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STRATEGIC
MARKETING FOR
HEALTH CARE
ORGANIZATIONS

Building a Customer-Driven
Health System

**PHILIP KOTLER,
JOEL SHALOWITZ,
AND ROBERT J. STEVENS**

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To our new grandchildren, the triplets—Dante, Sapphire, and Shaina.
—Philip Kotler

To my wife, Madeleine Shalowitz, M.D., M.B.A., and children,
David, Kira, and Ilana.
—Joel Shalowitz

In memory of my late father, Jack, who inspired me to pursue a career in health
care marketing, and to Elizabeth, who has nurtured it.
—Robert J. Stevens

PREFACE

The U.S. health care system is broadly regarded as the best in the world. Affluent foreign patients needing challenging medical treatment choose to fly to our health care institutions, such as the Mayo Clinic, the Cleveland Clinic, the Massachusetts General Hospital, and Johns Hopkins Hospital.

While most U.S. health care institutions provide good-quality health care, we still have several glaring deficiencies. Consider the following six examples. First, an estimated forty-five million U.S. citizens are without health insurance. When they get ill, they cannot find the best treatment for their problem or even hope to pay the bill. Second, medical costs are highly variable and far from transparent; one finds it difficult to know in advance what a hernia operation or a knee replacement will actually cost. Third, the quality of health care varies greatly among different regions of the country and even within some counties. Fourth, the costs of care are high and rising, putting a heavy burden on average citizens as they are expected to bear more of these expenses. Fifth, Medicare and Medicaid, the two principal federal health care programs, are in financial trouble. Finally, the health system underinvests in preventive measures, such as encouraging lifestyle changes and early detection of medical problems.

Systematic health care problems are not unique to the United States. For example, in the U.K. and Canada, patients wait a long time for elective surgeries such as hip replacements. As a result of a 2001 European court decision, then-prime minister Tony Blair promised to pay for sending patients to other European countries to get more timely care. In less-developed countries, the problems are more severe: equipment, medicine, and qualified personnel are in short supply, facilities are poor, and costs of care are very high in relation to income levels.

To address these problems and identify new opportunities, we believe that health care leaders can improve their efficiency and effectiveness by taking a customer-driven view of their clients and activities. We wrote this book to serve the needs of all those who are or will be working in the health care system: physicians, nurses, medical researchers, hospital administrators, public health workers, nursing home personnel, and managers in the medical device, biotechnology, or pharmaceutical sectors. Ideally, all of these health care participants will supply products and services that enhance the health needs of citizens. To identify these needs and deliver their products and services, they will need to have marketing competencies.

Marketing is both a philosophy and a set of tools. As a philosophy, it calls for serving and satisfying the needs of customers (clients, citizens, and patients) while

satisfying the practitioner's and organization's requirements. As a set of tools, marketing helps these participants learn about the market's and individual customer's needs, develop quality products and services, price them correctly, inform and communicate about their offerings, and make them accessible.

Our book is divided into four parts, following a managerial process.

- Part One (Chapters One to Four) deals with understanding the health care system and the role of marketing. We define a health care system, the providers and institutions it comprises, the determinants of health care utilization, and the role played by strategy and marketing planning.
- Part Two (Chapters Five to Eight) describes ways to analyze the users of the health care system. We explain how consumers and businesses make their health care decisions, how marketing information can be gathered, and how health care organizations can segment, target, and distinctively position their products and services within the health care marketplace.
- Part Three (Chapters Nine to Fourteen) examines the various tools of the marketing mix available to health care providers. The main tools are product and service development, branding, pricing, distribution, and communication and promotion.
- Part Four (Chapter Fifteen) explains how health care providers can organize their marketing resources, implement their marketing plans, and use control tools to reach their stated goals.

Along with this information, we provide several learning aids. For example, each chapter begins with a story that illustrates some aspect of the chapter's subject; we introduce additional stories and examples in various boxes and exhibits; and we conclude with a set of questions to stimulate further thought. Finally, we include a glossary following the last chapter.

Our hope is that this book will give you many concepts and tools that will enable you to be effective in your chosen field and make a strong contribution to the health of the nation.

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Philip Kotler
Glencoe, Illinois
Joel Shalowitz
Glencoe, Illinois
Robert J. Stevens
Durham, North Carolina

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THE AUTHORS

PHILIP KOTLER is S. C. Johnson Distinguished Professor of International Marketing at the Kellogg School of Management. He has been honored as one of the world's leading marketing thinkers. He received his M.A. degree in economics (1953) from the University of Chicago and his Ph.D. degree in economics (1956) from the Massachusetts Institute of Technology (M.I.T.). He has received honorary degrees from ten foreign universities. He is author of over one hundred articles and forty books, including *Marketing Management*, *Principles of Marketing*, *Marketing for Hospitality and Tourism*, *Strategic Marketing for Nonprofit Organizations*, *Social Marketing*, *Marketing Places*, *Museum Strategy and Marketing*, and *The Marketing of Nations*. His research covers strategic marketing, consumer marketing, business marketing, professional services marketing, and e-marketing. He has been a consultant to IBM, Merck, General Electric, AT&T, Bank of America, Motorola, Ford, and others.

JOEL SHALOWITZ is professor and director of the Health Industry Management Program at the Kellogg School of Management, Northwestern University. He is also professor of medicine and preventive medicine at Northwestern's Feinberg School of Medicine. He received his bachelor's and M.D. degrees from Brown University and completed his internal medicine residency and M.B.A. degree at Northwestern University. He currently teaches courses on the U.S. health care system as well as international health care systems. Dr. Shalowitz received a Fulbright Scholarship in 2004 to the Schulich Business School at York University in Toronto, where he is now a visiting professor. In 2007 he was a Fulbright Senior Specialist and visiting professor at Keio University Medical School in Tokyo. In addition to international health care, his current interests are health care quality and safety, health insurance, and cultural influences on health care. Honors have included election to Sigma Xi, Beta Gamma Sigma, and Fellowship in the American College of Physicians.

ROBERT J. STEVENS is president of Health Centric Marketing Services, a health care marketing research firm. He teaches health care marketing as an adjunct professor at the Kenan-Flagler Business School at the University of North Carolina–Chapel Hill, at the School of Public Health at the University of North Carolina–Chapel Hill, and at the Owen Graduate School of Management at Vanderbilt University. Stevens received a B.A. degree from Colgate University, an M.A. degree in English from

XX The Authors

Duke University, and an M.B.A. degree from the Kellogg School of Management at Northwestern University. His background includes executive marketing positions with a health care consumer package goods company, a health care system, a publicly held physician staffing and billing company, and a publicly held physician information systems company.

PART

1

**UNDERSTANDING
THE HEALTH CARE
SYSTEM AND THE
ROLE OF
MARKETING**

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?

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."¹ 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.

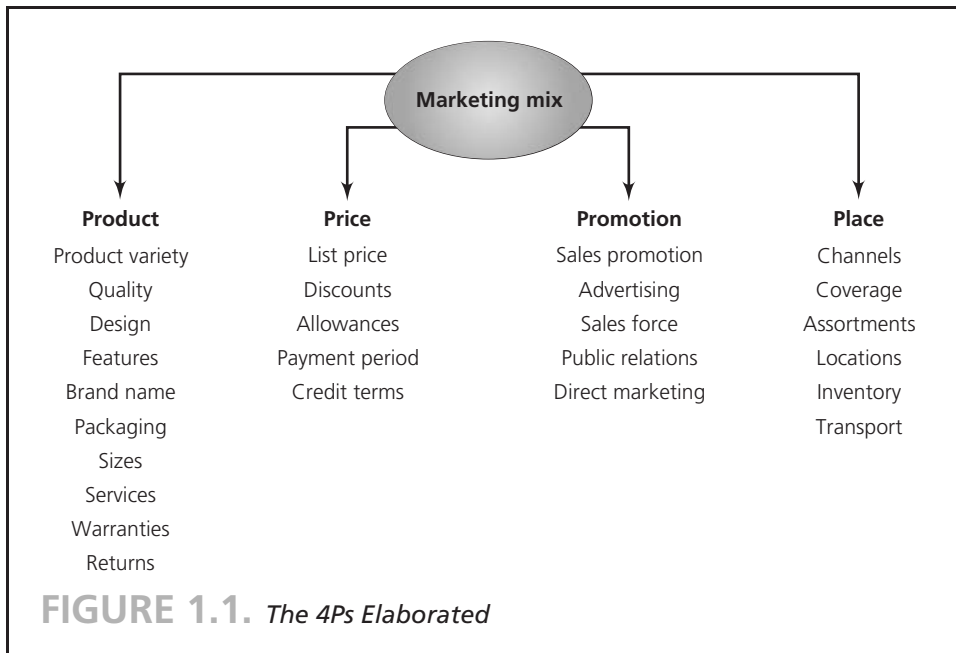
Marketing Uses a Set of Concepts

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,



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.”²

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.