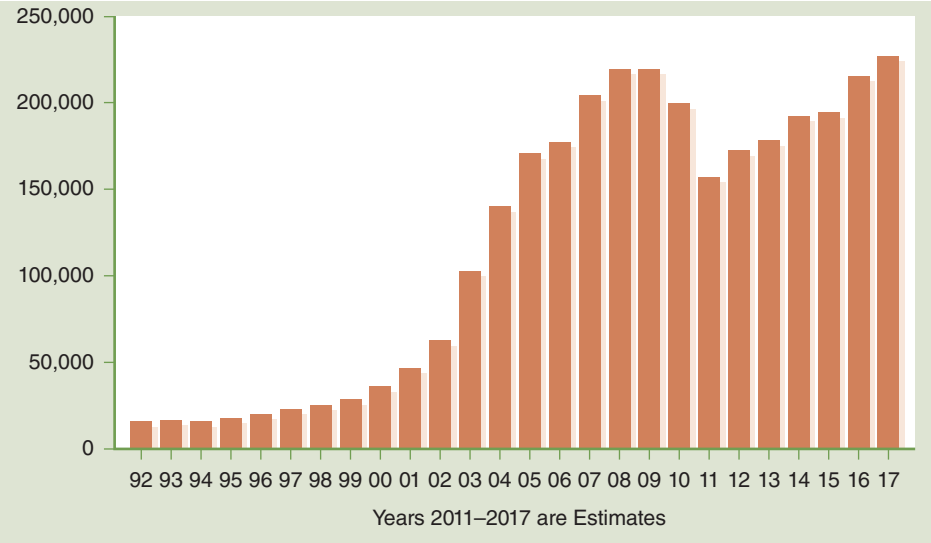


FIGURE 1-7 Bariatric Surgeries in the United States, 1992–2017

Data from Mitchell, S. (October 2013). Roslin bariatric procedures decline despite rise in obesity and diabetes. Opinions & Letters GSN, *40*; http://www.generalsurgerynews.com/ViewArticle.aspx/PrintArticle.aspx?A_Id=24135&D_Id=77&D=Opinions+%26+23Letters; Elliott, V. S. (2012, April 23). Bariatric surgery maintains, doesn't gain. American Medical News; http://www.amednews.com/article/20120423/business/304239976/4; American Society for Metabolic and Bariatric Surgery. (2015). Estimate of Bariatric Surgery Numbers, 2011–2014; http://asmbs.org/resources/estimate-of-bariatric-surgery-numbers.

National Opinion Research Center at the University of Chicago provides some insight into why bariatric surgery is not used more often by individuals to combat the growing disease of obesity. Results found that some 60% of Americans report trying to lose weight with the preferred approach being dieting and exercise. The survey revealed that even though Americans have problems with traditional methods to deal with weight loss, there is great hesitancy over surgical procedures to address the issue. The survey also revealed that less than a third of those classified as obese had the surgical option presented to them by their physicians as a possible solution.[52] From a marketing perspective, there are multiple challenges in these data to affect this approach as a solution and for the future growth of bariatric surgery programs.

Other factors also affect demand for this procedure. Insurers do not always cover what is seen as an elective procedure. When there is coverage, the deductible is significant. Finally, the lasting benefits are not always there for those who undergo the procedure. Bariatric surgery is a tool but not a cure-all for weight loss.[53] Today, most insurers require patients to follow a regimen that requires them to first adhere to a closely supervised and strict medical diet before undergoing the surgical option to control obesity.[54] The international medical market for bariatric surgery is a major segment as a highly price-competitive focus. South America and Mexico are two countries where clinicians target consumers looking for price because there are many private clinics that focus on consumers with packages for those individuals who may be in the self-pay segment of the market. Interestingly, the American Society for Metabolic and Bariatric Surgery has a dedicated web page (http://asmbs.org/resources/global-bariatric-healthcare) specifically discussing the issue of global bariatric health care because it

is a major service line for consumers seeking lower-cost alternatives; the site indicates costs can be 40% to 80% less than the patient's home region. However, this site also discusses the issue of quality and the need to be a careful consumer. Different approaches are taken in the marketing of these centers as can be viewed by the Brigham and Women's Center on You Tube (https://www.youtube.com/watch?v=KM6UQzMwbWU&has_verified=1) and the approach as taken by the Surgical Weight Loss Center at the Oasis of Hope Surgical Weight Loss Center (https://www.youtube.com/watch?v=74aOBA4fKU8).

Regulatory Factors

Regulatory factors include legal issues and requirements. In many healthcare communities, programs cannot be instituted without prior government approval. These laws, often referred to as *certificate-of-need programs*, are often put in place to restrain healthcare facility costs by attempting to coordinate the planning of construction of new facilities by competing organizations. As of 2017, some 35 states and the District of Columbia had such laws still in place.[55] Some strategies, such as paying physicians for referrals, are illegal. These are but two areas in the regulatory environment that must be considered in terms of the uncontrollable aspect of the regulatory environment.

Social Forces

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

Technological Factors

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

Economic Factors

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

Competitive Forces

Competitive forces are the final uncontrollable element in any marketing plan. Strategies and programs must be developed in light of this constraint and should reflect the considerations that exist in the marketplace. It is important to recognize and understand the competition. Competition can be defined as "any environmental or perceptual force that impedes an organization's ability to achieve its goals."[56] Competition may include the obvious, such as another