



SPECTRUM

Society for Healthcare Strategy and Market Development®

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Marketing

Narrow Your Organization's Focus to Create Competitive Advantage

Few healthcare organizations can afford to be all things to all people. For most organizations, a better strategy is to choose a unique value proposition that will attract and retain the customers they wish to serve.

Like their business counterparts, healthcare organizations can create sustainable competitive advantage and indispensability by creating and delivering distinctive value to carefully chosen target customers. However, many healthcare organizations try to succeed by doing just the opposite. They attempt to serve the broadest market possible, employing a variety of sometimes conflicting and often unsustainable tactics aimed at attracting a wide range of customers with varying needs and requirements.

Given finite resources, how can a healthcare organization deploy its resources to advantage when everyone else is trying to do the same thing? The simple concept of a *unique value proposition* offers the possibility of a focused approach to achieving sustainability. The concept recognizes that the strategies, tactics, and investment requirements for an organization that wants to succeed primarily through innovation and the provision of limited-volume, often expensive referral services are very different from those required of organizations that must be high-touch or low-cost providers to succeed in their markets. It's an easy concept to conceive, but a hard one to deliver.

Achieving a Dominant Market Position

In their book *The Discipline of Market Leaders* (Perseus Books, 1997), Michael Treacy and Fred Wiersema argue that delivering "extraordinary levels of distinctive value" to carefully selected customer groups every day creates competitive advantage in the business world. To be successful in distinguishing themselves from the competition, organizations need three things: a precise understanding of the products or services they deliver, a clear definition of the target customer (and his or her needs and requirements), and an operating environment that supports



continued execution of the chosen approach.

Successful companies choose among three distinct approaches, or value disciplines, to reach their respective markets, according to Treacy and Wiersema.

- **Operational excellence.** Efficiently, consistently, and cost-effectively providing a limited range of standard or routine services, companies that focus on operational excellence typically win on the basis of cost and dependable service. Examples: FedEx, Wal-Mart.
- **Customer intimacy.** Developing and maintaining intimate relationships with selected groups of current or new customers, companies that choose customer intimacy win by being easy to do business with, building customer loyalty, and willingness to customize. Examples: Nordstrom, DHL.
- **Product leadership.** Continuously developing and launching new programs and services, companies that pursue a product development model win by offering access to the latest technology, products, and services. Examples: Apple, Sony.

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The unique requirements of each approach to creating distinctive value drive decision making and performance at all levels of the organization. They drive the budgets, the investments, and the day-to-day interactions with customers and suppliers. The resulting clarity and focus help organizations set themselves apart.

Market leaders choose the target markets they wish to serve, identify their unique requirements, and build products, services, and delivery systems to meet those needs. They stay within their chosen niche. Apple, for example, does not seek customers who focus solely on cost. Wal-Mart got into trouble trying to serve an upscale consumer with a high requirement for customer service.

Key attributes of the three approaches are noted in Table 1. The key attributes of the business-customer relationship—products and services offered, price, convenience, and service—are unique to each model. All are ruthlessly adhered to in order to deliver on the promise.

In addition, market leaders build their operating models and align their organization's support and decision-making structures, as well as their employees, to deliver on their distinctive promise. Table 2 describes some of the key distinctions between the three approaches for selected business processes.

Choosing a market approach does not relieve successful companies of basic business requirements. A customer-intimate company without sufficient profitability or return on investment or without minimum levels of product or service innovation will quickly fail. Investment and resource allocation decisions must support the chosen direction. Attempting to be a customer-intimate company without the appropriate information systems and process flow will result in failure.

However, companies that do not create a unique value-added approach to their customers frequently fail to achieve a market leadership position. These companies typically invest in all three areas of potential distinction without creating a distinction for themselves in any one space.

Making It Work In Healthcare

Hospitals and physicians traditionally distinguish themselves as market leaders on the basis of high standards of patient care, patient safety, and service offerings. Excellence in these areas is a minimum requirement or consumer expectation; it is necessary but not sufficient to achieve and maintain a market leadership position. Continued high performance in these areas will not produce a distinctive competitive advantage.

To create sustainable competitive advantage, hospitals and other healthcare organizations can choose from among the same three paths that drive successful businesses. They can narrow their focus and distinguish themselves by creating distinct value for the customers they serve.

Once a strategy is selected, the required operating model, systems, structures, procedures, and culture must be in place to support the model or strategy chosen. Organizations should be prepared to fundamentally change their investment and resource deployment strategies accordingly. For example, if customer intimacy in a local market requires that customers be able to schedule appointments for service online, a traditional hospital information system will not cut the mustard.

Table 1. Key Attributes of Three Value Disciplines

	Operational Excellence	Customer Intimacy	Product Leadership
Value proposition	<ul style="list-style-type: none"> • They provide the best price and a hassle-free experience. 	<ul style="list-style-type: none"> • They provide the solution best tailored to my needs. 	<ul style="list-style-type: none"> • They offer the most innovative services.
Product	<ul style="list-style-type: none"> • Their services are simple and standardized. • They consistently provide high performance and meet my expectations. 	<ul style="list-style-type: none"> • Their services can be easily customized with other services. • They customize their offerings to ensure that I get what I need. 	<ul style="list-style-type: none"> • They have superior offerings, and they are continually striving to improve. • I expect new offerings and great innovations from them all the time. • Others' offerings feel like knockoffs.
Price	<ul style="list-style-type: none"> • They have the lowest total cost. • They provide good value. 	<ul style="list-style-type: none"> • While their price is not the lowest, the price doesn't matter because I get precisely what I need. 	<ul style="list-style-type: none"> • While their price is not the lowest, they are the only ones offering what I need or desire.
Convenience	<ul style="list-style-type: none"> • It's easy to work with them because they are hassle-free and I know exactly what to expect. 	<ul style="list-style-type: none"> • On a case-by-case basis, they can make exceptions to provide enhanced service for me. 	<ul style="list-style-type: none"> • I am willing to make an extra effort to obtain their services.
Service	<ul style="list-style-type: none"> • The people I deal with are knowledgeable and courteous. • They are efficient and able to help me as long as I need one of their standardized offerings. • Service is very predictable. 	<ul style="list-style-type: none"> • They are my partner, and I depend on them heavily to anticipate, understand, and meet my needs. • I work with the same person or group of people every time I need service. • They know everything about my needs and frequently contact me proactively if they can make my life easier. 	<ul style="list-style-type: none"> • The people I deal with are extremely knowledgeable about their offerings and courteous (but less knowledgeable about me). • They are very good at helping me understand the features of their offerings (but I have to figure out how to fit the solution to my situation).
Impression	<ul style="list-style-type: none"> • I am a shrewd buyer. 	<ul style="list-style-type: none"> • I am special. 	<ul style="list-style-type: none"> • I am on the leading edge.

Table 2. Operating Requirements of Three Value Disciplines

	Operational Excellence	Customer Intimacy	Product Leadership
Key business processes	<ul style="list-style-type: none"> • Delivery process "codification"; delivery process management • Emphasize reliable, convenient, and consistent delivery of standard services 	<ul style="list-style-type: none"> • Customer knowledge and relationship management; "mass customization" • Emphasize flexibility and responsiveness 	<ul style="list-style-type: none"> • Service development, marketing/market communication • Emphasize time to market, branding
Organization and skills	<ul style="list-style-type: none"> • Central authority, low level of empowerment • High skills at the core of the organization 	<ul style="list-style-type: none"> • Empowerment close to point of customer contact • High skills at the boundary of the organization 	<ul style="list-style-type: none"> • Ad hoc, loose authority, organic and cellular • High skills abound in loose-knit organization
Management systems	<ul style="list-style-type: none"> • Transaction profitability • Command and control, standard operating procedures • Quality management 	<ul style="list-style-type: none"> • Customer lifetime profitability • Customer satisfaction / share-of-wallet-driven 	<ul style="list-style-type: none"> • Service lifecycle profitability • Rewarding individuals' innovative capacity • Risk-taking encouragement / exposure management
Information and systems	<ul style="list-style-type: none"> • Integrated, low-cost transaction systems • The system is the process 	<ul style="list-style-type: none"> • Production system reflecting specific customer requirements and specifications • Technology enabling customization 	<ul style="list-style-type: none"> • Person-to-person communication systems • Technologies enabling collaboration / innovation
"Rules" and norms	<ul style="list-style-type: none"> • Process-driven • Conformance and "one size fits all" mindset 	<ul style="list-style-type: none"> • Customer-driven • Variation and "have it your way" mindset 	<ul style="list-style-type: none"> • Concept, future-driven • Experimentation and "out-of-the-box" mindset

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Choosing a Market Leadership Strategy

To determine which of the three strategies is most likely to give your organization a competitive advantage, it is necessary to determine market requirements and organizational capacity to deliver. Ask and answer the questions below from the consumer's perspective.

- Will a highly standardized level of service be valued by the people we serve? Are our customers more likely to value a basic menu of services, efficiency, and price over a more customized approach? If so, a strategy of operational excellence may be right for your hospital, especially if it serves a market with a heavy concentration of patients with fixed payment rates.
- Are our patients attracted by “have it my way” customized service? Is our hospital in a position to value and fund the development of long-term relationships over individual transactions? If so, the customer-centric approach of a customer intimacy strategy could be your best choice, especially if yours is one of many available community hospitals.
- Can costly new technologies and service create the “pull-through” needed to justify investments? The product leadership option is probably effective only for specialty hospitals (think specialty cardiac or orthopedic hospitals) or academic medical centers with significant research and development funding. However, an organization may be able to support the growth of the entire enterprise if it can gain volume and revenue from a limited base of patients who use advanced services.

Most hospitals are not prepared to compete as low-cost, highly standardized, limited-service providers. Only a few can sustain themselves on the basis of their ability to drive substantial volume from new technology or services. Most compete for physician and consumer loyalty on the basis of customer service, but they do so without the requisite culture, structures, and systems in place to distinguish themselves on an ongoing basis.

A Case in Point

A 200+-bed, high-performing, general acute care hospital in a good market faced competitive challenges from larger referral hospitals located at the edge of its service area. The hospital was attempting to raise its market profile by investing in more advanced services, but it found that it had neither the clinical nor the financial capacity to compete effectively with this strategy.

The hospital then considered a customer intimacy strategy. Key attributes of the operating model the hospital defined went well beyond the typical customer-friendly or “smile school” service model. It included developing ambulatory centers and medical office facilities away from the hospital, creating new customer- and physician-friendly information systems, and developing systems to make the hospital the preferred source of information and service connections for area residents. To the



hospital's credit, it concluded that it did not have sufficient alignment and commitment to make the changes necessary to pursue this strategy.

Seven Rules for Narrowing Your Business Focus

Although hospitals should establish and maintain minimal levels of performance in each of the three value disciplines, choosing a single path is critical to creating competitive advantage. Keeping these seven rules in mind can get you off to a good start.

1. Choose the value discipline or market leadership strategy best suited to your market and your organization's capabilities. Be realistic about the value you can offer and the investments required to sustain the chosen strategy.
2. Get organizational commitment, and focus your resources on the chosen approach.
3. Build and support operating models, systems, and structures that enable your organization to sustain its market leadership position. Do your homework. Customer intimacy, for example, is more than a friendly face at the reception desk.
4. Hire and train employees in a manner that is consistent with the requirements of the operating model.
5. Set performance measurement requirements for your chosen strategy and the two alternative strategies.
6. Resist the temptation to try to lead your market by pursuing all three value propositions.
7. Invest for the long term. Changing your value proposition will take time and resources.

The pressure is great to create competitive advantage based on a wide range of value offered—best customer service, most high-tech services, best quality and patient safety scores, best physicians, best facilities, best website, and so on. However, few healthcare organizations have the resources to compete on every attribute. Carefully and realistically choosing the customers your organization wishes to—and can—serve effectively, defining the value proposition that will attract and retain those customers, and ensuring that your organization fulfills its promises is a sure way to narrow your organization's focus and achieve the results you want.

Note: Portions of this article previously appeared in HealthLeaders News.

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