

## CHAPTER 5

### Directional Strategies

#### SUGGESTIONS FOR EFFECTIVE TEACHING

We ask students to collect examples of mission, vision, and values statements from various health care organizations including for-profit, not-for-profit, public and private organizations. The Internet provides a useful tool for obtaining real-time examples to review and evaluate. Without being judgmental, it is instructive to take some of the criteria discussed in the literature and reported in this chapter to see whether the actual statements apply the principles discussed. Ask the students to identify the similarities and differences between for-profit and not-for-profit examples. Are there similarities and differences between public and private? Students may then be asked which of the mission statements represents and organization that they would like to work for.

#### LECTURE NOTES

Introductory Incident: Preserving the Mission through Changing Leadership. This introductory incident illustrates how organizational missions, taken seriously, are not always easy to “square” with economic realities. Many think the public hospital is an endangered species. Certainly, public hospitals face serious economic challenges if they are to continue their service to the most needy sectors of our society.

This incident argues that public hospitals, if they are to survive and ultimately accomplish their mission, must alter their operations more in line with for-profit organizations. Specifically, they need to be less political in their orientation, alter their governance structures, and revamp their human resources policies and procedures.

An alternative approach is to assist students in working through the guidelines provided in Exhibit 5-11 by building a mission statement for the university or a school in the university to ensure students have a common frame of reference. Continue the exercise started with the mission statement by building an organizational vision statement to go along with the mission statement developed previously. Use Exhibit 5-15 to assist in the process. Encourage the class to continue the exercise by building a set of guiding principles as a companion to the mission and vision statements already developed

We believe it is a good idea to return to this incident after working through the chapter and make some specific suggestions about how public hospitals can become more economically viable without sacrificing their mission. In many cases a serious re-examination of the mission as well as the business operations is required.

- I. Expanding the Concept of Directional Strategies. The primary directional strategies discussed in the strategic management literature are mission, vision, and values; however, it is important to note that strategic goals also provide direction to the organization (Exhibit 5-1).  
Learning Objective 1
  
- II. Nature of Directional Strategies  
Learning Objective 2
  - A. Mission is a statement of distinctiveness. A mission statement provides insight into what is distinct about a particular organization and what distinguishes it from all other organizations of its type.
  - B. Vision is a statement of hope about how the organization will look when it is accomplishing its mission.
  - C. Values are the guiding principles of the organization on which its business philosophy is based.
  - D. Strategic goals are statements of outcomes the organization's leadership expects to achieve as it accomplishes its mission and makes progress toward its vision.
  - E. In addition to directional strategies, the importance of service category critical success factors (primary requirements for success in a particular service category) and mission critical activities (those things that must be accomplished if the mission is to be realized) should be considered.
  
- III. Organizational Mission.  
Learning Objectives 2 and 3
  - A. The Barnard quote is a useful and practical way to illustrate the importance of a sense of mission. Although Barnard uses the term *purpose*, mission can be accurately substituted.
  - B. An organizational mission should be a living document rather than simply a public relations statement. Note how the research suggests that in many organizations mission statements are not taken seriously because rank-and-file employees rarely have input into their formulation (see Perspective 5-1).
  - C. Effective mission statements force managers to ask three important questions:
    - 1. Is there any thing the organization should be doing that it currently not doing?
    - 2. Is the organization doing some things that it should stop doing?

3. Is the organization some things it should be doing in a fundamentally different way?
- D. The characteristics of mission statements – broadly defined purpose, enduring, underscores the uniqueness of the organization, and identifies scope of operations – are operationalized through the following components:
1. Mission statements target customers and markets.
  2. Mission statements indicate principle services.
  3. Mission statements specify geographic domain.
  4. Mission statements identify an organizational philosophy. (See Perspective 5-2).
  5. Mission statements illustrate an organization’s desired self-image.
  6. Mission statements specify the desired public image.
- E. Underscore the absolutely essential need for top leadership support of the mission (Perspective 5-3).
- IV. Vision: Hope for the Future.  
Learning Objectives 3, 4, and 5
- A. Visions are a complex understanding of the history of an organization (its past accomplishments and failures), perceptions of the opportunities and threats present in the environment, and assessment of its strategic capacity or ability to capitalize on the opportunities facing it.
  - B. The role of the visionary leader as pathfinder is important, because as Senge states, a picture of what might be is often more important than what is. Someone must be the keeper of the vision if it is to be motivational over time.  
Learning Objective 7
  - C. Effective visions are inspiring, about excellence, make sense, are flexible, empower employees first and patients second, honor the past while looking to the future, and come alive in details. (Learning Objective 6.)
- V. Values As Guiding Principles.
- A. Organizations and their members should have some principles or commitments that they stand for and rarely, if ever, compromise.

## Learning Objective 5

- B. Exhibit 15-16, Exhibit 5-17, and Exhibit 5-18 to illustrate well developed statements of organizational values.

## VI. Strategic Goals and Service Category Critical Success Factors. To operationalize the goals of an organization, it is important to continue the logic and convert the mission, vision, and values into strategic goals. Learning Objective 8

- A. Service category critical success factors are those things that health care organizations must do well. These factors are similar for all organizations in a particular strategic group (See Perspective 5-5).
- B. Mission critical activities are instrumental in providing the focus that strategic leaders need to ensure they address the factors that lead to success in a particular service category.
- C. Strategic goals relate to mission critical activities and should provide more specific direction than missions and visions. At the same time, strategic goals should be broad enough to allow considerable discretion for unit managers in formulating their objectives for individual units.

## Learning Objective 9

- 1. Strategic goals should relate specifically to a mission critical activity.
- 2. Strategic goals should be limited in number.
- 3. Strategic goals should be formulated by strategic leaders but should be stated in terms that can be easily understood and appreciated by unit managers.

## III. VII. Governing Boards and Directional Strategies. Governing boards are important in ensuring that directional strategies are carefully established and pursued. Discuss the change in health care toward more corporate boards rather than philanthropic boards.

## QUESTIONS FOR CLASS DISCUSSION

- 1. Is it necessary for all organizational mission statements to include the multiple components discussed in this chapter? How do we decide what components to include?

Mission is an enduring statement that distinguishes or differentiates one organization from all others of its type. It is a superordinate goal that assists top management in navigating through periods of turbulence and change. Mission

statements are broadly defined statements of purpose that are enduring and underscore the uniqueness of the organization as well as identifying the scope of operations.

A Mission statement can:

- Target customers and markets.
- Indicate the principle services delivered by the organization.
- Specify geographic domain within which the organization tends to concentrate (service area).
- Identify organizational philosophy.
- Confirm the organization's preferred self image.
- Outline the organization's desired public image.

It is not necessary to include all components of a mission statement as discussed in the chapter. There is no single, best way to develop and write mission statements, but they must be unique in order to define the uniqueness of the organization. What to include is based on organizational leaders and their preferences. Missions should be formulated and approved by top management and have its support.

Those components that will distinguish the organization from all others of its type should be included. Mission statements are more likely to include the geographic domain if there is a regional orientation to the organization's service delivery. Similarly, the mission statement is more likely to contain the organization's philosophy if it is operated by a religious group.

2. Think of an organization that you know relatively well and attempt to construct a mission statement in light of the components of missions discussed in this chapter.

The important point of this question is to encourage students to use the various components and the real examples used in this chapter to attempt the development of a mission statement. Perhaps the most important result is an appreciation on the student's part of how difficult it is to craft a good mission statement.

Example A: Rural hospital mission statement

To provide the highest level of quality in the delivery of general acute health care services to our community's citizens; to serve as a resource to our community by promoting health education programs; and to be responsive to the needs and values of our patients and their families, physicians, and employees.

Example B: Private ophthalmology practice mission statement

Our mission is to provide quality ophthalmology care and products to patients within the metro area. This is accomplished through dedicated medical care and on-going research.

3. Where do organizational missions originate? How does an organizational mission change as the organization grows and matures? What types of changes are likely to take place in the mission statement?

Mission statements originate in the purpose of the organization. Organizations are created to accomplish specific things — to make profits, to serve humanity, to heal the sick, and so on. This purpose, as specified in the charter or by the founder, provides the basis for the mission. As organizations grow and develop, their purposes become more diversified and complex. The same is true of their customers/clients, services, geographic domain, and so on. The mission must be constantly reevaluated and reaffirmed to ensure these changes are considered. Changes in mission do not occur frequently but can take place relative to any or all aspects of the organizational purpose.

4. Indicate two ways in which an organizational vision is different from other types of organizational goals.

Vision is an intangible expression of hope. It is a superordinate goal that describes what the organization will be like when it is fulfilling its purpose. Visions, unlike organizational goals, should be inspiring, not just quantitative goals to be achieved in the next performance period. Vision is acquired from an appreciation of the history of the organization, a perception of the opportunities present in the environment, and an understanding of the capacity of the organization to capitalize on these opportunities.

#### Characteristics of Organizational Vision

- Visions should be inspiring.
  - Visions should be clear, challenging, and about excellence.
  - Visions must make sense in the relevant community, be flexible, and stand the test of time.
  - Visions should be stable, but constantly challenged and changed when necessary.
  - Visions are beacons and controls when everything else seems up for grabs.
  - Visions empower employees first and then clients, patients, and others the organization serves.
  - Visions prepare for the future while honoring the past.
5. It has been said that vision is necessarily the responsibility of leaders. Do you agree or disagree? Why or why not?

Visioning is an essential role of the leader. In fact, creating and communicating a vision is one of the most important tasks of strategic leadership. Effective visionaries, however, listen to people at all levels in the organization and attempt to capture and restate their collective hopes as important elements in the vision. Leaders need to recognize and appreciate that visions, in order to be inspirational, must speak to the rank and file organizational members.

Visions are the responsibility of leaders. However, the most effective leaders are in touch with those they lead. For this reason, the effective leader formulates a vision that reflects the needs, desires, and aspirations of followers as well as leaders. There is a strong case to be made for the leader's responsibility to formulate and communicate the vision. However, it is also possible to argue, and some students make the argument, that rank-and-file employees should be involved in vision formulation.

6. Why is the pathfinder's role so important in health care strategic management? Who in the organization is best equipped to fulfill this role and why?

Pathfinding is the task of building a vision for an organization, finding the paths the organization should pursue, and providing a clearly marked trail for those who will follow. Strategic leaders (CEOs and others) are the key personnel to fill this role because they focus on the organization's long-term success.

A vision-led organization is guided by a philosophy to which managers are committed but which may not have become obvious in the daily life of the organization. The manager clarifies goals and priorities and ensures that they are understood and accepted by employees. The manager is also the keeper of the vision (that is he or she is the cheerleader who holds on to the vision even when others lose hope) and the provider of inspiration.

7. Who determines the values of a health care organization? Who should determine these values? What values do you think should be shared by all health care organizations?

Stakeholders, in one form or another, determine the values or guiding principles of a health care organization. In the early stages of organizational development, the founders of the organization are the most influential stakeholders relative to value formation. However, as the organization matures, the guiding principles are a complex mixture of the interests of a number of stakeholders – employees, society, patients, and others. Stakeholders are the appropriate groups to influence values. In most cases, the values of a health care organization are more complex than those of traditional profit-oriented business firms because of the more complex network of stakeholders.

Universally accepted values or guiding principles are relatively rare. However, many believe that health care organizations can benefit from common values such as integrity in decision making; concern for patients, employees, and the community; and related types of behavioral guidelines. Some health care organizations are so committed to innovation, teamwork, and organizational excellence that these could actually be considered guiding principles. To speculate about organization-specific values, the character, history, and future aspirations of an organization must be clearly understood. However, some environments are so unique that they might demand organizational specific values. Health care organizations should certainly share the values of the importance of patients, devotion to quality, and the preservation of human dignity.

8. Why are values referred to as an organization's guiding principles? In what sense do values constitute a directional strategy for the organization?

Values are guiding principles because they state the "bedrock" convictions or concepts on which the organization is founded and to which it is committed. Some health care organizations, for example, are committed to never compromising quality of patient service. It is a philosophy that guides the behavior of all employees and is the basis for management decision making. It is a directional strategy because it allows for a logical progression of decision making. The manager of a health care organization built on the principle of never compromising devotion to the quality of patient care may be concerned for cost but when faced with a conflict between cost and quality, the quality of patient service drives decision making.

9. Explain how critical success factors differ for various service categories in the health care industry such as home health, acute care hospitals, and outpatient clinics.

Service categories require different resources, competencies, and capabilities for success. In home health, for example, the critical success factors will likely be the ability to provide continuous care to individuals with chronic illnesses. In the acute care hospital, a wide range of competencies is essential. In outpatient clinics location, convenience, and numerous other factors may be the determinants of success. Since different outcomes are expected in different service categories, different factors lead to success or failure.

10. What are mission critical activities? What is their relationship to service category critical success factors?

Mission critical activities are those factors that are instrumental in accomplishing the purpose of a health care organization. Mission critical activities are often the anchor for strategic goal setting. Service category critical success factors are those things that must be done well in a particular service category. Mission critical activities should contribute directly to the accomplishment of service category critical success factors.

11. Why should strategic goals be anchored in mission critical activities?

Strategic goals should be established that contribute to mission accomplishment. Therefore, it is important to anchor strategic goals in mission critical activities to ensure that the activities leading to mission accomplishment are achieved. Strategic goal setting relative to mission critical activities provide strategic decision makers with focus.

12. How can health care managers more effectively use directional strategies to stimulate higher levels of performance among all personnel?

Directional strategies are the end results that must be accomplished in health care organizations if the organization is to be successful. Directional strategies stimulate performance if they are well developed, communicated to all employees, and the leaders themselves support the organization's goals. Employees should be encouraged to provide some input into the directional strategies that will influence their success or



failure on the job — they are more likely to be committed to achieving the strategies when they have had an opportunity to provide input.

Directional strategies that are clearly stated and communicated give employees a sense of purpose – they know what they are expected to accomplish. When employees have specific strategies to accomplish, they perform better and enjoy their jobs more because direction is provided and satisfaction results from attaining the strategy.

Strategic goals assist managers in making decisions with regard to the distribution of resources. Strategic goals change rather frequently as the industry is dynamic and key performance areas change over time.

13. Why is the board of directors an important group to include in the formulation of directional strategies? What is the board's proper role in formulating these strategies?

The board of directors has an oversight responsibility on all matters of policy. In view of this, members of the board of directors can provide valuable experience and expertise in the formulation of directional strategies. The board's proper role is to provide assistance and expertise rather than micromanaging either the formulation or accomplishment of directional strategies.

Some organizations effectively use the board of directors as a reality check to ensure that the directional strategies are consistent with the overall aspirations of the organization. The board of directors represents an extremely valuable resource to health care organizations.

14. What is the best way to involve the board in the development of directional strategies? Explain your answer.

The board of directors, if it is a corporate type, is composed of successful experts in their various fields. Their expertise should be used as a panel of internal consultants to assist strategic leaders in thinking through and agreeing on directional strategies.

A philanthropic board should be used to stimulate agreement that exists among the various interest groups relative to the directional strategies. In either case, the board should be thought of as a valuable resource to the health care organization.

## CHAPTER 6

### Developing Strategic Alternatives

#### SUGGESTIONS FOR EFFECTIVE TEACHING

This chapter is a fun chapter to teach and is critical in pulling together the strategic management process. We have found it effective to first discuss the decision logic of strategy formulation. We do this by beginning to construct the information in Exhibit 6-4, Strategic Thinking Map – Hierarchy of Strategic Decisions and Alternatives. Exhibit 6-4 contains elements of Exhibits 6-2 and 6-3 and information in these exhibits can be discussed as we reconstruct Exhibit 6-4. Therefore, we start with the column headings and arrows and define each strategy type and discuss their ends-means relationships. At this point we ask the students how these steps relate to situational analysis. Here we add the check list shown in Exhibit 6-1, and stress that the strategies selected by the organization should address external opportunities or threats, draw on internal strengths or fix weaknesses, keep the organization within the parameters of the mission, move the organization toward the vision, and make progress toward achieving one or more of the organization's goals. This is also a good opportunity to emphasize that at each stage in the ends-means decision chain, previous upstream decisions and the implications for subsequent downstream decisions must be considered and perhaps reconsidered. Students should understand that as we work through strategic decisions, new insights and perspectives may emerge that suggest reconsideration of previous strategic decisions. Therefore, although the decision logic for strategy formulation is generally sequential, in practice it is an iterative process.

With this groundwork completed, we begin developing the columns (adaptive, market entry, and competitive strategies). We discuss each strategy type and provide examples of each. Discussion of the adaptive strategies will produce Exhibit 6-5 as an "extra" column in our blackboard exercise. In addition, we try to discuss the rationale and relative risk (or advantage and disadvantage) of each strategy as they are introduced and summarized for students in Exhibit 6-9, 6-11, and 6-12 for the adaptive strategies, 6-13 for the market entry strategies, and Exhibits 6-14 and 6-17 for the competitive strategies. Another good summary is Exhibit 6-20, which provides a short definition and an example of each strategy alternative.

#### LECTURE NOTES

Introductory Incident: Aurora Health Care, a community owned, not-for-profit health care system, has actively pursued a basic expansion strategy of integration (along with minor ventures into expansion via diversification, market and product development, and penetration) using several market entry strategies including mergers, alliances, acquisitions, and internal development. Questions that might be posed to the class as a starting point for discussing this and the next chapter include: "Which strategies are most appropriate in which situations?" "Is there a hierarchy of strategies?" "Which are superordinate and which subordinate?" "How do organizations select a strategy – especially in turbulent times?" Chapter 6 introduces

the types of strategies and presents a comprehensive schematic or map of the hierarchy of strategic alternatives. Chapter 7 discusses methods for analyzing the alternatives to make a strategic choice.

I. Strategy Formulation and Decision Logic.

Learning Objective 1

- A. Strategy is a decision-making process. (Refer to Exhibit 6-2 for the decision logic.)
- B. There are four types of strategies (each with several sub types) that make up the strategy formulation process. Strategy is developed through:
- Directional strategies – mission, vision, values, and goals;
  - Adaptive strategies – expansion, contraction, and maintenance of scope;
  - Market entry strategies – purchase, cooperation, and development;
  - Competitive strategies – strategic posture and positioning strategies.
- C. Decisions concerning these strategies must be made sequentially, with each subsequent decision more specifically defining the activities of the organization. It is very important to emphasize that strategy formulation can be a logical process. Exhibit 6-3 provides the scope and role of the types of strategies and helps explain that logic.

Learning Objective 2

- D. Exhibit 6-4 provides a conceptual map of the chapter and can serve as a topical outline for class lecture and discussion. We have found that recreating Exhibit 6-4 on the blackboard and discussing (from left to right) each strategy type and its various alternatives works quite well. This approach demonstrates the strategic decision making logic (broadest decisions to more specific decisions) and the various alternatives under each strategy type.

Learning Objective 2

II. Directional Strategies.

Learning Objectives 3 and 4

- A. The directional strategies are mission, vision, values, and goals. They set the broadest direction for the organization.
- B. The directional strategies are a part of both situational analysis and strategy formulation. In situational analysis they describe the current state of the organization and codify its basic beliefs and philosophy.

They are a part of formulation because they set the broadest direction for the organization.

III. Adaptive Strategies.  
Learning Objectives 3 and 4

- A. The adaptive strategies are divided into expansion, contraction, and maintenance of scope and represent the first decision that is made after determining the directional strategies. Thus, “Should we expand, contract, or remain about the same?”

(Note: we have provided several summary charts that can be useful in the lecture or discussion of the chapter. Exhibit 6-4 provides the overview or map, Exhibit 6-7 shows the rationale and relative risk of each of the expansion adaptive strategies, and Exhibit 6-20 provides a definition and actual examples of each adaptive strategic alternative and the other strategy types.) These exhibits provide a quick reference as to how the alternative fits within the decision making logic, an explicit definition and real example, and the rationale for pursuing the strategy.

- B. The adaptive expansion of scope strategies.  
Learning Objective 5

- Diversification,
- Vertical integration,
- Market development,
- Product development, and
- Penetration.

An effective approach after asking “Should we expand, contract, or remain about the same?” is to ask students, “What are some ways to do that?” It is helpful to note that corporate-level strategies add or subtract businesses (SBUs/SSUs) and division-level strategies expand, contract, or maintain current businesses.

1. Diversification.

- a. Related or concentric diversification — an organization chooses to enter a market that is similar or related to its present operations. (Refer to Exhibit 6-6 and 6-7 for examples of related and unrelated diversification.)
- b. Unrelated or conglomerate diversification — an organization enters a market that is unlike its present

operations. (Perspective 6-1 illustrates some problems with unrelated diversification.)

2. Vertical integration — often confused with diversification. Indeed, the health care literature often uses the terms interchangeably especially when discussing alliances, networks, and health care systems. We have used the intent of the strategy to distinguish between the two because the intent of the strategy will place different demands on the organization. If the intent is to control patient flow (provide feeder units), it is vertical integration. If the intent is to expand into new markets, the strategy is diversification. Control of patient flow will rely on the rationales and demands of vertical integration; growth in new markets will rely on the rationales and demands of diversification. (Exhibit 6-8 provides the patterns of vertical integration among health care organizations.) (Perspective 6-2 suggests that when creating a vertically integrated network all the pieces must fit together.)
  - a. Forward integration (downstream).
  - b. Backward integration (upstream).
3. Market development — used to enter new markets with present products or services.
  - a. Geographic (new city or area).
  - b. Segmentation (new customer group).
  - c. Market driven or focused factory (Refer to Perspective 6-3 for the “rules” of the focused factory).
4. Product development — the introduction of new products to present markets (geographic and segments).
  - a. Expand the product line (new services).
  - b. Product enhancements (changes to current products).
5. Penetration — an attempt to better serve current markets with current products or services.
  - a. Promotion.
  - b. Channels of distribution.
  - c. Pricing.

C. The adaptive contraction of scope strategies.  
Learning Objective 5

- Divestiture,
- Liquidation,
- Harvesting, and
- Retrenchment.

Note: Exhibit 6-11 shows the rationale and relative risk of each of the adaptive contraction strategies. It can be used along with Exhibits 6-4 and 6-20.

1. Divestiture – a strategy in which an operating unit is sold off as a result of a decision to permanently and completely leave the market. (Refer to Exhibit 6-10 for guidelines for divestiture.)
  - a. Total.
  - b. Partial.
2. Liquidation – selling the assets of an organization.
  - a. Operations.
  - b. Assets.
3. Harvesting – an attempt to reap maximum short-term benefits before the product or service is eliminated.
  - a. Fast.
  - b. Slow.
4. Retrenchment – definition of the target market, selective cost elimination, and asset reduction.
  - a. Personnel.
  - b. Markets.
  - c. Products.
  - d. Assets.

D. The adaptive maintenance of scope strategies.  
Learning Objective 5

Note: Exhibit 6-12 shows the rationale and relative risk of each of the adaptive maintenance of scope strategies. Use in conjunction with Exhibits 6-4 and 6-20.

1. Enhancement – improving what the organization already does.
  - a. Quality.
  - b. Efficiency.
  - c. Innovation.
  - d. Speed.
  - e. Flexibility.
2. Status quo – maintenance strategy. At this point, it is helpful to suggest that in many health care situations attempting to maintain the status quo (market share, for example) is extremely challenging and requires significant investment of funds and management attention.

IV. Market Entry Strategies.  
Learning Objectives 3 and 4

- A. The market entry strategies are divided into purchase, cooperation, and development. “Should we buy our way into the market, cooperate with others, or develop it ourselves?” Note: Exhibit 6-13 shows the advantages and disadvantages of each of the market entry strategies. It can be used along with Exhibits 6-4 and 6-20.
- B. Market entry strategies must be considered for the expansion and maintenance of scope adaptive strategies.
- C. The market entry purchase strategies include:
  1. Acquisition. (Refer to Perspective 6-4 for statistics concerning mergers and acquisitions.)
  2. Licensing.
  3. Venture capital investment.
- D. The market entry cooperation strategies include:
  1. Mergers.
  2. Alliances.

3. Joint ventures.
- E. The market entry development strategies include:
1. Internal development.
  2. Internal ventures.
- F. Market Entry Strategy Linkage (Perspective 6-5 speculates on the organizational forms of care delivery for the next decade).
- V. Competitive Strategies.  
Learning Objectives 3 and 4
- A. Having selected the adaptive strategies and market entry strategies, managers must decide the strategic posture of the organization and how the products and services will be positioned vis-à-vis competitors' products and services.
- B. Organizations may be classified by how they behave within their market segments or industry – their strategic posture. Research by Miles and Snow has shown that there are at least four typical strategic postures for organizations – defenders, prospectors, analyzers, and reactors. (Exhibit 6-14 shows the advantages and disadvantages of each strategic posture).
- C. The positioning strategies are divided into market-wide and market segment. “Should we target the entire market or only a particular segment of the market?” Note: Exhibit 6-17 shows the advantages and disadvantages of each of the positioning strategies – use along with Exhibits 6-4 and 6-20.
- D. Market-wide. (Refer to Exhibit 6-15 for Porter’s Matrix.)
1. Cost leadership.
  2. Differentiation.
- E. Market segment.
1. Focus/cost leadership.
  2. Focus/differentiation.
- VI. Combination Strategies.  
Learning Objective 6  
(Refer to Exhibits 6-18 and 6-19.) (Refer to Perspective 6-6 for an example of a successful combination strategy – Carolinas Healthcare System.)



## QUESTIONS FOR CLASS DISCUSSION

1. What four types of strategies make up the strategy formulation process? Describe the role each plays in developing a strategic plan.

There are four types of strategies that make up the strategy formulation process. Strategy is developed through:

- Directional strategies,
- Adaptive strategies,
- Market entry strategies, and
- Competitive strategies.

Decisions concerning these strategy types must be made sequentially with each subsequent decision more specifically defining the activities of the organization. That is, directional strategies must be made first, followed by adaptive strategies and then market entry strategies. Next, the organization's relationship with the market (strategic posture – defender, prospector, or analyzer) must be determined. Further, products or services are introduced or reintroduced to the market in a way to be different (or similar to) competitive products (positioning strategies). (The decision logic for strategy formulation is illustrated in Exhibit 6-2.)

2. Why are the directional strategies both a part of situational analysis and strategy formulation?

Mission, vision, values, and goals are part of both situational analysis and strategy formulation. They are a part of situational analysis because they describe the current state of the organization and codify its basic beliefs and philosophy. However, mission, vision, values, and goals are also a part of strategy formulation because they set the boundaries and indicate the broadest direction for the organization. As a result, these important decisions are referred to as directional strategies.

3. How is strategy formulation related to situational analysis?

Situational analysis provides the context for strategy formulation. Situational analysis provides information concerning the external and internal environments that is used in strategy formulation to develop strategic alternatives and select the strategies for the organization. External environmental analysis identifies important external opportunities and threats and provides a comprehensive competitive analysis. Internal environmental analysis identifies strengths and weaknesses and specifies whether they are sources of short- or long-term competitive advantage or disadvantage. Mission, vision, values, and goal development provides broad direction for the organization. As demonstrated by the check list in Exhibit 6-1, the strategies selected by the organization should address external opportunities or threats, draw on internal strengths or fix weaknesses, keep the organization within the parameters of the mission, move the organization toward the vision, and make progress toward

achieving one or more of the organization's goals. Implementation strategies then may be developed to accomplish the organizational strategies. The type of procedure demonstrated in Exhibit 6-1 is an important part of the strategic thinking process and helps assure consistency of analysis and action. Each selected strategy should be tested against these questions. Strategies that do not have yes's in each column should be subject to additional scrutiny and justification.

4. Name and describe the expansion strategies, the contraction strategies, and maintenance of scope strategies. Which of the adaptive strategies are corporate and which are division level? Under what conditions may each be appropriate?

Strategy	Definition	Appropriate Conditions
<u>EXPANSION</u> Related Diversification (Corporate)	Adding new related product or service categories. Often requires the establishment of a new division.	<ul style="list-style-type: none"> <li>• High growth markets</li> <li>• Less regulated markets</li> <li>• Can achieve synergy with current products/services</li> <li>• Seasonal or cyclical differences</li> </ul>
Unrelated Diversification (Corporate)	Adding new unrelated product or service categories. Typically requires the establishment of a new division.	<ul style="list-style-type: none"> <li>• High growth markets</li> <li>• Less regulated markets</li> <li>• Antitrust prohibits growth</li> <li>• Current markets not growing</li> </ul>
Forward Vertical Integration (Corporate)	Adding new members along the distribution channel (toward a later stage) for present products and services or controlling the flow of patients from one institution to another.	<ul style="list-style-type: none"> <li>• Creating a network of care</li> <li>• Need faster delivery</li> <li>• Long product life cycle</li> <li>• High level of coordination required between stages</li> </ul>
Backward Vertical Integration (Corporate)	Adding new members along the distribution channel (toward an earlier stage) for present products and services or controlling the flow of patients from one institution to another.	<ul style="list-style-type: none"> <li>• Creating a network of care</li> <li>• Deliveries/materials unreliable</li> <li>• Long product life cycle</li> </ul>
Market Development (Divisional)	Introducing present products or services into new geographic markets (service area) or to new segments within a present service area.	<ul style="list-style-type: none"> <li>• New markets available</li> <li>• New markets may be served efficiently</li> <li>• Organization has competitive advantage</li> <li>• Market growing</li> </ul>
Product Development (Divisional)	Improving present products or services or extending the present product line.	<ul style="list-style-type: none"> <li>• Incomplete product line</li> <li>• Consumer tastes changing</li> <li>• Technology changing</li> <li>• Create differentiation advantage</li> </ul>

Penetration (Divisional)	Seeking to increase market share for present products or services in present markets through marketing efforts (promotion, channels, price).	<ul style="list-style-type: none"> <li>• Market growing</li> <li>• Extend product life cycle</li> <li>• Cost or differentiation advantage</li> </ul>
<u>CONTRACTION</u> Divestiture (Corporate)	Selling an operating business unit or division to another organization. Typically, the business unit will continue to operate.	<ul style="list-style-type: none"> <li>• Industry in long-term decline</li> <li>• Required new investment too high</li> <li>• Too much regulation</li> <li>• Lack of synergy with core operations</li> </ul>
Liquidation (Corporate)	Selling all or part of the organization's assets (facilities, inventory, equipment, and so on) in order to obtain cash. The assets may be used by the purchaser in a variety of ways and businesses.	<ul style="list-style-type: none"> <li>• Can no longer operate</li> <li>• Bankruptcy</li> <li>• Reduce assets</li> <li>• Need new technology</li> </ul>
Harvesting (Divisional)	Taking cash out while providing few new resources for a business in a declining market. Sometimes referred to as "milking" the organization.	<ul style="list-style-type: none"> <li>• Late stages of product life cycle</li> <li>• Need to downsize</li> <li>• Prospects for growth are low</li> </ul>
Retrenchment (Divisional)	Reducing the scope of operations, redefining the target market and selectively cutting personnel, products and services, or service area (geographic coverage).	<ul style="list-style-type: none"> <li>• Market has become too diverse</li> <li>• Organization is spread too thin</li> <li>• Personnel costs too high</li> <li>• Too many products/services</li> <li>• Nonproductive assets</li> </ul>
<u>MAINTENANCE</u> Enhancement (Divisional)	Seeking to improve operations within present product or service categories through quality programs.	<ul style="list-style-type: none"> <li>• Operational inefficiencies</li> <li>• Need to lower costs</li> <li>• Need to improve internal processes</li> <li>• Need to improve quality</li> </ul>
Status Quo (Divisional)	Seeking to maintain position relative to others within a market (market share, sales leadership, quality, innovation, and so on).	<ul style="list-style-type: none"> <li>• Little growth or no major changes expected in market</li> <li>• Later stages of product life cycle</li> </ul>

5. Why does the selection of the strategic alternatives create “direction” or “momentum” for the organization?

The strategic alternatives create an ends-means chain. Generally, functional strategies accomplish divisional strategies which in turn carry out corporate strategies. Corporate and divisional adaptive strategies create further momentum for the organization to achieve its mission, vision, values, and goals (directional strategies). They provide a general course of action available to the organization and are more specific than directional strategies. This momentum is reinforced as managers understand, commit, and make decisions according to the strategy.

6. What is the difference between related diversification and product development? Provide examples of each.

In related diversification, an organization chooses to enter a market that is similar or related to its present operations. This form of diversification is sometimes called concentric diversification because the organization develops a “circle” of related products. The general assumption underlying related diversification is that the organization will be able to obtain some level of synergy between the production/delivery, marketing, or technology of the core business and the new related product or service. For hospitals, the two primary reasons for diversifying in the 1990s were to introduce non-acute or sub-acute care services that reduce hospital costs and to offer a wider range of services to large employers and purchasing coalitions through capitated contracts.

Product development is the introduction of new products to present markets (geographic and segments). Typically, product development takes the form of product enhancements and product line extension. Related diversification introduces a new product category (though related to present operations); product development may be viewed as refinements, complements, or natural extensions of present products. Product development strategies are common in large metropolitan areas where hospitals vie for increased market share within particular segments of the market, such as cancer treatment and open-heart surgery. Another good example of product development is in the area of women’s health.

7. What is a market-driven or focused factory strategy? Identify some organizations that have employed this type of market development strategy.

The fundamental principle underlying a market driven or focused factory strategy is that an organization that specializes or focuses on only one function is likely to perform better. This strategy involves providing comprehensive services across multiple markets (horizontal integration) for one specific disease such as diabetes management, rehabilitation, renal dialysis, asthma, or heart surgery. Focused factories become so effective (high quality, convenience, and so on) and efficient (less costly) that other providers are “forced” to use their services. Thus, these providers can obtain higher quality services at less cost by outsourcing to the focused factory. In turn, the focused factory commands a place in the payment systems. Two organizations that have used this strategy are Medcath in the development of their heart hospitals and HEALTHSOUTH in rehabilitation.

8. Many organizations engaged in vertical and horizontal integration in the 1980s and 1990s. At the beginning of the new century the pace of integration had slowed. Why have vertical and horizontal integration become less popular for health care organizations?

Vertical integration is the fundamental adaptive strategy for developing integrated systems of care and throughout the 1990s was central to many health care organizations' strategy. Numerous extensive health networks are the result of integration strategies. The major reason that hospitals join networks and systems is to help secure needed resources (financial, human, information systems, and technologies), increase capabilities (management and marketing), and gain greater bargaining power with purchasers and health plans. However, it appears that the pace of integration has slowed. In fact there has been some degree of "disintegration" with health care systems divesting health plans, physician groups, home health care companies, as well as selling or closing hospitals and divesting themselves of skilled-care services or facilities. This disintegration has occurred to some extent because managing several different kinds of enterprises can be very difficult and expertise in one area does not necessarily transfer to another. For example, managing an insurance company (managed care organization) is very different from managing an acute care hospital.

In addition, many hospitals and medical practices engaged in horizontal integration throughout the 1980s and early 1990s creating multihospital systems. Such systems were expected to offer several advantages such as increased access to capital, reduction in duplication of services, economies of scale, improved productivity and operating efficiencies, access to management expertise, increased personnel benefits, improved patient access, improvement in quality, and increased political power. However, many of these benefits have not materialized and the growth of horizontal integration strategies slowed in the latter part of the 1990s.

9. Describe vertical integration in terms of patient flow.

Patients flow through the system from one unit to the next, and upstream units are viewed as "feeder" units to downstream units (closer to the consumer). Examples of vertical integration would be a hospital chain acquiring one of its major medical products suppliers (backward integration) or a drug manufacturer moving into drug distribution (forward integration).

10. Explain the difference between an enhancement strategy and a status quo strategy.

When management believes that the organization is progressing toward its vision and objectives but needs to "do things better," an enhancement strategy may be used. Thus, neither expansion nor contraction of operations is appropriate but "something needs to be done." Typically, enhancement strategies take the form of quality programs (CQI, TQM) directed toward improving organizational processes or cost reduction programs designed to render the organization more efficient. In addition to quality and efficiency, enhancement strategies may be directed toward innovative management processes, speeding-up the delivery of the products or

services to the customer, and adding flexibility to the design of the product or services. In a status quo strategy, the goal is to maintain services at current levels. However, additional resources may be required. Management attempts to prolong the life of the product or service for as long as possible.

11. How is market development different from product development? Penetration? Provide examples of each.

Market development is used to enter new markets with present products or services. Market development is designed to achieve greater volume, through service area expansion or by targeting new market segments within the present geographic area. Market development might be achieved through the acquisition of a competitor or by entering a new geographic market such as HEALTHSOUTH entering Saudi Arabia. Product development is the introduction of new products to present markets (geographic and segments). Typically, product development takes the form of product enhancements and product line extension. An example of product line extension is adding products such as safety-engineered syringes and devices designed to prevent needle-stick injuries to an already extensive product line by Becton, Dickinson and Company. An attempt to better serve current markets with current products or services is called market penetration. Similar to market and product development, penetration strategies are used to increase volume and market share but they use existing products and services. Market penetration is supported by aggressive functional strategies, particularly within the marketing area. Advertising is an example of a penetration strategy.

12. Compare and contrast a divestiture strategy with a liquidation strategy.

Both are strategies for decreasing the scope of the organization (contraction). However, with divestiture, management is selling off a business unit or division as an operating entity to another organization. The business to be divested generally has value and will continue to be operated by the purchasing organization. Divestiture decisions are made for reasons such as the organization's need for cash to fund more important operations or long-term growth, or the division/SSU may not be achieving management's objectives.

Liquidation entails selling all or part of the assets (facilities, inventory, equipment, and so on) in order to obtain cash. The business to be sold can no longer operate as a going concern; however, the assets have value and may be sold for other uses. Liquidation decisions are made for reasons such as bankruptcy, to reduce assets, or new technology has superseded the old technology.

13. Which of the market entry strategies provides for the quickest entry into the market? Slowest?

Market Entry Strategy	Market Entry Speed
Acquisition	Fast — probably the fastest if an acquisition candidate can be identified
Licensing	Fast — may be negotiated quickly
Venture capital investments	Slow — usually takes many years to develop new products/services
Mergers	Medium — negotiations often difficult
Alliances	Medium — negotiations and proper partner identification often difficult
Joint ventures	Medium — faster than alliances because scope of agreement is usually narrower
Internal development	Slow — must start from scratch
Internal ventures	Slow — usually involves new product or untested technology

14. What is strategic posture? How does a decision concerning the strategic posture help create decision guidelines for management and affect the organization's culture?

Strategic posture concerns the organization's fundamental behavior within the market – defending market position, prospecting for new products and markets, or balancing market defense with careful entry into selected new product areas and markets. Health care organizations are able to change their strategic postures to match the demands of their environmental context and improve their performance. Strategic decision makers should examine the current market behavior, explicitly delineate the appropriate organization strategic posture, and redirect resources and competencies needed to transform themselves into a better environmentally suited posture. Understanding the organization's preferred strategic posture and communicating it throughout the organization provides decision guidelines and will shape the culture (values, assumptions, behavioral norms) of the organization.

15. Explain Porter's generic strategies. How do they position the organization's products and services in the market?

Michael Porter proposes three generic strategies that serve as basic positioning strategies. These generic strategies are cost leadership, differentiation, and focus. Cost leadership is a positioning strategy designed to gain an advantage over competitors by manufacturing a product or providing a service at a lower cost than competitors. The product or service is often highly standardized in order to keep costs low. Cost leadership allows for more flexibility in pricing and relatively greater profit margins. In order to use cost leadership, an organization must be able to develop a significant cost advantage and have a reasonably large market share (economies of scale).

Differentiation is a strategy to make the product or service different (or appear to be in the mind of the buyer) from competitors' products or services. Thus, consumers see the service as unique among a group of similar competing services.

The product or service may be differentiated by emphasizing quality, a high level of service, ease of access, convenience, reputation, and so on.

A focus strategy identifies a specific, well-defined “niche” in the total market that the organization will concentrate on or pursue. Because of its attributes, the product or service or the organization itself may appeal to a particular niche within the market. A focus strategy may involve tailoring the product or service to meet the special needs of the segment the organization is trying to serve. Focus strategies are based on cost leadership (cost/focus) or differentiation (differentiation/focus).

16. How might a retrenchment strategy and a penetration strategy be linked together? What are some other logical combinations of strategies? How may a combination of strategies be related to vision?

Several adaptive strategic alternatives may be combined as sequential elements in a broader strategic shift. For retrenchment strategies, the market is still considered to be viable. Retrenchment is a strategy for getting smaller in order to become a niche player. After the organization has redefined a smaller market or market niche, a penetration strategy may be used to increase volume within that new market.

Combinations within a single division:

- market development and vertical integration
- related diversification and market development
- retrenchment then harvesting

No single strategy alone may be appropriate for an organization and, therefore, combination strategies are often used. For example, an organization may concurrently divest itself of one of its divisions and engage in market development in another. Similarly, a strategy may have several phases. It may be necessary to “string together” several strategic alternatives as phases or elements to implement a broader strategic shift. In a two-phase strategy, an organization may employ a retrenchment strategy in phase one and an enhancement strategy in phase two.

Top management’s vision often extends through several strategic alternatives or phases. Such vision helps provide long-term continuity for the entire management team. However, management must be aware that in a dynamic environment, circumstances may change and later phases may have to be modified or revised to meet the needs of the unique and changing situation. Strategic management is a continuous process of assessment and decision making.

17. Work through Exhibit 6-4, Strategic Thinking Map – Hierarchy of Strategic Decisions and Alternatives, for several organizations with which you are familiar. Practice selecting different alternatives under each strategy type.

The best approach for this question is to have Exhibit 6-4 available and for a specific organization move from left to right asking, “What is the organization doing?” For example, “What is the mission, vision, general goals?” “What types of adaptive strategies are being used by the organization?” “What forms of market entry are being



employed?” “How has management positioned its products and services?” This process is quite helpful for students to understand the logic of strategic decisions, the types of strategies, and relationship between the types of strategies. The following is provided as an example for students to understand the strategic logic of Nashville, Tennessee-based Surgical Care Affiliates.

Surgical Care Affiliates of Nashville, Tennessee

Type of Strategy	Strategy
Directional	Growth in surgical outpatient clinics to create a national surgery center chain (61 centers nationwide).
Adaptive	Expansion through market development: new geographic markets such as Atlanta, Philadelphia, and so on. Expansion through acquisition: SCA attempted a hostile takeover of Medical Care America to achieve greater horizontal integration but Medical Care America was acquired by HCA – The Healthcare Company. Contraction through retrenchment: attempted to sell some of its surgery centers to HCA in markets where HCA had a major presence.
Market Entry	Acquisition has been the major form of market entry for quick growth. SCA may attempt to purchase surgery centers from HCA in markets where HCA hospitals are not present. Joint venture with hospitals (15 percent of the SCA centers are jointly owned with hospitals and hospital chains).
Competitive	Analyzer strategic posture, focus/differentiation through concentration on the segment of outpatient surgery clinics.

## CHAPTER 7

### Evaluation of Alternatives and Strategic Choice

#### SUGGESTIONS FOR EFFECTIVE TEACHING

After fully developing the strategy alternative map (Chapter 6), we discuss and work through on the board each method for thinking about strategy. It is important to emphasize that the methods incorporate the results of external and internal analyses, which in turn have been conducted within the context of the directional strategies – mission, vision, values, and goals. In addition, the methods for evaluating and selecting strategic alternatives are actually constructs or frameworks for helping managers *think* about the organization and its situation relative to the general environment, competitors, and consumers. In other words, they are maps to help us work through the variables in strategic decisions. We make sure that the students understand that none of the methods provides a definitive answer to the question of appropriate strategy. None of the methods makes the strategic choice. Rather, the methods categorize and demonstrate the relationships inherent in the situation. The various methods help to structure the thought processes of decision makers. The evaluation methods cannot be used to obtain “answers,” but rather to gain perspective and insight into a complex relationship between organization and environment. There is no right answer.

#### LECTURE NOTES

**Introductory Incident: Evaluation of Strategic Choices Is Important.** This introductory incident illustrates that a new venture provides a rare opportunity for outsiders to see all of the strategic alternatives selected and how they relate to one another in one snapshot. By the end of its first full quarter of operation that ended March 31, 2000, IASIS had posted \$6.6 million in net profits. The company, with 15 acute-care hospitals, finished its first fiscal year with volume growth higher than the national average among comparable facilities. How did IASIS achieve so much so quickly? The company chose aggressive market development in areas with little managed care and population growth – Salt Lake City, Phoenix, Tampa/St. Petersburg, and four communities in Texas. The rapid growth exhibited by the company, going from no hospitals in September 1999 to operating 15 the next year was accomplished through an acquisition market entry strategy. Using venture capital to fund their operations, IASIS made two different deals to acquire all fifteen hospitals. Because IASIS had few well-defined product lines and operated in a rapidly changing environment with numerous market and product opportunities and low barriers to market entry, IASIS was able to effectively use a prospector strategic posture. IASIS future strategic posture is uncertain. IASIS embarked on developing a differentiation positioning strategy based on state-of-the-art information systems, quality, and modern facilities and equipment. In order to carry out this strategy, IASIS engaged in a number of value-adding implementation strategies. For example, the company embarked on a program for rapidly upgrading and standardizing information systems in every facility. This value adding support strategy was central to their overall strategy.

- I. Evaluation of the Alternatives.  
Learning Objective 1 and 6
  - A. The methods for selecting strategic alternatives are constructs to help managers organize the relevant factors to aid in decision making. However, the methods do not make the decision. Rather the methods categorize and demonstrate the relationships inherent in the situation. Thus, they help structure the thought processes.
  - B. The chapter provides methods for organizing decisions concerning the adaptive, market entry, and positioning strategies. (Perspective 7-1 suggests managers should take a “hands-on” approach and be out in their organizations. Perspective 7-2 indicates that the formula for success in for-profit and not-for-profit health care organizations may be similar.)
  
- II. Evaluation of the Adaptive Strategies.  
Learning Objective 2
  - A. Evaluation of the strategic alternative is important. (Perspective 7-3 illustrates that a “copy cat” strategy may be inappropriate). Methods to evaluate the adaptive strategies include:
    - 1. A threats, opportunities, weaknesses, and strengths (TOWS) matrix.
    - 2. Product life cycle analysis.
    - 3. Portfolio analysis.
    - 4. Extended portfolio matrix analysis.
    - 5. Strategic position and action evaluation (SPACE).
    - 6. Program evaluation.
  - B. Threats, opportunities, weaknesses, and strengths (TOWS Matrix). (Exhibit 7-1 illustrates the TOWS matrix.)
    - 1. The Future Quadrant (internal strengths and external opportunities) – strategic alternatives that might be selected in this quadrant include related diversification, vertical integration, market development, product development, and penetration.
    - 2. Internal Fix-It Quadrant (internal weaknesses and external opportunities) – strategic alternatives that are frequently selected in this quadrant (after fixing the weakness) include

related diversification, vertical integration, market development, product development, and enhancement.

3. External Fix-it Quadrant (internal strengths and external threats) – strategies that are often employed in this quadrant include related and unrelated diversification, market development, product development, enhancement, and status quo.
  4. Survival Quadrant (internal weaknesses and external threats) – adaptive alternatives that may be pursued include unrelated diversification (if financial resources permit), divestiture, liquidation, harvesting, and retrenchment.
- C. Product life cycle (PLC). (Exhibits 7-2, 7-3, 7-4, and 7-5 contain illustrations and applications of the PLC model; Perspective 7-4 applies the product life cycle concept to health maintenance organizations.)
1. Discern the stage of the service in the product life cycle through an analysis of industry revenues, profits, organizations entering and exiting the market, and emerging technological, social, political, economic, and competitive trends.
  2. Consider the probable length of the product life cycle. For example, the product life cycle for stethoscopes is considerably longer than for CAT scanners.
  3. Alternative strategies by stage:
    - a. Introduction (low sales, few competitors) – market development and product development.
    - b. Growth (rapid growth of sales, growing number of competitors) – market development, product development, penetration, vertical integration, and related diversification.
    - c. Maturity (slow growth of sales, many competitors) – market development, product development, penetration, enhancement, status quo, retrenchment, divestiture, and unrelated diversification.
    - d. Decline (declining sales, declining competitors) – divestiture, liquidation, harvesting, and unrelated diversification.
- D. Portfolio analysis. (Refer to Exhibits 7-6 and 7-7.)

1. Stars (high market share, high growth rate) – market development, product development, penetration, vertical integration, and related diversification are appropriate strategies for this quadrant.
2. Cash Cows (high market share, low growth rate) – for strong cash cows, appropriate strategies are status quo, enhancement, penetration, and related diversification. For weak cash cows, strategies may include retrenchment, harvesting, divestiture, and perhaps liquidation.
3. Problem Children (low market share, high growth rate) – managers must decide whether to strengthen the products in this quadrant with increased investment through market development or product development or leave the product/service area through harvesting, divestiture, or liquidation. A case may be built for retrenchment into specialty niches.
4. Dogs (low market share, low growth rate) – the products or services in this quadrant are often liquidated or divested or the organization engages in dramatic retrenchment.

E. Extended Portfolio Matrix Analysis. (Refer to Exhibit 7-8.)

1. Shining Stars (high market share, high growth, high profit) – aggressive enhancement or product development will be required; market development may be difficult because of the already high market share. In addition, the organization will want to consider vertical integration and related diversification.
2. Cash Cows (high market share, low growth, high profit) – strategies should be directed toward maintaining market dominance through enhancement. If the PLC is predicted to be long, the organization may want to engage in vertical integration or related diversification.
3. Healthy Children (low market share, high growth, high profit) – strategies may include market development, product development, penetration, and vertical integration coupled with strong functional support.
4. Faithful Dogs (low market share, low growth, high profit) – status quo or retrenchment strategy may be appropriate. If profitability is likely to decline over time, a harvesting or divestiture strategy may be employed.
5. Black Holes (high market share, high growth, low profit) – enhancement and retrenchment strategies may be most

appropriate. In addition, functional strategies should be employed to reduce costs and increase revenue.

6. Problem Children (low market share, high growth, low profit) – for selected products, market development with strong functional commitment is appropriate. For products that management does not feel can become shining stars, divestiture and liquidation are most appropriate.
  7. Cash Pigs (high market share, low growth, low profit) – aggressive retrenchment may be required. This strategy may allow the organization to give up market share in order to find smaller, more profitable segments and thus create a smaller cash cow.
  8. Mangy Dogs (low market share, low growth, low profit) – it is likely that liquidation is the only possibility because it will be difficult to find a buyer for products or services in this quadrant.
- F. SPACE matrix (strategic position and action evaluation), an extension of two-dimensional portfolio analysis (BCG), is used to determine the appropriate strategic posture of the organization. By using SPACE, the manager can incorporate a number of factors into the analysis and examine a particular strategic alternative from several perspectives. (Exhibits 7-9, 7-10, 7-11, 7-12, and 7-13 illustrate and apply the SPACE matrix.)
1. Aggressive Posture – strategies include related diversification, market development, product development, and vertical integration.
  2. Competitive Posture – strategies include penetration, enhancement, product development, market development, and status quo.
  3. Conservative Posture – strategies include status quo, unrelated diversification, and harvesting.
  4. Defensive Posture – strategies include divestiture, liquidation, and retrenchment.
- G. Program evaluation – these approaches are particularly useful for not-for-profit organizations such as public health organizations. (Refer to Perspective 7-5 for an overview of public health)
1. Needs/capacity assessment. (Refer to Exhibit 7-14.)
    - a. Needs based on:

- Community and personal health requirements.
  - Degree to which other institutions fill health care gaps.
  - Public/community health objectives.
- b. Capacity based on:
- Funding to support programs.
  - Other organizational resources and skills.
  - The program's fit with mission and vision.
2. Program priority setting involves ranking programs and setting priorities. (Refer to Exhibit 7-15.)

III. Evaluation of the Market Entry Strategies.  
Learning Objective 3

- A. The market entry strategies include acquisition, licensing, venture capital investment, merger, alliance, joint venture, internal development, and internal venture.
- B. The specific market entry strategy depends on:
1. The appropriate internal resources, competencies and capabilities (strengths). Refer to Exhibit 7-16.) (See Perspective 7-6 for the requirements of reengineering.)
  2. External conditions appropriate to market entry strategies. (Refer to Exhibit 7-17.)
  3. Organizational goals. (Refer to Exhibit 7-18.)

IV. Evaluation of the Competitive Strategies.  
Learning Objective 4

- A. Strategic posture – concerns the relationship between the organization and market and describes the pattern of strategic behavior.
1. Defender – defending current products and markets.
  2. Prospectors – prospecting for new product and markets.
  3. Analyzers – entering into proven growth markets.

- B. The appropriate posture depends on:
  - 1. Appropriate internal resources, competencies, and capabilities. (Refer to Exhibit 7-19.)
  - 2. Appropriate external conditions. (Refer to Exhibit 7-20.)
- C. The positioning strategies include cost leadership, differentiation, and focus.
  - 1. Cost leadership – providing product/service at lower cost through economies of scale. (See Perspective 7-7 for a discussion of benchmarking.)
  - 2. Differentiation – making the product/service different from others.
  - 3. Focus – niche strategies based on cost leadership or differentiation.
- D. The specific positioning strategy depends on:
  - 1. Appropriate internal resources, competencies, and capabilities. (Refer to Exhibit 7-21.)
  - 2. External risks. (Refer to Exhibit 7-22.)
- V. Fit with Situational Analysis and Strategy Mapping.  
Learning Objective 5
  - A. After all of the strategy formulation decisions have been made, they should be evaluated to ensure they are logical and fit together. The strategies selected must address an external opportunity or threat, draw upon an internal strength or fix a weakness, keep the organization on mission, move the organization toward the vision, and make progress toward achieving one or more of the organization's goals. Each strategy should be checked to determine if it meets these criteria.
  - B. The strategies of the organization should be mapped and evaluated. (See Exhibit 7-23 for an example.)

#### QUESTIONS FOR CLASS DISCUSSION

- 1. Explain how the external opportunities and threats are related to internal strengths (competitive advantages) and weaknesses (competitive disadvantages) to develop strategic alternatives.

The internal and external factors are combined to develop and evaluate specific strategic alternatives using a TOWS matrix. The internal strengths and weaknesses (or



competitive advantages and disadvantages) are summarized on the horizontal axis and the external environmental opportunities and threats are summarized on the vertical axis. Adaptive strategic alternatives may be developed by matching the organization's strengths with the external environmental opportunities and threats and in turn matching the organization's weaknesses with the external opportunities and threats. Generation of adaptive strategic alternatives is a result of the interaction of the four sets of variables. In practice, some of the strategies developed will overlap, although others may be pursued simultaneously.

2. Using the TOWS matrix, what adaptive strategic alternatives might be appropriate for each quadrant?
  - The Future Quadrant. This quadrant represents the best situation for an organization. The organization tries to maximize its strengths and take advantage of external opportunities. Typical strategic alternatives that might be selected in this quadrant include related diversification, vertical integration, market development, product development, and penetration.
  - Internal Fix-It Quadrant. This quadrant indicates managers should attempt to minimize internal weaknesses and maximize external opportunities. If actions are taken to strengthen the organization (often an operational-level strategy), it may be able to pursue the opportunity. Thus, strategies in this quadrant may require two phases (a combination strategy): first, fixing the internal weakness and, second, pursuing the opportunity. Strategic alternatives that are frequently selected in this quadrant (after fixing the weakness) include related diversification, vertical integration, market development, product development, and enhancement.
  - External Fix-it Quadrant. This quadrant represents a situation where the organization has real strengths but must minimize external environmental threats. As in the internal fix-it quadrant, strategies in this quadrant may require two phases. Strategies that are often employed in this quadrant include related and unrelated diversification, market development, product development, enhancement, and status quo.
  - Survival Quadrant. This quadrant indicates management has to minimize the organization's weaknesses and the external threats as survival is at stake. Adaptive alternatives that may be pursued by an organization in this situation include unrelated diversification (if financial resources are available), divestiture, liquidation, harvesting, and retrenchment.
3. Describe the product life cycle. How is it useful for thinking about the adaptive strategy of a health care organization?

The product life cycle (PLC) is a concept that relates products/services offered by an organization to the marketplace over time. It is based on the belief that all products and services go through several distinct phases or stages including: product/service introduction, market growth, market maturity, and sales decline. The stages relate to the product development process, the changing nature of the marketplace, and the types of

demands made on management. It is useful in strategy formulation to determine the stage of the life cycle for the various products/services in order to formulate strategic response and determine the level of resources to be committed to a particular product or service.

In addition, it is important to recognize the stage of the generic product category in the product life cycle. For example, the organization's service offering may be at the introductory stage but if the service category is in decline, it would be very challenging to develop a successful (profitable) product. Attempting to understand how long the stages are likely to last will affect strategy because longer lasting stages require different strategies than short stages. Judgment is used to determine the stage and length of the stage in the product life cycle.

4. Why is the length of the product life cycle important for strategy formulation?

Products and services that management determines have extended stages (or a long PLC) will require dramatically different strategies than when management concludes that the stages or PLC will be of short duration. For instance, extensive vertical integration may be justified in the growth stage and even in the mature stage of the PLC if the cycle is judged to be a long one. However, the investment in and commitment to the product required in vertical integration may not be justified when the PLC is viewed as being relatively short.

5. What adaptive strategic alternatives are indicated for each stage of the product life cycle?

In evaluating product life cycles, various types of data (number of patients, profits, and so on) are tracked over time. Management must realize that consumers'/patients' attitudes and needs may change during the course of the PLC, different target markets may be appealed to at different stages in the life cycle, and the nature of competition changes and must be addressed with each stage.

**Introduction** – Sales of products/services are increasing, although profits are negative initially and then rise slowly. There are a few competitors, prices are usually high, promotion is informative about the product category, and distribution outlets are limited. Appropriate strategies might be market development and product development.

**Market Growth** – Sales and profits are both increasing, and competitors are entering the market. Prices are still high but are beginning to decline, promotion is directed toward specific brands, and there is rapid growth in the number of outlets. Appropriate strategies might be market development, product development, penetration, vertical integration, and related diversification.

**Market Maturity** – Prices have declined, price promotion becomes more common, and distribution is extensive. Appropriate strategies might be market development, product development, penetration, enhancement, status quo, retrenchment, divestiture, and unrelated diversification.

Sales Decline – Category revenues and profits are declining and will likely continue to decline over the long run. Appropriate strategies might be divestiture, liquidation, harvesting, or unrelated diversification.

6. Is portfolio analysis useful for developing adaptive strategic alternatives for health care organizations?

The traditional BCG matrix graphically portrays differences among the various products and services (stars, cash cows, problem children, and dogs) in terms of relative market share and market growth rate. From this information adaptive strategies may be developed. Exhibit 7-6 provides a description of each cell of the BCG matrix and suggests appropriate adaptive strategies. Exhibit 7-7 presents a BCG portfolio analysis for a health care organization. However, the BCG considers only market share and market growth. An assumption underlying the BCG is that high market share will lead to high profits. In health care some products and services may be offered that obtain high market share (often all of the market) but are not profitable. It may be necessary to provide such services in order to serve the community. In many cases, health care managers must look beyond the “bottom line” when making strategic decisions. Therefore, an extended portfolio matrix analysis is useful.

7. Explain the rationale for expanding the traditional BCG portfolio matrix.

The portfolio analysis has to be applied cautiously to health care organizations because they have interdependent programs that make SSU definition difficult. More importantly the BCG matrix assumes that high market share translates into high profitability. In health care there exists a possibility of high market share and no profit. For example, a neonatal intensive care unit may have high market share but costs are so high that the unit generates a loss. The greater the market share becomes, the greater the loss.

The profitability issue therefore suggests that portfolio analysis for health care organizations might better use an expanded BCG matrix that includes a profitability dimension. The profitability dimension is measured by high or low profitability according to positive or negative cash flow or return on invested capital.

8. Identify appropriate adaptive strategic alternatives for each quadrant in the expanded portfolio matrix.

Shining Stars – have high market growth, high market share, and high profitability. Stars represent the best position for the organization, however the high profitability will attract competitors. Therefore, aggressive enhancement or product development will be required; market development may be difficult because of the already high market share. In addition, the organization will want to consider vertical integration and related diversification.

Cash Cows – offer low market growth, but high market share and high profitability. The organization has the dominant position in the market however, further growth is unlikely. Strategies should be directed toward maintaining market

dominance through enhancement. If the PLC is viewed to be long, the organization may want to engage in vertical integration or related diversification.

Healthy Children – enjoy high market growth, low market share, and high profitability. Healthy children require investments to nurture them and gain increased market share. Strategies may include market development, product development, penetration, and vertical integration coupled with strong functional support.

Faithful Dogs – must be assessed to determine whether increased market share will add to profitability. For instance, if profitable segments can be identified, it may be more advantageous to withdraw from broader markets, concentrate on a smaller segment, and maintain profitability. In such situations, a status quo or retrenchment strategy may be appropriate. If profitability is likely to decline over time, a harvesting or divestiture strategy may be employed.

Black Holes – feature high growth and high market share but low profitability. If a black hole product or service cannot be made into a shining star, it is likely to become a cash pig. Therefore, enhancement and retrenchment strategies may be most appropriate. In addition, functional strategies should be employed to reduce costs and increase revenue.

Problem Children – have high growth, low market share, and low profitability. Management has to decide which products to support and which to eliminate. For supported products, market development with strong functional commitment is appropriate. For products that management does not feel can become shining stars, divestiture and liquidation are most appropriate.

Cash Pigs – are characterized by high or dominant share, low growth, and low profitability. Cash pigs are usually SSUs that were once cash cows. A possible solution to the cash pig problem is to cut costs and raise prices. Thus, aggressive retrenchment may be required. This strategy may allow the organization to give up market share in order to find smaller, more profitable segments and thus create a smaller cash cow.

Mangy Dogs – are low growth, low share, and low profit products/services. They should be eliminated as soon as possible. It is likely that liquidation is the only possibility because it will be difficult to find a buyer for products or services in this quadrant.

9. Explain the strategic position and action evaluation (SPACE) matrix. How may adaptive strategic alternatives be developed using SPACE?

SPACE matrix is an extension of the two-dimensional BCG portfolio analysis and is used to determine the appropriate strategic posture of the organization. It allows managers to incorporate many factors in the analysis and examine a particular adaptive strategic alternative from several perspectives. SPACE analysis suggests the appropriateness of adaptive strategic alternatives based on factors relating to: (1) industry strength, (2) environmental stability, (3) the organization's competitive advantage, and (4) the organization's financial strength.

Each dimension has factors to which numerical values from 0 to 6 can be assigned. The numbers are then added together and divided by the number of factors to yield an average. The averages for environmental stability and competitive advantage each have six subtracted from them to produce a negative number.

After plotting the analysis on the appropriate axis of the SPACE chart, the shape can be used to identify four strategic postures: aggressive, competitive, conservative, and defensive. Quadrants with the largest area suggest the most appropriate general strategic position. Adaptive strategic alternatives appropriate to the quadrant can then be selected.

**Aggressive Posture** – is typical in an attractive industry with little environmental turbulence. The organization has competitive advantages that it can protect with its financial strength. The critical factor is countering the entry of new competitors. The organization should take full advantage of opportunities, look for acquisition candidates in related areas, increase market share, and concentrate resources on products having a definite competitive edge. Strategies include related diversification, market development, product development, and vertical integration.

**Competitive Posture** – is typical in an attractive industry in a relatively stable environment. The organization enjoys a competitive advantage, but the critical factor is maintaining financial strength. The organization should acquire financial resources in order to increase market thrust, add to the sales force, extend or improve the product line, invest in productivity, reduce costs, protect competitive advantage in a declining market, or attempt to merge with a cash-rich organization. Strategies include penetration, enhancement, product development, market development, and status quo.

**Conservative Posture** – is typical in a stable market with low growth. The organization focuses on financial stability. The critical factor is product competitiveness. Organizations in this situation should prune the product line, reduce costs, focus on improving cash flow, protect competitive products, develop new products, and gain entry into more attractive markets. Strategies include status quo, unrelated diversification, and harvesting.

**Defensive Posture** – is typical of an unattractive industry in which the organization lacks competitive products and financial strength. The critical factor is competitiveness. Firms in this situation should prepare to retreat from the market, discontinue marginally profitable products, reduce costs aggressively, cut capacity, and defer or minimize investments. Strategies include divestiture, liquidation, and retrenchment.

10. Why should program evaluation be used for public health and not-for profit institutions in the development of adaptive strategies?

Program evaluation is especially useful in organizations where market share, industry strength, and competitive advantage are not particularly important or are not relevant. Such organizations are typically not-for-profit, state or federally funded institutions such as state and county public health departments, state mental health departments, Medicaid agencies, community health centers, and public community

hospitals. Within the context provided by an understanding of the external environment, internal environment, and the directional strategies, these not-for-profit institutions must chart a future through a set of externally and internally funded programs. The set of programs maintained and emphasized by the organization constitutes the adaptive strategy. The degree to which they are changed (expansion, contraction, maintenance of scope) represents a modification of the adaptive strategy.

11. What are the critical factors for determining the importance of programs within a not-for-profit organization?

The set of programs in not-for-profit organizations such as public health departments essentially are determined by community need and the organization's capacity to deliver the program to that community. Community need is a function of (1) clear community requirements (environmental, sanitation, disease control, and so on) and personal health care (primary care) gaps, (2) the degree that other institutions (private and public) fill the identified health care gaps, and (3) public/community health objectives. Organization capacity is the organization's ability to initiate, maintain, and enhance its set of adaptive strategy programs. Organization capacity is comprised of (1) funding to support programs, (2) other organizational resources and skills, and (3) the program's fit with the mission and vision of the organization.

12. Why should public health and not-for-profit organizations set priorities for programs?

Prioritizing programs is important because community needs (both the need itself and the severity of the need) are constantly changing and organizational resources, in terms of funding and organization capacity, are almost always limited. Invariably there are more programs with high community need than resources available. Therefore, the most important programs (and perhaps those with categorical funding) may be expanded or stabilized. The organization must have an understanding of which programs are the most important, which should be provided incremental funding, and which should be the first to be scaled back if funding is reduced or eliminated.

13. Describe program Q-sort. Why would an organization use program Q-sort?

Q-sort is a ranking procedure that forces choices along a continuum in situations where the difference between the choices may be quite small. The Q-sort procedure is particularly useful when experts may differ on what makes one choice preferable over another. The Q-sort is a part of Q-methodology, a set of philosophical, psychological, statistical, and psychometric ideas oriented to research on the individual. Q-sort evaluation helps overcome the problem of ranking all programs as very important by forcing a ranking based on some set of assumptions. Therefore, the Q-sort is a way of rank-ordering objects (programs) and then assigning numbers to subsets of the objects for statistical purposes.

Q-sort focuses particularly in sorting decks of cards (in this case each card representing a program) and in the correlations among the responses of different individuals to the Q-sorts. Kerlinger reports good results with as few as 40 items

(programs) which have been culled from a larger list, but usually greater statistical stability and reliability results from at least 60 items but not more than 100.

For ranking an organization's programs, only the first step in using Q-methodology is used – the Q-sort. In the Q-sort procedure, each member of the management team is asked to sort the organization's programs into categories based on their perceived importance to the organization's mission and vision. To facilitate the task, the programs are printed on small cards that may be arranged (sorted) on a table. To force prioritization of programs, managers are asked to arrange the programs in piles from most important to least important. The best approach is that the number of categories be limited to nine and that the number of programs to be assigned to each category be determined in such a manner as to ensure a normal distribution. In order to create a normal distribution (or quasi-normal), five percent of the programs are placed in the first pile or group, seven and one-half percent in the second group, twelve and one-half percent in the third, and so on.

A problem in ranking public and not-for-profit programs is that typically all of them are viewed as "very important" or "essential." This is particularly true when using Likert or Semantic Differential scales to evaluate the programs. Therefore, it is necessary to develop evaluation methods that further differentiate the programs. The Q-sort method has proven helpful in differentiating the importance of programs. By ranking the choices using a Q-sort procedure, participants see where there is wide consensus (for whatever reasons used by the experts) and have an opportunity to discuss the choices for which there is disagreement (and hopefully reach greater consensus).

14. How are market entry strategies evaluated? What role do speed of market entry and control over the product or service play in the market entry decision?

The specific market entry strategy (or strategies) considered to be appropriate depends on (1) the internal skills and resources of the organization, (2) the external conditions, and (3) the objectives of the organization. Each of these three areas should be scrupulously evaluated in the selection of the appropriate market entry strategy. (Refer to Exhibits 7-16, 7-17, and 7-18.)

Internal development and internal venture offer the greatest degree of control over the design, production, operations, marketing, and so on of the product or service. Licensing, acquisition, mergers, and venture capital investment offer the quickest market entry. Alliances and joint ventures offer relatively quick entry with some degree of control. The trade-off between speed of entering the market and organizational control over the product or service must be assessed by management in light of organizational objectives.

15. How are the strategic posture and product life cycle related?

Each of the strategic posture strategies requires consideration of the product life cycle. Because defender organizations focus on a narrow product line, the strategy requires relatively long product life cycles. Long product life cycles allow the organization to commit to vertical integration, develop cost efficiency, and create

routine processes. Defender strategies are most effective in the mature stage of the product life cycle. The risks associated with the defender posture are that the product life cycle will be dramatically shortened by external change (for example new technology) or that a competitor can somehow unexpectedly take away market share.

Prospectors operate well in rapidly changing, turbulent environments. For these organizations, products are usually in the introductory and early growth stages of the product life cycle and the cycle tends to be relative short. As a result, entry barriers may be low and the intensity of rivalry typically is low. As product or services mature, prospector organizations move on to new products and services typically in introductory stages of the product life cycle. Prospectors divest their maturing products and services to successful defender organizations that are consolidating.

Analyzers operate well in environments where there is moderate change with some product categories that are quite stable and some that are changing. Product life cycles for their stable products are moderately long but there are periodic innovations and changes. Therefore, these organizations must enter new markets and new product areas. Analyzers typically do not enter the market in the introductory stage of the product life cycle. Instead they carefully watch product and market developments (the prospectors) and enter the most promising ones in the early growth stage of the product life cycle (using one of the market entry strategies). This strategy keeps them balanced with both mature and growth stage products and markets. (Refer to Exhibits 7-19 and 1-20)

16. How may the positioning strategic alternatives be evaluated?

Positioning depends upon the strengths and weaknesses of the organization and the opportunities and threats in the external environment. In other words, how a product or service is positioned depends on the organization's capability and the competitive situation. Therefore, the positioning strategies must be selected based on the required organizational skills, resources, structure, and environmental risks. (Refer to Exhibits 7-21 and 7-22.)



## CHAPTER 8

### Implementing Strategy through Value Adding Service Delivery Strategies

#### SUGGESTIONS FOR EFFECTIVE TEACHING

This chapter begins the new approach for implementation strategies. Rather than the functional approach used in *Strategic Management of Health Care Organizations* 3<sup>rd</sup> edition, the fourth edition bases implementation on those components of the organization that create value and ultimately competitive advantage. Third edition chapters on marketing, finance, human resources, information systems, and organization-wide strategies have now been incorporated into implementing value adding service delivery strategies (Chapter 8), implementing value adding support strategies (Chapter 9), and implementing strategy through unit action plans (Chapter 10). Research has shown that many strategic plans are carefully and creatively crafted only to fall apart at the implementation stage. These chapters attempt to illustrate how strategy is translated into work on a daily basis. We believe this “works” for the student who today (more than the student of ten years ago) has taken classes in the various functional areas. Please let us know what you think.

We generally begin this chapter by reviewing the value chain (Exhibit 8-1) that was first presented in Chapter 4. The emphasis for this chapter is less on assessing and more on value creation. We ask students to provide examples of value creation in the admissions process for a hospital or physician’s office, for example. They readily list wait time, friendly and efficient staff, handling of insurance processing, lack of repetition of the same requests for the same information (please fill out this form that was filled out two weeks ago . . . ), and so on. We then add to the list of activities that could be incorporated into pre-service delivery. In a similar manner, additional activities can be added to point-of-service and after-service delivery.

A key point to be made in this discussion is that the service has to add value from the customer’s perspective. It is not what staff or marketers believe may add value. Therefore, marketing research plays an important role to engage actual customers in the process gaining their thoughts and feedback. Clinical delivery has a marketing component in today’s health care environment. If patients are not satisfied with any aspect of the health care delivery they have choices and they are exercising those choices. Thus, from bedside manner of physicians and nurses to the use of various therapies, customers today are more engaged in their health and will make decisions based on personal assessment of service delivery.

#### LECTURE NOTES

Introductory Incident: Branding the Emergency Room: “Take me to ER-7.” Sinai Medical Center decided to increase the use of its ER rather than attempting to decrease its use as many other hospitals were doing. In re-engineering the entire emergency department, a team developed the concept of ER-7. Each of the seven pods in the new ER would handle a different level of care from the fast track center for sprains, ear infections, and other minor ailments to Center for Level II trauma.

Patients and their families had access to TV and free phones in the waiting areas as well as Starbucks coffee, a patient advocate to help with non-medical needs, and a wait time of less than 15 minutes to see a doctor. An aggressive marketing campaign included ads on TV programs *ER* and *Chicago Hope* as well as strategically positioned billboards exclaiming “You’re only X minutes from ER-7.” Sinai’s emergency department market share increased 25 percent and patient satisfaction was 17 percent higher than the national average. Officials believe that ER-7 added about \$12 million to Sinai’s bottom line. Brand awareness and effective branding by delivering the promise to those who visited ER-7 combined for increased usage and satisfaction.

I. Value Chain Decision Logic.

Learning Objective 1

- A. The two main components of the value chain – service delivery and support – are interrelated as implementation strategies (Exhibit 8-1).
- B. Implementation strategies are part of the means – ends chain similar to other strategies developed during strategy formulation (Exhibit 8-2).
- C. Implementation strategies incorporate the service delivery and support strategies as well as unit action plans; however, service delivery is critical to the success of a health care organization. Providing a product or service and delivering it to customers are the central activities of organizations.

Learning Objective 2

- D. Organizational requirements for a strategy must be matched with current organizational resources, competencies, and capabilities to determine whether current activities need to be maintained or changed (Exhibit 8-3).
- E. Each of the strategic decisions (directional, adaptive, market entry and competitive strategies) moves the organization toward achieving its mission and vision yet requires the organization to plan specific activities to make it happen. The value chain strategies provide general directions to the organizational units concerning ways to carry out the strategy.

Learning Objective 3

II. Pre-Service Delivery. Pre-Service delivery includes market and marketing research, identification of the services to offer and the target market for them, branding, pricing, distribution, and promotion decisions.

Learning Objective 4

- A. Market and marketing research determine target customer wants, needs, and desires. What do potential customers of a specific service category in a particular service area want?

- B. Services are defined as a deed, a performance, or an effort and are different from physical goods because of the following characteristics:
  - 1. Services are intangible.
  - 2. Services are variable.
  - 3. Services are perishable.
  - 4. Services are inseparable.
  - 5. In health care, services are often paid for by other than the patient.
  
- C. The health care customer sought is referred to as the target market. Many health care organizations have one or more of the following as their target market:
  - 1. Physicians
  - 2. Patients
  - 3. Third-party payors
  
- D. Branding is a promise of a specific level of quality and once learned by the customer incorporates a sense of value and a set of expectations. Brands are identifiers that differentiate quality and services delivery.
  
- E. Pricing in health care is challenging because it is difficult to understand costs, someone other than the patient often pays for the care, and prices that are too low are suspected of low quality from the customer's perspective.
  
- F. Distribution / logistics decisions determine the availability of health care delivery.
  
- G. Promotion includes any paid form of communication with customers and potential customers. It can be used for positioning, building awareness, reminding, and differentiating.

III. Point-of-Service Delivery – Clinical Operations  
Learning Objective 4

- A. Mass customization is meant to increase customer satisfaction and lower costs (disease management companies are an example).
  
- B. Quality of care is critical but who determines the quality? Are patients capable? Are expectations so high that death is considered failure?
  
- C. Clinical process innovation (CPI) is a method to improve quality of care by introducing new ways of doing things rather than improving the current methods (as is the goal with continuous quality improvement or CQI).

- IV. Point-of-Service Delivery – Marketing
  - A. Marketing research focuses on patient satisfaction to ensure the delivery of care at least meets expectations.
  - B. Quality improvements based on customer expectations.
  - C. Speed of delivery can be managed through patient education (when the process cannot be any faster).
  - D. Change strategies are required when customers are going elsewhere or are dissatisfied.
  - E. Maintaining strategies does not equate with remaining the same.
- V. After-Service Activities  
Learning Objective 4
  - A. Follow-up care after the initial encounter.
  - B. Billing processes are a source of high dissatisfaction with customers who cannot understand the codes and charges.
  - C. Follow-on activities are primarily arrangements for further care.
- VI. Value Adding Service Delivery Strategies Implemented  
Learning Objective 7
  - A. Because of the interrelatedness of all the value adding service delivery strategies, an example is included to illustrate how the process can be carried out (Exhibit 8-12).
  - B. Competitive advantage can be created within any of the value adding service delivery strategies – pre-service, point-of-service, or after-service.  
Learning Objective 5
  - C. An organization that succeeds in differentiating itself serves as a model for new competitors. Thus, value adding service delivery strategies have to be continuously evaluated and either maintained or changed to assure competitive advantages (or strengthen the organization that has competitive disadvantages).  
Learning Objective 6

#### QUESTIONS FOR CLASS DISCUSSION

1. Explain the linkage between internal environmental analysis and the value adding service delivery and support strategies. How are the value adding strategies linked with unit action plans?

One way that students may answer the question deals with using external analysis in combination with internal analysis to determine what the organization will do. Recall that external analysis determines what an organization *should* do and internal analysis determines what it *can* do. Implementation strategies are the actual work plans that are carried out determining what the organization *will* do. If the organization's resources, competencies, and capabilities have enabled it to develop a competitive advantage, the service delivery strategy may not need to be changed but simply maintained (at least until some environmental factor – perhaps a competitor achieving at the same level – may require a change).

Recall that the upper portion of the value chain focuses explicitly on the primary activities of the organization – the delivery of services. The lower portion of the value chain contains the value adding support activities that include the organization's culture, structure, and strategic resources. The areas depicted in the value chain are the principal means of creating value for the organization and developing competitive advantages.

The value adding strategies are set first because they are the broadest of the implementation strategies establishing the processes and context for accomplishing the mission and achieving the vision and goals. The development of value adding strategies involves matching the organizational requirements of the selected strategies (the needed resources, competencies, and capabilities to accomplish the mission and goals) with the results of the internal analysis (the current resources, competencies, and capabilities). Each of the strategic decisions (directional, adaptive, market entry, and competitive) made to this point move the organization closer to accomplishing its mission and vision and at the same time make special demands on the organization that require explicit action. Value chain components and unit action plans carry out the explicit action.

Another way that students are likely to answer this question concerns the means – ends chain. All strategies discussed in this text are part of a means – ends chain. Each type of strategy, when it is accomplished, aids in the achievement of a higher level strategy. Thus, unit action plans when carried out enable the service delivery and support strategies to be accomplished. In turn, the service delivery and support strategies are the implementation strategies that when carried out, accomplish the competitive strategies. The competitive strategies are the means to accomplish the market entry strategies, the market entry strategies are the means to accomplish the adaptive strategies, and the adaptive strategies carry out the directional strategies.

2. Explain the difference between pre-service, point-of-service, and after-service activities. What elements are central to each? Provide an example of how an organization might create a competitive advantage in each of these areas.

Pre-service activities are those that are performed before the customer comes in contact with the organization to receive services. Thus, pre-service activities include market and marketing research to determine the service categories and service areas, selecting a specific set of customers to satisfy (target market), branding of the services, pricing, distribution, and promotion.

Point-of-service activities are those with direct patient contact – as the service is being delivered. Clinical operations attempt to provide care that the customer perceives as being of value. Marketing, through patient satisfaction studies, tries to ensure that the care being delivered is the care that is desired by the customer. The ways that customers react to the service delivery may lead to innovations in new product development, market development, penetration, enhancement, and differentiation.

After-service delivery encompasses three important elements: follow-up service, billing, and follow-on service. Many encounters with health care providers require follow-up services. For example, after the visit to the ER is the child in much pain because of his broken leg? Is another prescription needed? Does the mother or father need encouragement to allow the child to be up and about? The entire billing process, if not well done, can erase all the fine care and positive feelings that the patient has for the health care organization. Not being able to understand the bill, having to wait in a long line to pay, not understanding insurance carriers' responsibilities versus their own, and so on, all add up to frustration for consumers. Billing can be handled efficiently and effectively. It requires having enough personnel and appropriate training. Follow-on activities include additional services such as another appointment, referral to another physician, or moving to a step-down facility.

The elements that are central to pre-service, point-of-service, and after-service include:

- a. Consumer involvement.
- b. Opportunity to add value.
- c. A focus on customer satisfaction.
- d. Dissatisfaction with any one element will carry over to the others.

Examples that illustrate competitive advantage in each service delivery area include:

Pre-Service	Betty Ford Center is a brand that cannot be copied.
Point-of-Service	A clinician that is known nation-wide for his expertise.
After-Service	A flawless billing system in consumer language.

3. Explain why pre-service, point-of-service, and after-service are fundamentally marketing and clinical in nature.

Clinical operations and marketing are the primary activities of an organization because providing a product or service and delivering it to customers are the central activities of organizations. Marketing attempts to learn the ways that customers prefer to have the service delivered, the surroundings they prefer, what they are willing to pay, and so on as part of pre-service activities. In addition, marketing determines methods to build awareness that the organization participates in the service category. Clinical operations actually deliver care in the context that marketing has determined best serves the customer. Marketing's customer orientation directs many of the after-service activities: customer satisfaction studies, the way billing is handled, and the way next appointments or follow-on activities are set up.

Marketing and clinical operations do not necessarily have the same view of service delivery. For example, some people would like to be able to have physicals on Saturday or in the evening as opposed to a week day. Few physicians or clinics offer this level of service. Hospitals have long wanted to be able to schedule surgery on Saturday. Many OR suites are idle over the weekend and could be used more effectively; however, physicians do not want to schedule surgery on weekends. In dentistry, a much more competitive service category, a number of providers do offer Saturday hours.

4. How does the marketing of a service differ from the marketing of a physical product (good)?

A service is a deed, a performance, an effort; there are no samples to feel, try out or return if the purchase is unsatisfactory. A product can be picked up, examined, sampled, and taken home. A service is less tangible than a product and is generally inseparable; production and consumption occur simultaneously. There are distinct channels of distribution for goods, but the provider of services is the direct means through which the services are delivered to the customer.

Whereas products are manufactured, sold, and consumed, services are sold then produced and consumed. Services cannot be inventoried, therefore services availability must be matched with services demand. Services are more heterogeneous than physical goods and therefore difficult to standardize and control quality. People-based services are especially difficult to standardize because individuals vary in attitude and performance from day-to-day.

France and Grover point out that health care services are probably the most intangible because they cannot be sampled nor easily evaluated after consumption. But is this really the case? Hospitals can offer “samples” by doing blood pressure checks in the mall, tours of labor and delivery rooms, and so on. The number of interactions with health care professionals can be reduced and the demand for health care, although unpredictable, can sometimes be managed by studying patterns over time (the number of births goes up nine months after a disaster, such as after hurricane Andrew in South Florida). Finally, consumers are having to pay more of their health care costs in terms of copayments and a higher proportion of premiums.

Despite these differences, the basic approach to marketing for services is no different than the marketing for physical goods. Consumer wants and needs have to be understood (from the consumer’s perspective) requiring marketing research, an offering is developed often with a brand name, the service has to be delivered (available) at convenient locations, at a price that the consumer or third-party payor is willing to pay, and consumers have to know about the availability of the offering through communications that reach them (advertising, PR, sales presentations, or word-of-mouth).

5. Discuss the various ways that health care providers can define the market that they want to serve.

There are a number of ways for the various health care providers to define the market:

*Scope* – the customer groups served or not served are identified geographically (Clearwater, South Jersey, within a three-mile radius of the office), demographically (senior citizens, children, females) or by benefit desired (expressed as benefits *customers want* not benefits the health care organization wants). Market scope is easily narrowed when a large enough set of customers will be satisfied by a specific benefit. The scope is broadened with successes over time as additional resources become available and economies of scale can be achieved.

*Segmentation* – the process involved with identifying recognizable groups that make up the market and then selecting a specific group or groups as the target market. For example, specialization could be by specific procedures (open heart surgery, burns, and so on) or diseases (diabetes, cancer, and so on). There are a number of possible ways to segment the market for subacute care.

*Distinctive competencies/assets* – competencies are something the health care provider does better than others while assets are something the health care provider has that is stronger than other can possess. For example, a hospital or physician's office located in a densely populated area makes it very difficult for another health care provider to locate there.

*Growth direction* – markets can also be defined by growth opportunities (Ansoff's matrix): market penetration, product development, market development, and diversification.

6. Explain how you would select between a differentiating, focus, or cost leadership positioning strategy for a nursing home in New York City and for one in Butte, Montana.

Choosing an appropriate strategy is dependent on the organizational differences, the geographical area served, and an analysis of the customer base, competition, and other environmental factors. All of these would differ between New York City and Butte, Montana.

A nursing home in New York City is faced with a great deal of competition, the high costs of city life, and a large population base. Because of the large number of competitors offering many options, a differentiation (quality, service innovation, reliability, or others) or focus (late stage Alzheimers, Jewish, private pay, and so on) strategy may be appropriate, depending on the competitive offerings. If it can be accomplished, low-cost leadership would probably appeal to some in the market. Horizontal integration could be accomplished if the organization had access to sufficient funds and was interested in expanding.

In Butte, Montana, the population is scarce and widely dispersed. Competition is probably less intense than in New York City. The nursing home could pursue a geographic focus strategy (other focus strategies are probably not an option because of the small population base) or differentiation strategies through quality and reliability that would help to prevent any other competitors from entering the area.



To achieve a sustainable competitive advantage, there are four basic marketing implementation strategies:

- I. Differentiation strategies – center on the services (products) offered, service offered in addition to the core product, and the augmented product.

*Quality of services* – determined by the customer; quality is achieved if services meet or exceed expectation.

*Faster service delivery* – does not mean do things faster, but rethink why delays occur and correct the underlying reasons.

*Technological innovation* – the latest in new equipment, services, and techniques.

*Service Innovations* – offering new services that satisfy customer needs.

*Reliability* – standardization to achieve consistent quality.

Differentiation will not work when the superior attributes highlighted are meaningless or unimportant to the consumer. Also, if the provider has a differentiation attribute that provides benefits but is not known to consumers (they are unaware that the service or benefit exists) there is no advantage.

- II. Cost Leadership Strategies

*Reduce overhead* – usually selected when the organization is mature.

*Control raw materials* – access to factors of production can provide a competitive advantage in terms of price as well as availability.

*Reduce labor costs* – have to put emphasis on proper scheduling.

*Redesign the offering* – change the product offered so that it becomes less costly but no less desirable.

*Automation* – a challenge in health care where “high touch” is usually valued.

*Location* – proximity to patient’s home or work.

*Increased government subsidy* – keep the public and lawmakers informed of the benefits provided to aid in increasing subsidies.

*No frills* – risky in health care.

*Combination of low cost and high quality* – offering higher quality to consumers that prefer it. Costs can actually be reduced by moving along the experience curve and by achieving economies of scale.

- III. and IV. Focus Strategies – Differentiation and Focus Strategies – Cost Leadership (also called niche strategies) – often implemented when an organization has limited resources. The organization competes in selected areas. The market definition is narrowed to identify a select group to serve.

*Product* – focus on one part of the product line.

*Segment* – serve only one homogenous group, an example would be a birthing center.

*Geographic area* – nursing in Butte, Montana.

*Low share markets* – those that are not of sufficient size to interest the larger health care providers. The emphasis is on profitability rather than size or growth.

7. What recommendations would you make to the CEO of a local hospital that is attempting to differentiate itself from others in the area?

The response will depend on the hospitals in the student's geographic area. However, in general, differentiation strategies are based on:

*Quality of services* – determined by the customer, quality is achieved if services meet or exceed expectations.

*Cost* – many consumers believe that “you get what you pay for . . .” and expect high prices for health care. However, in today's health care environment many consumers and employers (providing health care for their employees), feel that health care costs are exorbitant. Therefore, some health care organizations are attempting to control costs and offer “affordable” health care.

8. Name several ways that marketing can implement adaptive strategies for expansion. Is marketing ever involved in contraction?

Adaptive expansion strategies can be implemented through market development, product development, or market penetration. Marketing can aid in contraction by identifying an appropriate buyer for divestiture and liquidation. For harvesting, marketers should be able to identify the appropriate time to discontinue the harvest strategy.

9. Does marketing have a role to play in the market entry strategies? Explain your answer.

Because marketers are always involved with appraising any competitive activity and attempting to predict consumer wants and needs, they are in an excellent position to know of organizations or products/services to acquire or license plus they have the ability to forecast sales or market share. In addition, they can assess the “fit” of new product/services from mergers, alliances, and joint ventures with the current line. Finally, they offer the greatest impact through internal development using traditional marketing methods – selecting the target market, developing the product/service, determining the price, proper promotion, and ideal location for the identified target market. Some marketers are very entrepreneurial and would make excellent additions to an internal venture team but this in part will depend on the organization's culture. If the organization has only hired people who will “do what they're told” and risk-taking is not rewarded, there will be few entrepreneurial people in the organization – much less in the marketing area.

The section on market entry strategies provides more details on ways that marketers are involved.

10. Explain the role that health care marketing plays in each stage of the strategic planning process. Why do you think it has taken health care managers so long to appreciate the strategic importance of marketing?

The most appropriate way to address the first part of this question is with the aid of Exhibit 8-3. This exhibit suggests the importance of marketing at all stages of the strategic management process. It illustrates the key role marketing plays in situation analysis, development of mission, vision, and values, strategy formulation, implementation, and strategic control.

The answer to the second part of the question is somewhat speculative. However, two of the most important reasons for the tardy recognition of the strategic importance of marketing by health care managers had to do with the cost plus nature of the business prior to 1983 and lack of competition. When prospective reimbursement entered the health care picture, the only two ways a provider could maintain or increase profit was to cut costs or increase volume. Increasing volume suggested the need for marketing of health care services. In addition, the increasingly competitive environment suggested the need for more effective marketing of health care services.