

# CHAPTER

# 1

# THE ROLE OF MARKETING IN HEALTH CARE ORGANIZATIONS

## LEARNING OBJECTIVES

In this chapter, we will address the following questions:

1. What are the major areas in health care in which marketing is regularly applied and practiced?
2. What is the purpose of marketing thinking and planning in health care organizations?
3. What are the major concepts, tools, and skills in marketing?
4. How is marketing normally organized in health care organizations?

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### **OVERVIEW: MARKETING IS PERVASIVE IN HEALTH CARE**

Readers might find it strange to hear that marketing plays an important and pervasive role in the health care marketplace. They are probably aware of the marketing efforts of pharmaceutical and medical device companies to sell their branded products and services. But what about hospitals, nursing homes, hospices, physician practices, managed care organizations, rehabilitation centers, and other health care organizations?

These organizations, for the most part, didn't think about marketing until the early 1970s. But today we see a great deal of marketing taking place in health care organizations. Consider the following facts:

- Virtually every hospital places ads in newspapers and magazines to tout its facilities and services. Some hospitals run community health programs. Some hospital CEOs appear on talk shows. All of these efforts go toward building their brand.
- Managed care organizations (MCOs) develop health insurance products and use marketing tools to vie with other companies in promoting themselves to employers and their employees.
- New physicians seeking to open their own practices use marketing to help determine good locations, attractive office designs, and practice styles that will attract and retain new patients.
- The American Cancer Society, American Heart Association, and other associations turn to social marketing to encourage more people to adopt healthier life styles, like quitting smoking, cutting down on saturated fats in their diet, and increasing exercise.

These illustrations demonstrate one side of marketing, namely the use of influential advertising and selling to attract and retain customers. But marketing tasks and tools go beyond developing a stream of persuasive messages. Consider the following:

## FOR EXAMPLE



### Two Vignettes

A hospital is considering adding a sports medicine program to its portfolio of services. Before deciding whether to launch such a program, it plans to do market research to gauge the size of the community need, discover which competitors already offer such a program, consider how it will organize and deliver the program, understand how to price its various services, and determine how profitable the program is likely to be.

Walgreens is opening store-based clinics to provide basic health care services, such as measuring blood pressure, providing vaccinations, and treating such common conditions as sore throats, ear infections, and colds. Key marketing tasks it must perform include deciding which stores will have this service, setting prices, and, most important, determining how physician customers will view this service as possible competition.

From these examples, we recognize that many health sector participants are trying to solve their problems by relying on marketing tools and concepts. Readers who already work in the health care field may recognize some of these tasks as the realm of epidemiology; however, the discipline of marketing is much broader. The American Marketing Association offers the following definition: *Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.*

Marketing takes place when at least one party to a potential transaction thinks about the means of achieving desired responses from other parties. Thus marketing takes place when

- A physician puts out an advertisement describing his practice in the hope of attracting new patients.
- A hospital builds a state-of-the-art cancer center to attract more patients with this affliction.
- A health maintenance organization (HMO) improves the benefits of its health plan to attract more patients.
- A pharmaceutical firm hires more salespeople to gain physician acceptance and preference for a new drug.

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- The American Medical Association lobbies Congress to gain support for a new bill.
- The Centers for Disease Control and Prevention (CDC) runs a campaign to get more people to get an annual flu shot.
- Health Canada develops a campaign to motivate more Canadians to exercise more and eat healthy foods.

Thus a marketer may aim to secure various responses: a purchase of a product or service; an increased awareness, interest, or preference toward an offering or supplier; a change in behavior; or a vote or expression of preference of some kind.

### THE ELEMENTS OF MARKETING THOUGHT

In this section, we introduce the purpose of marketing, some important marketing concepts and skills, and how marketing is organized in health care organizations. We will discuss these topics in greater depth in the following chapters.

#### ***The Purpose of Marketing***

There are two quite different opinions about marketing's purpose. One might be called the *transaction view*, which says that its aim is to get an order or make a sale. Marketing's role is, therefore, to use salesmanship and advertising to sell more "stuff."<sup>1</sup> The focus is on doing everything possible to stimulate a transaction.

The other opinion about marketing can be called the *customer relationship-building and satisfaction view*. Here the focus is more on the customer and less on the particular product or service. The marketer aims to serve the customer in such a way that he or she will be satisfied and come back for more services or products. In fact, the marketer hopes that the satisfaction will be sufficiently high that the customer will recommend the seller to others. For example, we know that a physician who develops an excellent service reputation will attract many new patients as a result of word-of-mouth recommendations. Also, as patients experience new medical needs and problems, they will return to the same physician for treatment and advice.

Some marketers question the use of terms such as *consumer* and *patient*. The traditional view of a consumer or patient is that of someone who is passively consuming something, but today's consumers are also producers. With respect to health care products and services, they are actively sending messages about their experiences, creating new uses, providing new findings from the Internet and other resources to their physicians, and lobbying for more and better benefits. Predicting this current environment, Peter Drucker viewed marketing as playing the role of serving as the customer's agent or representative.

In fact, more organizations are moving from the transaction view to the relationship view of marketing, in a shift from Old Marketing to New Marketing. In this environment, the New Marketer's job is to create a long-term, trusted, and valued relationship with customers, which means getting the whole organization to think

about and serve customers and their interests. For instance, hospitals that have built a pervasive marketing culture will usually outperform those that see themselves simply as selling visits, tests, and services, one at a time.

### ***Marketing Uses a Set of Concepts***

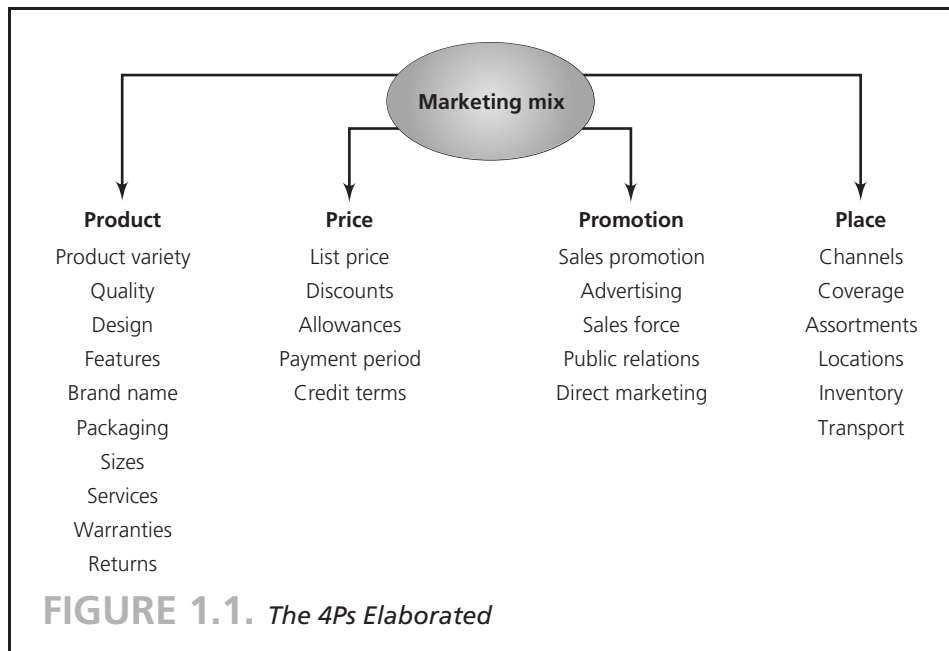
The first question a health care organization must ask is, Who is potentially interested in the kind of products or services that we offer or plan to offer? Examples include young women and obstetric services, older adults and bypass surgery services, and diabetics and portable blood sugar testing devices. Very few organizations try to serve the entire market, preferring, instead, to distinguish different groups (segments) that make up a market. This distinguishing process is called *market segmentation*. The organization will then consider which market segments it can serve best in light of the segments' needs and the organization's capabilities. We call the chosen segment the *target market*. Building on this concept of a target market, we can summarize the customer-focused marketing philosophy with the acronym CCDV; the aim of marketing is to *create, communicate, and deliver value*. Value is the fundamental concept underlying modern marketing. It is not value just because the supplier believes he or she is giving value; it must be perceived by the customer. One job of the marketer is to turn invisible value into perceived value. We can extend CCDV into CCDVT, with the T standing for a *target market*. Instead of an organization generating general value, it aims to generate specific value for a well-defined target market. If a nursing home decides to serve a high-income market, it must create, communicate, and deliver the value expected by high-income families, with the price set high enough to cover the extra costs of better facilities and services.

We need to extend the expression further to CCDVTP, with the P standing for *profitably*. The marketing aim is to *create, communicate, and deliver value to a target market profitably*. Even a nonprofit organization must earn revenues in excess of expenses in order to continue its charitable mission.

To help their firms prepare a valued offering, marketers have long used a tools framework known as the 4Ps *marketing mix*: *product, price, place, and promotion*. The organization decides on a product (its features, benefits, styling, packaging), its price (including list price as well as rebate and discount programs), its place (namely, where it is available and its distribution strategies), and the promotion mix (such as advertising, personal selling, and direct marketing) (see Figure 1.1). It turns out that the 4Ps are already present in the CCDVT formulation. Creating value is very much about developing an excellent *product* and appropriate *price*. Communicating value involves *promotion*. Delivering value requires an understanding about *place*. Thus CCDV is a more active way to state the 4Ps. Some critics have also proposed adding more Ps (*people, passion, process, and so on*).

Marketers recognize that the 4Ps represent the set of the seller's decisions, not the buyer's decisions. Part of the transition from the Old Marketing to the New Marketing, mentioned previously, involves marketers looking at everything from the buyer's or consumer's point of view. For a consumer to be interested in an offering,

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the consumer must have *awareness* of the offering and find it *acceptable*, *available* at the right time and place, and *affordable*. Professor Jagdish Sheth calls these attributes the “4As of marketing.”<sup>2</sup>

We introduce one final concept—positioning. An organization or company positions itself to be the place of choice for its target market. Thus a hospital might position itself as having the most advanced medicine or the best patient service, or being the most efficient hospital. Good positioning requires looking at how to best implement the 4As of that target market. We refer to these steps of *segmentation*, *targeting*, and *positioning* by the acronym STP.

Combining this concept with those just described, we now have a more robust model of marketing strategy: first segment, next target position, then determine the 4As, and finally set the appropriate 4Ps.

When we say that marketing’s purpose is to create value for the customer and profits (or surpluses) for the organization and its stakeholders, we don’t mean that the organization should give customers everything that they want. Customer desires and needs must correspond with the mission or purpose of the organization. For example, a rehabilitation hospital does not need to open a cardiac bypass program just because some of its patients have heart disease. A further problem arises when the customer wants something that is not in his or her best interest. For example, a patient may request an antibiotic to treat a cold or ask for a narcotic for nonmedical reasons.

### ***The Main Skills of Marketing***

Marketers rely on seven traditional skills: marketing research, product design, distribution, pricing, advertising, sales promotion, and sales management.

Effective marketing must start with marketing research, which in turn consists of other skills. Suppose a hospital is planning to build a second facility in one of several neighboring communities. It clearly needs to conduct systematic marketing research to find which site is the most promising.

The marketing research will use both secondary and primary data. Secondary data comes from existing sources and yields information about such factors as the population's size, age, income, and education distribution as well as land costs and transportation resources. Primary data comes from making firsthand observations in each community by hosting focus groups to gather consumer reactions to different proposals, conducting in-depth interviews with specific community members, undertaking surveys to get a more accurate picture of customer attitudes and needs, and, finally, applying statistical techniques to draw insights from the data. By combining primary and secondary data, the hospital hopes that some neighboring community will emerge as the best target market to be served by a second facility.

Product design is the second marketing skill. Suppose a manufacturer of hospital beds wants to design a product that patients can more easily adjust on their own. It will assign a product team to design the new bed, consisting of an engineer, a designer, and a marketer. The marketer will supply some preliminary data about how patients feel about different features of a hospital bed, including functions, colors, and general design appearance. After the design is developed, the marketer might test it with a number of patients.

Although we are talking about designing a physical product, the same principles apply to a service. Many people complain about their experience in emergency rooms (ERs), including long waiting times, crowded facilities, and perfunctory service. Marketers are increasingly studying how to improve the ER experience, because hospital administrators realize that it is the place in which patients often experience their first encounter with the institution and that influences their probability of choosing it for future care.

The third traditional skill of marketers is distribution. Marketers have to choose places in which their products and services will be readily accessible and available to the customers. Marketers have learned to work with different types of wholesalers, jobbers, brokers, retailers, and transportation companies. This knowledge is very useful in activities ranging from pharmaceutical channel distribution to setting up a regional or national chain of in-store medical clinics.

Pricing is the fourth traditional skill of marketers. Marketers have gained much of their experience through setting prices and adjusting them for different markets and in different circumstances. They are guided by both internal constraints (such as their companies' production cost structure) as well as the realities of the marketplace (such as price elasticity of demand). In the realm of health insurance, the marketplace

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also demands flexibility to customize the product, with an attendant set of fixed and optional services and their varied prices.

The fifth traditional skill of marketers is the use of advertising. Marketers have extensive experience in working with ad agencies in designing messages, choosing media, setting budgets, and evaluating outcomes of advertising campaigns. The marketer must advise the organization about the best media mix to use, choosing among newspapers, magazines, radio, television, and billboards. Within each medium, the marketer must also make such decisions as whether to employ full-page or part-page ads, thirty-second TV spots or infomercials, and which radio stations will best reach target customers at certain times of the day.

The sixth traditional marketing skill is sales promotion: the use of incentives to stimulate trial or purchase of a product or service. Sales promotions include a wide variety of incentives. For example, community leaders might want 100 percent of citizens to get a flu vaccination; to achieve a big turnout, they may offer a discount for family members, a free booklet on staying fit, or a free coupon for a blood test.

The seventh traditional skill of marketers is management of a sales force. For example, the General Electric (GE) Medical Products division uses a well-trained sales force to sell sophisticated diagnostic imaging equipment to hospitals. This equipment is expensive, so hospitals must be convinced not only that they need this technology, but also that they should prefer to purchase it from GE. GE's professional sales force will explain the benefits of buying this equipment as justifying its high cost. Thus GE needs to hire, train, compensate, motivate, and evaluate hundreds of skilled professional salespeople.

Many suggest that, in addition to these seven skills, organizations need some newer marketing know-how, including:

- Direct marketing (mail and e-mail)
- Telemarketing
- Public relations
- Product placement
- Sponsorship
- Event management
- Internet marketing
- Blogs and podcasts

These skills, along with the more traditional marketing skills, are discussed in later chapters of this book.

### ***How Marketing Is Organized in Health Care***

Formal marketing positions (such as marketing researchers, sales managers, and advertising managers) have existed in pharmaceutical firms, medical device firms, and medical supply firms for many years, but it wasn't until 1975 that an American

hospital first appointed a head of marketing. The Evanston Hospital in Evanston, Illinois (now Evanston Northwestern Healthcare), appointed Dr. John McLaren, a physician, to be its vice president of marketing.

As more hospitals began to appoint a marketing head, two variations emerged: director of marketing and vice president of marketing. The director of marketing provides and orchestrates marketing-related activities and resources. The vice president of marketing performs these activities and also sits with the other hospital officers in developing policies and strategies. The VP of marketing also brings the voice of the customer (VOC) into management and board meetings.

When hospitals first started appointing marketing heads, the public relations (PR) person on the staff often objected on the grounds that he or she was doing the marketing. The PR person's job was to generate good news about the hospital and defend it against bad news. Hospital CEOs soon realized, however, that PR and marketing have quite different roles and skills, although there is some overlap.

Public relations persons are trained in communication skills and work closely with media (editors, journalists) and occasionally with government officials, although the latter contacts are often handled by public affairs officers. Marketing people, on the other hand, are trained in economic analysis and the social sciences to understand and analyze markets and customer choice behavior. Marketers use the tools detailed earlier to provide estimates of a defined market's size and its needs, preferences, perceptions, and readiness to respond to alternative offers. Marketers develop a strategy and tactics for serving the target market in a way that will meet the organization's mission.

Today the marketing department in a large hospital may be staffed with a marketing researcher or analyst, an advertising and sales promotion manager, a sales force director, and in some cases product managers and market segment managers. Even when there are no specific positions dedicated to the functions of product development, pricing, communication, and distribution, these will be carried out by various people in the organization.

## SUMMARY

Marketing plays an important role in helping participants in the health care system create, communicate, and deliver value (CCDV) to their respective target markets. Modern marketers start with the customers rather than with the products or services; they are more interested in building a lasting relationship than in securing a single transaction. Their aim is to create a high level of satisfaction so that customers come back to the same supplier.

Marketers have used many traditional skills, including marketing research, product design, distribution, pricing, advertising, sales promotion, and sales management. These skills need to be supplemented by newer ones emerging from new technologies and concepts for reaching and serving customers with messages and offers.

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### DISCUSSION QUESTIONS

1. You are the president of a hundred-bed hospital that has a public relations person and a development officer but no marketer. Do you need a marketer? How would this person's role differ from the others? Make an argument pro and con for hiring a marketer.
2. The governor of your state believes that more state funds need to be invested in preventing illness and accidents. He hires you as a social marketer with the mandate to raise consciousness about healthier life styles and to focus on two causes that will have the highest impact. How would you approach this assignment and what would you suggest?
3. You head the marketing department for a medical device firm whose sales department reports not to you but to a vice president of sales. Do you think that the vice president of sales and the sales force should report to you, or is it better to run marketing and sales as separate departments? What are the likely problems? What are the arguments for and against combining the departments?
4. A physician in private practice asks you, as a marketing consultant, how to attract more patients. The practice is serving about ten patients a day and cannot run profitably unless the physician sees about twenty patients a day. What questions would you ask before starting to make suggestions?