Exhibit 5–16: ♦ Core Principles of Mayo Clinic

Practice	Practice medicine as an integrated team of compassionate, multidisciplinary physicians, scientists and allied-health professionals who are focused on the needs of patients from our communities, regions, the nation and the world.
Education	Educate physicians, scientists and allied-health professionals and be a dependable source of health information for our patients and the public.
Research	Conduct basic and clinical research programs to improve patient care and to benefit society.
Mutual Respect	Treat everyone in our diverse community with respect and dignity.
Commitment to Quality	Continuously improve all processes that support patient care, education and research.
Work Atmosphere	Foster teamwork, personal responsibility, integrity, innovation, trust and communication within the context of a physician-led institution.
Societal Commitment	Benefit humanity through patient care, education and research. Support the communities in which we live and work. Serve appropriately patients in different financial circumstances.
Finances	Allocate resources within the context of a system rather than its individual entities. Operate in a manner intended not to create wealth but to provide a financial return sufficient for present and future needs.

Source: ♦ Mayo Clinic.

Exhibit 5–17: ♦ Values of PacifiCare Health Systems

Accountability
We accept personal responsibility for our actions and take ownership of results without blaming others or seeking excuses. We as individuals are challenged to address marginal performance and recognize achievement by providing and accepting coaching and feedback.

Continuous Improvement
We have a sense of urgency in our search for continuous improvement to find better ways of doing everything. We encourage others to try new ideas and measure and recognize results. We are willing to change the status quo to improve.

Customer Driven
Everyone at Pacific Care Health Systems (PHS) knows their customer. If you are not serving the customer your job is to serve someone who is.

Empowerment
We have a bias for action and expect all employees to be proactive in decision-making and problem-solving. We delegate authority to match responsibility, expecting decision-making to occur as close to the customer as possible.

Integrity
We adhere to a code of values and make commitments that contribute to the welfare of our constituents. We express ourselves clearly, consistently, and completely and live up to our word.

People
We respect the individual. We believe in recognition of individual business, personal and family aspirations. We celebrate success, and support an environment where it is OK to have fun, where people can enjoy their work and feel ownership in PHS' accomplishments. It is through strong performance of our people that we will achieve our goals.

Teamwork
We work for the good of the team, are accountable for the results of the entire team and together share our success or failure. We have an atmosphere of openness, honesty, and trust.

Quality
We are a high performance company. Quality is a part of everything we do. Nothing less will be accepted.

Source: ♦ PacifiCare Health Systems.

Exhibit 5–18: ♦ Values of Ascension Health

We Are Called to:

Service to the Poor – generosity of spirit, especially for persons most in need.
Reverence – respect and compassion for the dignity and diversity of life.
Integrity – inspiring trust through personal leadership.
Wisdom – integrating excellence and stewardship.
Creativity – courageous innovation.
Dedication – affirming the hope and joy of our ministry.

Source: ♦ Ascension Health.

Exhibit 6–1: ♦ Linking Strategic Alternatives with Situational Analysis

Strategic Alternative	Addresses an External Issue?	Draws On an Internal Strength or Fixes a Weakness?	Fits with Mission?	Moves the Organization Toward the Vision?	Achieves One or More Goals?
Strategy 1	Yes	Yes	Yes	Yes	Yes
Strategy 2	Yes	Yes	Yes	Yes	Yes
Strategy 3	Yes	Yes	Yes	Yes	Yes

Exhibit 6–2: ♦ The Decision Logic of Strategy Formulation

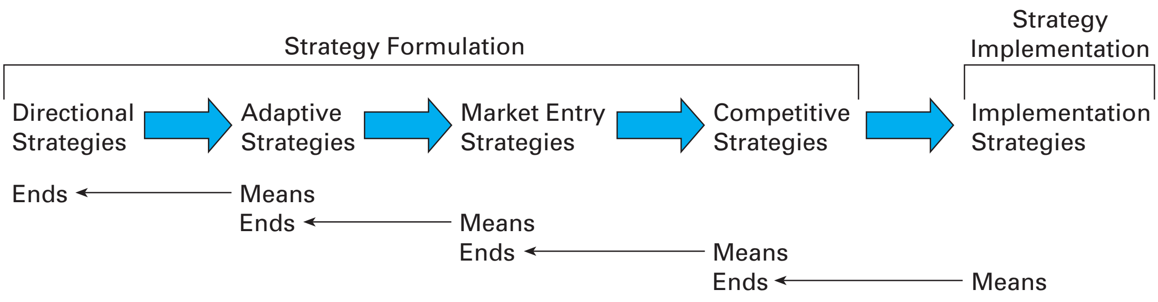


Exhibit 6–3: ♦ Scope and Role of Strategy Types in Strategy Formulation

Strategy	Scope and Role
Directional Strategies	The broadest strategies set the fundamental direction of the organization by establishing a mission for the organization (Who are we?) and providing a vision for the future (What should we be?). In addition, directional strategies specify the organization's values and the broad goals it wants to accomplish.
Adaptive Strategies	These strategies are more specific than directional strategies and provide the primary methods for achieving the vision of the organization – adapting to the environment. These strategies determine the scope of the organization and specify how the organization will expand scope, contract scope, or maintain scope.
Market Entry Strategies	These strategies carry out the expansion of scope and the maintenance of scope strategies through purchase, cooperation, or internal development. These strategies provide methods for access or entry to the market. Market entry strategies are not used for contraction of scope strategies.
Competitive Strategies	Two types of strategies, one that determines an organization's strategic posture and one that positions the organization vis-à-vis other organizations within the market. These strategies are market oriented and best articulate the competitive advantage within the market.
Implementation Strategies	These strategies are the most specific strategies and are directed toward value added service delivery and the value added support areas such as the culture, structure, and strategic resources. In addition, individual organizational units develop action plans that carry out the value added service delivery and value added support strategies.

Exhibit 6–4: ♦ Strategic Thinking Map – Hierarchy of Strategic Decisions and Alternatives

Directional Strategies → Adaptive Strategies → Market Entry Strategies → Competitive Strategies → Implementation Strategies

Directional Strategies

- Mission
- Vision
- Values
- Goals

Adaptive Strategies

Expansion of Scope
- Diversification
- Vertical Integration
- Market Development
- Product Development
- Penetration

Contraction of Scope
- Divestiture
- Liquidation
- Harvesting
- Retrenchment

Maintenance of Scope
- Enhancement
- Status Quo

Market Entry Strategies

Purchase
- Acquisition
- Licensing
- Venture Capital Investment

Cooperation
- Merger
- Alliance
- Joint Venture

Development
- Internal Development
- Internal Venture

Competitive Strategies

Strategic Posture
- Defender
- Prospector
- Analyzer

Positioning

Marketwide
- Cost Leadership
- Differentiation

Market Segment
- Focus/ Cost Leadership
- Focus/ Differentiation

Implementation Strategies

Service Delivery
- Pre-service
- Point-of-service
- After-service

Support
- Culture
- Structure
- Strategic Resources

Unit Action Plans
- Objectives
- Actions
- Timelines
- Responsibilities

Exhibit 6–5: ♦ Strategic Thinking Map of Adaptive Strategic Alternatives

Adaptive Strategies	Types

Expansion of Scope

- Diversification → Related; Unrelated
- Vertical Integration → Forward; Backward
- Market Development → Geographic; Segment
- Product Development → Product Line; Product Enhancements
- Penetration → Promotion; Distribution; Pricing

Contraction of Scope

- Divestiture → Total; Partial
- Liquidation → Operations; Assets
- Harvesting → Fast; Slow
- Retrenchment → Markets; Products

Maintenance of Scope

- Enhancement → Quality; Efficiency; Innovation; Speed; Flexibility
- Status Quo

Exhibit 6–6: ♦ Related and Unrelated Diversification by a Primary Provider

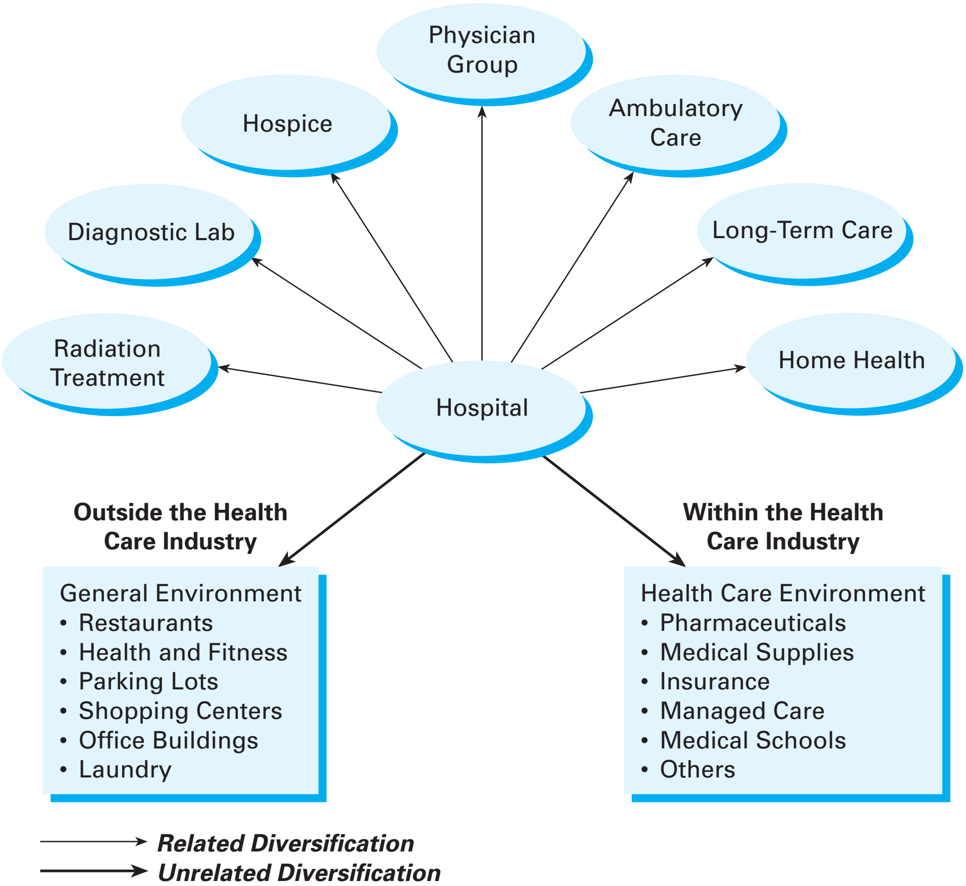
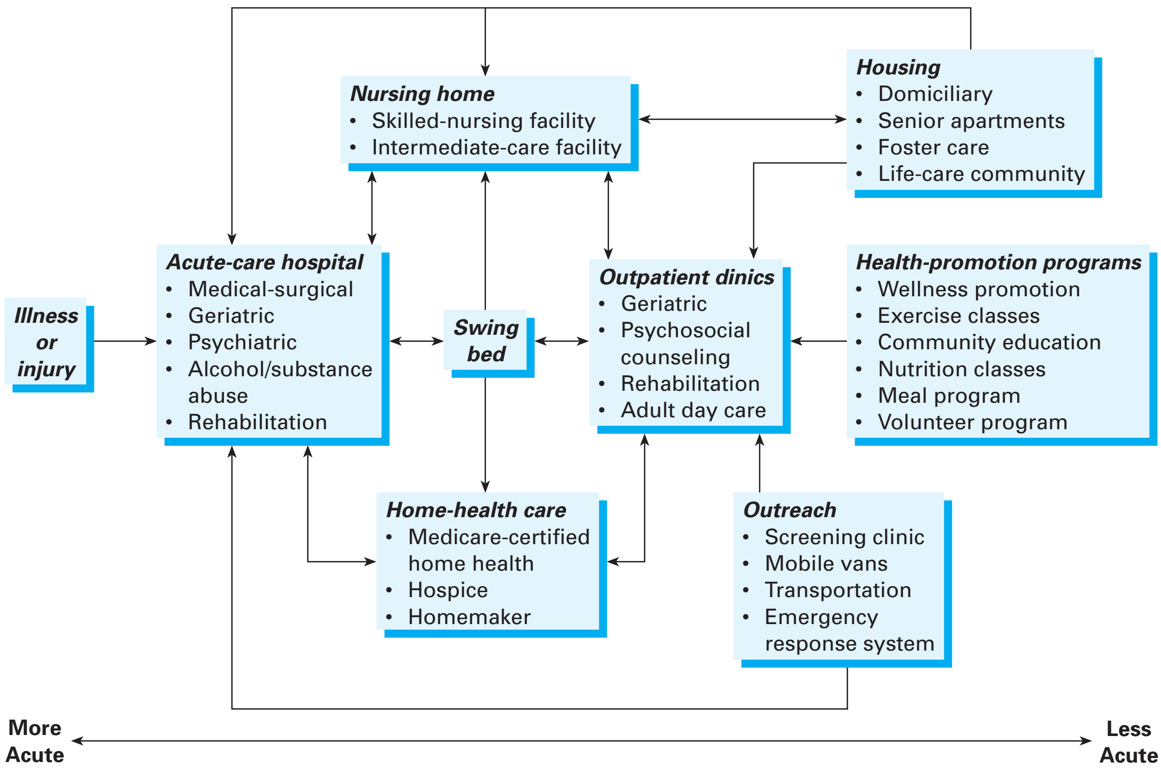
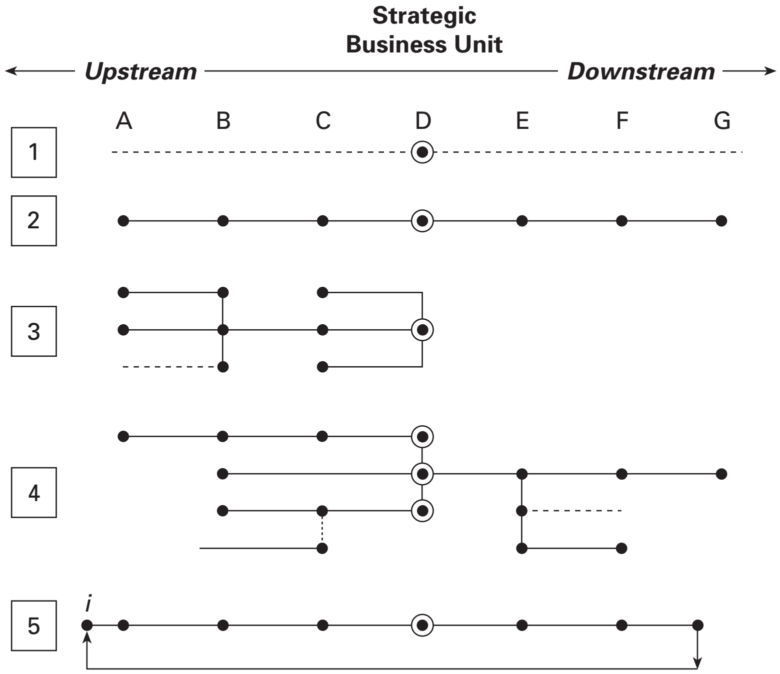


Exhibit 6–7: ♦ Long-Term Care Options for Hospital Diversification



Source: ♦ *Health Care Management Review* 15, no. 1, p. 73. Copyright © 1990. Reprinted by permission of Aspen Publishers, Inc.

Exhibit 6–8: ♦ Patterns of Vertical Integration Among Health Care Organizations



A = wellness/health promotion unit
B = primary care unit
C = urgent care unit
D = hospital (inpatient acute care unit)
E = skilled-nursing unit
F = rehabilitation unit
G = home-health unit

Solid lines depict fully internal transfers

Dashed lines depict market or external transfers

Source: ♦ Adapted in part from K. R. Harrigan, "Formulating Vertical Integration Strategies," *Academy of Management Review* 9, no. 4 (1984), pp. 638–652. Reprinted by permission of Academy of Management. And adapted in part from Stephen S. Mick and Douglas A. Conrad, "The Decision to Integrate Vertically in Health Care Organizations," *Hospital and Health Services Administration* 33, no. 3 (fall 1988), p. 351. Reprinted by permission from Health Administration Press, Chicago.

Exhibit 6–9: ♦ Rationales and Relative Risks of Expansion of Scope Strategic Alternatives

Strategy	Relative Risk	Rationale
Related Diversification	Moderate	• Pursuit of high-growth markets • Entering less-regulated segments • Cannot achieve current objectives • Synergy is possible from new business • Offset seasonal or cyclical influences
Unrelated Diversification	High	• Pursuit of high-growth markets • Entering less-regulated segments • Cannot achieve current objectives • Current markets are saturated or in decline • Organization has excess cash • Antitrust regulations prohibit expansion in current industry • Tax loss may by acquired
Backward Vertical Integration	High	• Control the flow of patients through the system • Scarcity of raw materials or essential inventory/supplies • Deliveries are unreliable • Lack of materials or supplies will shut down operations • Price or quality of materials or supplies variable • Industry/market seen as profitable for long period
Forward Vertical Integration	High	• Control the flow of patients through the system • Faster delivery required • High level of coordination required between one stage and another – secure needed resources • Industry/market seen as profitable for long period • Gain bargaining power
Market Development (geographic and segment)	Moderate	• New markets are available for present products • Provide comprehensive services across the market (Focus Factory) • New markets may be served efficiently • Expected high revenues • Organization has *cost leadership* advantage • Organization has *differentiation* advantage • Current market is growing
Product Development (product line and product enhancement)	Moderate	• Currently in strong market but product is weak or product line incomplete • Market tastes are changing • Product technology is changing • Maintenance or creation of differentiation advantage
Penetration (promotion, distribution, and pricing)	Moderate	• Present market is growing • Product/service innovation will extend PLC • Expected revenues are high • Organization has cost leadership advantage • Organization has differentiation advantage

Exhibit 6–10: ♦ Guidelines for Divestiture of Services

	Divest
1. Were the actual financial results equal to or better than those anticipated in the strategic plan?	No
2. Has the organization been in operation less than 18 months?	No
3. Is there at least an example of a known profitable operation of approximately the same size as your operation?	No
4. If utilization tragets have not been achieved, what is the reason?	Overestimated
5. Is your payor mix the same as or better than you expected?	No
6. Is this a high fixed-cost operation with excess capacity?	No, expanding services means adding expenses
7. Can you quantify spin-off benefits to the system?	No
8. Can you identify any real competitive advantages this service has in the marketplace?	No
9. Can you identify specific management actions that can reverse the losses?	No
10. Is this an early stage in the PLC or a new market?	No
11. Would you use your own money to invest in this venture?	No

Source: ♦ Adapted from Jay Greene, "A Strategy for Cutting Back," *Modern Healthcare*, August 18, 1989, p. 29; developed by the Society for Healthcare Planning and Marketing, American Hospital Association.

Exhibit 6–11: ♦ Rationales and Relative Risks of Contraction of Scope Strategic Alternatives

Strategy	Relative Risk	Rationale
Divestiture	Low	• Industry in long-term decline • Cash needed to enter new, higher-growth area • Lack of expected synergy with core operation • Required investment in new technology seen as too high • Too much regulation • Unbundling
Liquidation	Low	• Organization can no longer operate • Bankruptcy • Trim/reduce assets • Superseded by new technology
Harvesting	Low	• Late maturity/decline of the product life cycle • Consider divestiture or downsizing • Short-term cash needed
Retrenchment (personnel, markets, products, assets)	Moderate	• Market has become too diverse • Market is too geographically spread out • Personnel costs are too high • Too many products or services • Marginal or nonproductive facilities

Exhibit 6–12: ♦ Rationales and Relative Risks of Maintenance of Scope Strategic Alternatives

Strategy	Relative Risk	Rationale
Enhancement ***(quality, efficiency, innovation, speed, and flexibility)***	Low	• Organization has operational inefficiencies • Need to lower costs • Need to improve quality • Improve internal processes
Status quo	Low	• Maintain market share position • Maturity/late maturity stage of the product life cycle • Product/market generating cash but has little potential for future growth • Extremely competitive market

Exhibit 6–13: ♦ Advantages and Disadvantages of Market Entry Strategies

Market Entry Strategy	Major Advantages	Major Disadvantages
Acquisition	• Rapid market entry • Image already established • Performance known before purchase	• New business may be unfamiliar to parent • Takes a long time to assimilate organization's culture • New management team may be required • High initial cost
Licensing	• Rapid access to proven techology • Reduced financial exposure • Access to brandname • Exclusive territory	• Not a substitute for internal technical competence • Not proprietary technology • Dependent on licensor • Rules and regulations
Venture Capital Investment	• Can provide window on new technology or market • Low risk	• Alone, unlikely to be a major stimulus of growth • Extended time to profitability
Merger	• Uses existing resources • Retains existing markets and products • Reduces competition	• Takes a long time to merge cultures • Merger match often difficult to find
Alliance	• Fills in gaps in product line • Creates efficiencies (e.g., bargaining power) • Reduces competition in weak markets • Stabilizes referral base • Shared risk	• Potential for conflict between members • Limits potential markets/products • Difficult to align resources • Governance issues
Joint Venture	• Technological/marketing joint ventures can exploit small/large organizational synergies • Spreads distribution risks	• Potential for conflict between partners (shared vs. proprietary) • Objectives of partners may not be compatible
Internal Development	• Uses existing resources • Organization maintains a high level of control • Presents image of developing (growth) organization	• Time lag to break even • Unfamiliarity with new markets • Obtaining significant gains in market shares against strong competitors may be difficult
Internal Venture	• Uses existing resources • May enable organization to hold a talented entrepreneur • Isolates development from organization's bureaucracy	• Mixed record of success • Organization's internal climate often unsuitable

Exhibit 6–14: ♦ Advantages and Disadvantages of Strategic Postures

Strategic Posture	Advantages	Disadvantages
Defender	• Focus on limited set of products and services • Focus is on narrow market segment • Stable environment • Difficult for competitors to enter this segment	• Reliance on the success of narrow product line • Must have long/sustaining PLCs • Market segment must be stable – slow change • May be unable to respond to major market/industry shifts • Difficult to enter new markets or technologies
Prospector	• Always involved in "cutting edge" developments • Organization changes with changing environment • Allows for a rapid response to a changing environment	• Organization is in constant state of change • New products and markets always being developed • Multiple technologies being employed, seldom able to achieve efficiency • Tend to have lower profits because of continuous change • Tend to overextend resources • Tend to underutilize financial, human, and physical resources
Analyzer	• Allows for the maintenance of a core of stable traditional products and services • Allows for high-risk products and services to be borne by prospectors • Lower investment in research and development	• Difficult strategy to pursue • Must respond quickly to follow lead of key prospector while maintaining efficiency in core products/services • Complex structure (matrix) • Management of both stable and dynamic products and markets • Communication is often difficult
Reactors	• Little strategic planning required (monoplistic or highly regulated environment)	• Inconsistency in response to environmental change • Instability in organization • Organization becomes both ineffective and inefficient • No effective guide for decision making

Exhibit 6–15: ♦ Porter's Matrix

		Strategic Advantage	
		Uniqueness Perceived by the Customer	***Low Cost Position***
Strategic Target	***Marketwide (broad)***	Differentiation	Overall Cost Leadership
	Particular Segment Only (narrow)	Differentiation/Focus	Cost/Focus

Source: ♦ Micheal E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Copyright © 1980. Reprinted with permission of The Free Press, a division of Simon & Schuster.

Exhibit 6–17: ♦ Advantages and Disadvantages of Positioning Strategies

Positioning Strategy	Major Advantages	Major Disadvantages
Cost Leadership	• Provides clear competitive advantage • Provides clear market position • Provides opportunities to spend more than competition	• Must obtain large volume • Product/service must be standardized • Product/service may be viewed as low quality
Differentiation	• Product/service viewed as unique • Often viewed as high quality • Greater control over pricing	• Often difficult to adequately differentiate product or service • Product/service may be higher priced
Focus	• Appeals to specialized market • May develop good relations with market	• Market may be small • Expansion of market may be difficult

Exhibit 6–18: ◆ Vertical and Horizontal Integration Combination Strategy

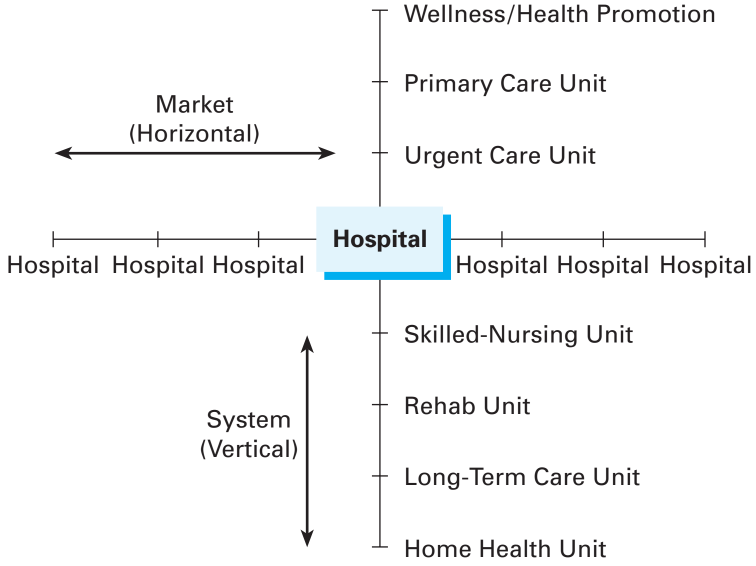


Exhibit 6–19: ♦ Vision of Strategy Combinations and Phases

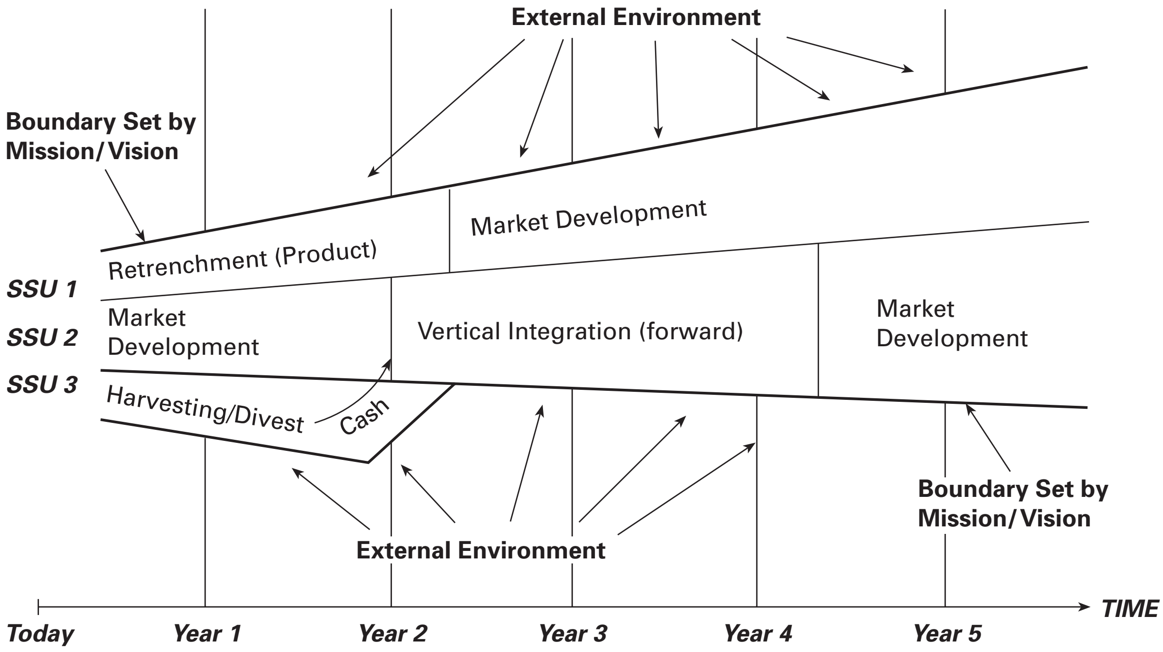


Exhibit 6–20: ♦ Definition and Examples of the Strategic Alternatives

STRATEGY

Adaptive Strategies

	Definition	**Example**
Related Diversification	Adding new related product or service categories. Often requires the establishment of a new division	Walgreens' (drug stores) managed care division designs prescription drug benefit programs (prescription benefit management) that meet other organizations' goals for cost containment
Unrelated Diversification	Adding new unrelated product or service categories. Typically requires the establishment of a new division	Hankensack New Jersey University Medical Center launched a full service day spa offering facials, body treatments, massages, nail treatments, hair removal, personalized make-up application, and product sales
Forward Vertical Integration	Adding new members along the distribution channel (downstream) for present products and services or controlling the flow of patients from one institution to another	Community Memorial Hospital (New York) affiliated with 120-bed Crouse Community Center and 40-bed skilled nursing facility at Community Memorial to enable the hospital to discharge patients requiring long-term care to facilities offering an appropriate level of care
Backward Vertical Integration	Adding new members along the distribution channel (upstream) for present products and services or controlling the flow of patients from one institution to another	The Children's Hospital of Philadelphia has opened a number of primary care centers (clinics) throughout the city
Market Development	Introducing present products or services into new geographic markets or to new segments within a present geographic market	HEALTHSOUTH Corporation contracted to manage an inpatient rehabilitation hospital and ambulatory surgical center in Saudi Arabia
Product Development	Improving present products or services or extending the present product line	Becton, Dickinson and Company developed a new line of products including safety-engineered syringes, needles, and blood-collection devices designed to prevent needle-stick injuries
Penetration	Seeking to increase market share for present products or services in present markets though marketing efforts (promotion, channels, or price)	Promotional efforts of New York dermatologist Dr. Zizmor to increase market share have become a well-known cultural phenomenon of New York City
Divestiture	Selling an operating unit or division to another organization. Typically, the unit will continue in operation	Deciding to focus on its core California and Indiana markets, Maxicare Health Plans of Los Angeles sold its 14,000-enrollee Louisiana unit to Coventry Health Care of Bethesda, Maryland
Liquidation	Selling all or part of the organization's assets (facilities, inventory, equipment, and so on) in order to obtain cash. The purchaser may use the assets in a variety of ways and businesses	Needing less corporate office space, Unity Health System sold its expansive headquarters in a St. Louis suburb

Harvesting	Products or services typically in late stages of the PLC (late maturity and decline) where industry-wide revenues are expected to decline. These products or services will ultimately be discontinued but may generate revenue for some time. Few new resources are allocated to these areas	Glaxo Welcome continues to sell Imitrex intended to relieve migraines while marketing its Amerge, a more potent receptor agonist, but designed to do the same thing. Amerge, in time, will end the Imitrex PLC
Retrenchment	Reducing the scope of operations, redefining the target market, cutting geographic coverage, reducing the segments served or reducing the product line	After financial losses, Hillcrest Health Care System in Tulsa sold three of its five health care facilities, remaining in the Tulsa market but on a smaller more focused basis
Enhancement	Seeking to improve operations within present product or service categories through quality programs, increasing flexibility, increasing efficiency, speed of delivery, and so on	Columbia Hospital in Milwaukee made a commitment to total quality management (TQM) where physician directors lead colleagues and department managers through a TQM planning process using various continuous improvement tools
Status Quo	Seeking to maintain relative market share within a market	Many public health departments that operate clinics are using a status quo strategy (wait and see what happens) until the impact of managed care, system integration, and other reforms are clearer
Market Entry Strategies		
Acquisition	Strategy to grow through the purchase of an existing organization, unit of an organization, or a product/service	Community Health Systems, the Brentwood Tennessee-based hospital chain purchased 90-bed Western Arizona Regional Medical Centers from Baptist Hospitals and Health Systems based in Phoenix
Licensing	Acquiring or providing an asset (technology, market, equipment, and so on) through contract	IMEDEX Biomateriaux, a French biomedical company licenses collagen biomaterials for biosurgical and drug delivery applications
Venture Capital Investment	Financial investment in an organization in order to participate in its growth or receipt of venture capital for startup or expansion	Lumenos, Inc., received $34 million from Novartis Pharmaceutical, Johnson & Johnson Development, Liberty Partners, and KBL Healthcare Ventures to develop an online defined contribution health plan
Merger	Combining two (or more) organizations through mutual agreement to form a single new organization	Three New York health care systems, Saint Vincents Hospital and Medical Center, Catholic Medical Centers, and Sisters of Charity Healthcare System, merged to form Saint Vincents Catholic Medical Centers of New York

Exhibit 6–20: ♦ (*cont'd*)

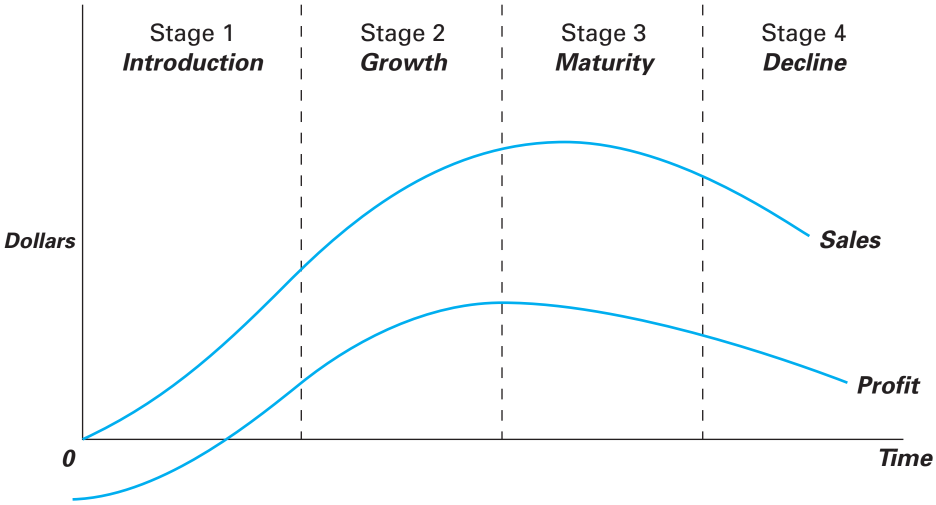
Alliance	Formation of a formal partnership	The West Central Ohio Regional Heathcare Alliance is a network of allied community hospitals with a shared vision
Joint Venture	Combination of the resources of two or more organizations to accomplish a designated task	The University of Pittsburgh Medical Center Health System and South Hills Health System created a joint venture for providing home health in Western Pennsylvania called UPMC South Hills Health System Home Health
Internal Development	Products or services developed internally using the organization's own resources	Albany Medical Center, a traditional hospital, developed a primary care network using internal resources
Internal Venture	Establishment of an independent entity within an organization to develop products or services	Tenet Healthcare Corporation formed an Internet-based e-learning company to provide educational opportunities for Tenet employees and health care professionals
Competitive Strategies		
Defender	Focus on a narrow market with limited number of products or services and aggressively defend this segment through pricing or differentiation	Suffolk County Department of Health emphasizes differentiating its traditional public health services such as its series of weight management classes for diabetics
Prospector	Continuously seek out new products and new markets	HealthCentral.com, prospecting for new product areas to expand its online "superstore," acquired four dotcom companies
Analyzer	Balance market defense in some markets with selectively entering a limited number of markets or products	Baldwin Area Medical Center (Wisconsin) defends its traditional health services but has entered selected "complementary medicine" markets such as acupuncture and massage therapy
Cost leadership	Low cost/price strategy directed toward entire market	Roche Pharmaceuticals incorporated the latest technologies and production processes in its Sisseln, Switzerland, plant in order to be the global cost leader in the production of vitamin E
Differentiation	Development of unique product/service features directed toward entire market	Phoenix's Good Samaritan Regional Medical Center differentiated its hospital by constructing an outdoor "healing garden" to help patients relax as they await treatment or recover from surgery
Focus – Cost Leadership	Low cost/price strategy directed toward a particular market segment	HEALTHSOUTH emphasizes cost leadership (through standardization and uniform practices) in rehabilitation
Focus – Differentiation	Development of unique product/service features directed toward a particular market segment	Primary stroke centers specializing in the diagnosis, treatment, and prevention of strokes; pain management clinics designed to contain both acute and chronic pain

Exhibit 7–1: ♦ *TOWS Matrix*

	List Internal Strengths (competitive advantages) 1. 2. 3. 4.	List Internal Weaknesses (competitive disadvantages) 1. 2. 3. 4.
List External Opportunities 1. 2. 3. 4.	***4*** ***Future Quadrant*** • Related diversification • Vertical integration • Market development • Product development • Penetration	***2*** ***Internal Fix-It Quadrant*** • Retrenchment • Enhancement • Market development • Product development • Vertical integration • Related diversification
List External Threats 1. 2. 3. 4.	***3*** ***External Fix-It Quadrant*** • Related diversification • Unrelated diversification • Market development • Product development • Enhancement • Status quo	***1*** ***Survival Quadrant*** • Unrelated diversification • Divestiture • Liquidation • Harvesting • Retrenchment

Source: ♦ Adapted from Heinz Weihrich, "The TOWS Matrix: A Tool for Situational Analysis," *Long Range Planning* 15, no. 2 (1982), p. 60. Reprinted by permission of Elsevier Science Ltd., The Boulevard, Langford Lane, Kidlington OS5 1GB, UK.

Exhibit 7–2: ♦ The Product Life Cycle



PLC Stage Characteristics

	Introduction	*Growth*	*Maturity*	*Decline*
Sales/Revenue	Low	Rapid growth	Slow growth	Declining
Profits	Negative	Peak levels	Declining	Low
Competitors	Few	Growing	Many	Declining
Cash Flow	Negative	Moderate	High	Low
Capital Access	Venture	Equity/debt	Debt/internal	Minimal

Source: ♦ Philip Kotler, *Marketing Management: Analysis, Planning, Implementation, and Control*, Millenium ed. (2000), p. 304. Reprinted by permission of Simon & Schuster.

Exhibit 7–3: ♦ Strategic Choices for Stages of the Product Life Cycle

Stage 1
Introduction

- Market development
- Product development

Stage 2
Growth

- Market development
- Product development
- Penetration
- Vertical integration
- Related diversification

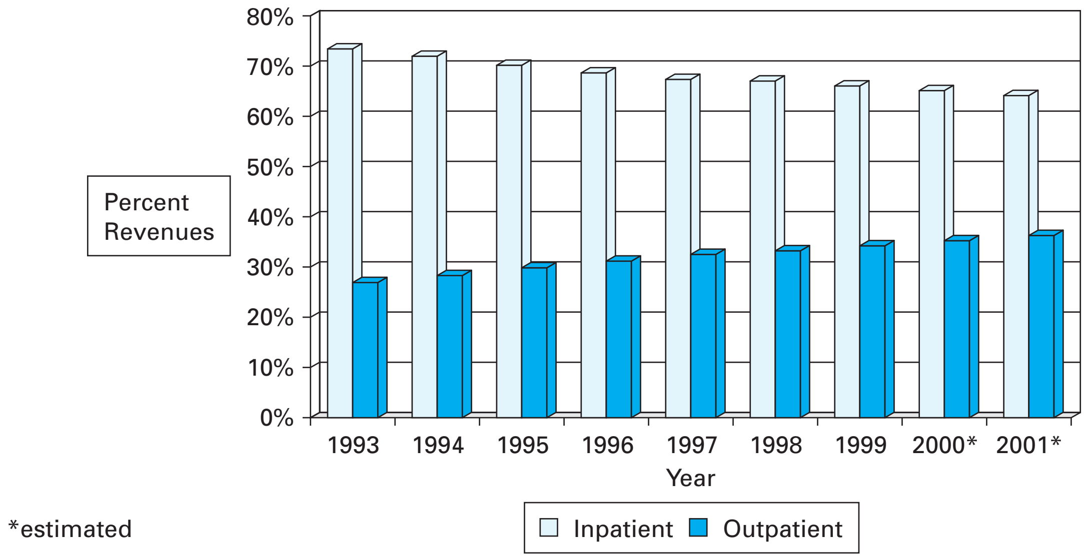
Stage 3
Maturity

- Market development
- Product development
- Penetration
- Enhancement
- Status quo
- Retrenchment
- Divestiture
- Unrelated diversification

Stage 4
Decline

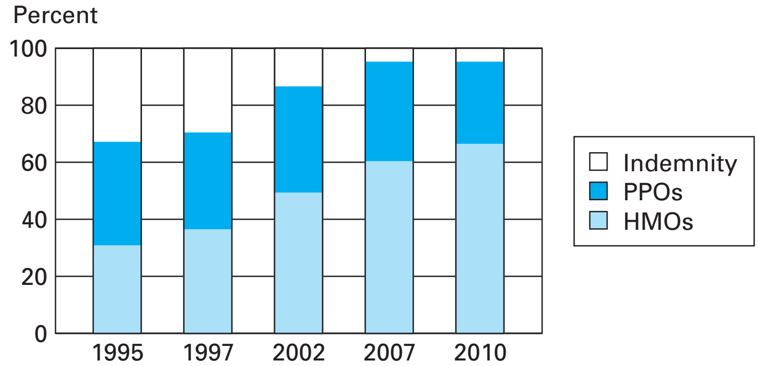
- Divestiture
- Liquidation
- Harvesting
- Unrelated diversification

Exhibit 7–4: ♦ Percent Revenues from Inpatient and Outpatient Services



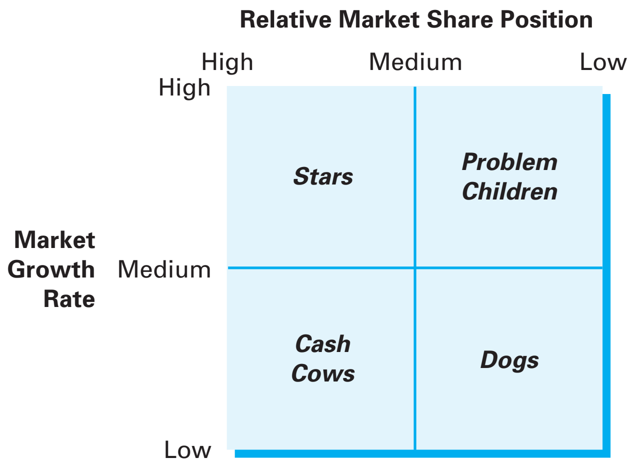
Source: ♦ American Hospital Association, *Hospital Statistics 2001* and *Hospital Statistics 1999*.

Exhibit 7–5: ♦ Indemnity, PPO, and HMO Enrollment



Source: ♦ Institute for the future, *Health & Health Care 2010; The Forecast, The Challenge*. (San Francisco, Jossey-Bass Publishers, January 2000), p. 43.

Exhibit 7–6: ◆ BCG Portfolio Analysis



Stars

Products and services that fall in this quadrant (high market growth and high market share) represent the organization's best long-run opportunity for growth and profitability. These products and services should be provided resources. Market development, product development, penetration, vertical integration, and related diversification are appropriate strategies for this quadrant.

Cash Cows

Products and services in this quadrant have low market growth (probably in maturity and decline stages of the PLC) but the organization has a high relative market share. These products and services should be maintained but should consume few new resources. 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.

Problem Children

Problem children have a low relative market share position, yet compete in a high-growth market. Managers must decide whether to strengthen the products in this quadrant with increased investment through market development or product development or get out of the product/service area through harvesting, divestiture, or liquidation. A case may also be made for retrenchment into specialty niches.

Dogs

These products and services have a low relative market share position and compete in a slow- or no-growth market. These products and services should consume fewer and fewer of the organization's resources. Because of their weak position, the products or services in this quadrant are often liquidated or divested or the organization engages in dramatic retrenchment.

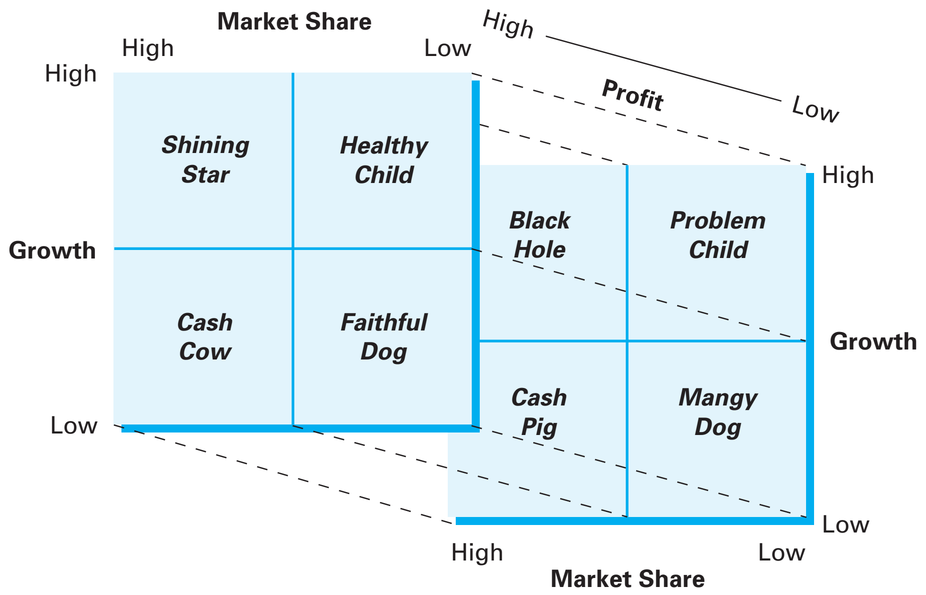
Exhibit 7–7: ♦ BCG Portfolio Analysis for a Health Care Institution

Relative Market Share Position

Market Growth Rate	High / Medium / Low (Market Share)	
	High	Low
High–Medium	***Stars*** Women's Services Geriatrics Cardiology/Cardiovascular Oncology Pulmonary Orthopedics	***Problem Children*** Neurology/Neurosurgery G.I./Urology Emergency Services Ambulatory Surgery, Adult Ambulatory Surgery, Pediatrics
Medium–Low	***Cash Cows*** Plastic Surgery Substance Abuse	***Dogs*** Psychiatry Vascular Surgery Pediatrics E.N.T. Ophthalmology General Medicine

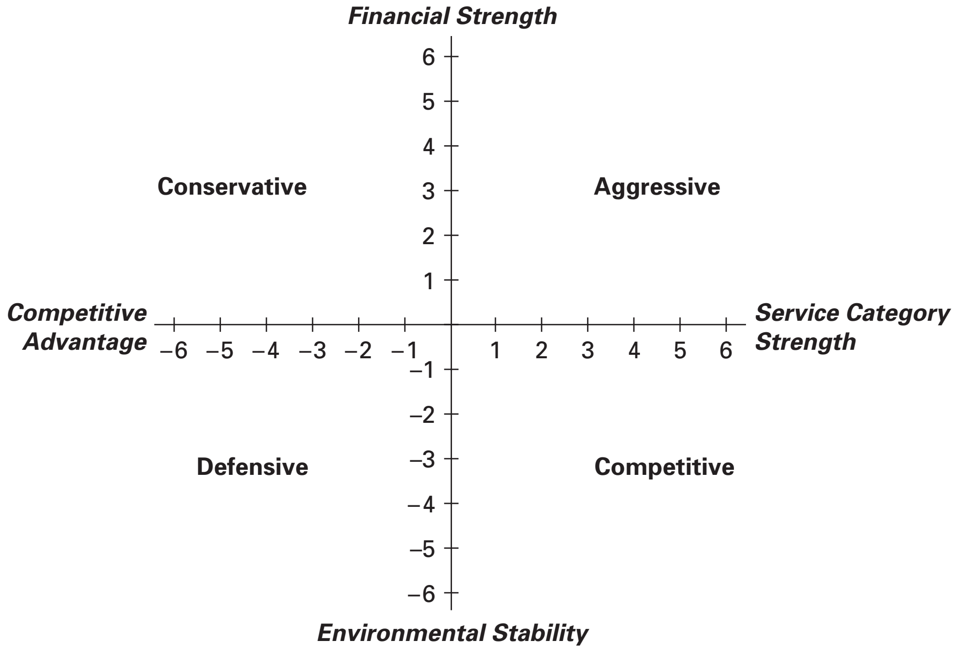
Source: ♦ Adapted from Doris C. Van Doren, Jane R. Durney, and Colleen M. Darby, "Key Decisions in Marketing Plan Formulation for Geriatric Services," *Health Care Management Review* 18, no. 3, pp. 7–20.

Exhibit 7–8: ♦ Expanded Product Portfolio Matrix



Source: ♦ Adapted from Gary McCain, "Black Holes, Cash Pigs, and Other Hospital Portfolio Analysis Problems," *Journal of Health Care Marketing* 7, no. 2 (June 1987), p. 58. Reprinted by permission of American Marketing Association.

Exhibit 7–9: ♦ Strategic Position and Action Evaluation (SPACE) Matrix



Aggressive Posture

This posture is typical in an attractive service category with little environmental turbulence. The organization enjoys a definite competitive advantage, which it can protect with financial strength. The critical factor is the entry of new competitors. Organizations in this situation should take full advantage of opportunities, look for acquisition candidates in their own or related areas, increase market share, and concentrate resources on products having a definite competitive edge.

Competitive Posture

This posture is typical in an attractive service category. The organization enjoys a competitive advantage in a relatively unstable environment. The critical factor is financial strength. Organizations in this situation should acquire financial resources to increase marketing thrust, add to the sales force, extend or improve the product line, invest in productivity, reduce costs, protect competitive advantage in a declining market, and attempt to merge with a cash-rich organization.

Conservative Posture

This posture is typical in a stable market with low growth. Here, 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.

Defensive Posture

This posture is typical of an unattractive service category in which the organization lacks a competitive product and financial strength. The critical factor is competitiveness. Organizations in this situation should prepare to retreat from the market, discontinue marginally profitable products, aggressively reduce costs, cut capacity, and defer or minimize investments.

Source: ♦ Adapted from Alan J. Rowe, Richard O. Mason, Karl E. Dickel, and Neil H. Snyder, *Strategic Management: A Methodological Approach*, 3rd edn. (1989), pp. 145–150. Reprinted by permission.

Exhibit 7–10: ♦ Strategic Position and Action Evaluation Factors

Factors Determining Environmental Stability

Technological changes	Many	0	1	2	3	4	5	6	Few
Rate of inflation	High	0	1	2	3	4	5	6	Low
Demand variability	Large	0	1	2	3	4	5	6	Small
Price range of competing products/services	Wide	0	1	2	3	4	5	6	Narrow
Barriers to entry into market	Few	0	1	2	3	4	5	6	Many
Competitive pressure	High	0	1	2	3	4	5	6	Low
Price elasticity of demand	Elastic	0	1	2	3	4	5	6	Inelastic
other: ______________________	______	0	1	2	3	4	5	6	________

Average – 6 = –3.7

Critical factors

Fairly turbulent environment; strong competition; many technological changes.

Comments

Necessary to maintain financial stability because of turbulence in the environment; demand in market segments relatively stable; protect market niche against competition.

Factors Determining Service Category Strength

Growth potential	Low	0	1	2	3	4	5	6	High
Profit potential	Low	0	1	2	3	4	5	6	High
Financial stability	Low	0	1	2	3	4	5	6	High
Technological know-how	Simple	0	1	2	3	4	5	6	Complex
Resource utilization	Inefficient	0	1	2	3	4	5	6	Efficient
Capital intensity	High	0	1	2	3	4	5	6	Low
Ease of entry into market	Easy	0	1	2	3	4	5	6	Difficult
Productivity, capacity utilization	Low	0	1	2	3	4	5	6	High
Other: Flexibility, adaptability	Low	0	1	2	3	4	5	6	High

Average 3.7

Critical factors

Good growth and profit potential; strong competition.

Comments

Very attractive service category, but strong competition; degree of capital intensity increasing.

Exhibit 7–10: ♦ (*cont'd*)

Factors Determining Competitive Advantage*

Market share	Small	0	1	2	3	4	5	6	Large
Product quality	Inferior	0	1	2	3	4	5	6	Superior
Product life cycle	Late	0	1	2	3	4	5	6	Early
Product replacement cycle	Variable	0	1	2	3	4	5	6	Fixed
Customer/patient loyalty	Low	0	1	2	3	4	5	6	High
Competition's capacity utilization	Low	0	1	2	3	4	5	6	High
Technological know-how	Low	0	1	2	3	4	5	6	High
Vertical integration	Low	0	1	2	3	4	5	6	High
other: ____________________	______	0	1	2	3	4	5	6	______

Average – 6 = –2.4

Critical factors

Market share low; product/service quality very good.

Comments

The organization still enjoys slight competitive advantage because of quality and customer loyalty; can be expected to diminish, however, because of improving performance of competitive organizations.

Factors Determining Financial Strength

Return on investment	Low	0	1	2	3	4	5	6	High
Leverage	Imbalanced	0	1	2	3	4	5	6	Balanced
Liquidity	Imbalanced	0	1	2	3	4	5	6	Balanced
Capital required/capital available	High	0	1	2	3	4	5	6	Low
Cash flow	Low	0	1	2	3	4	5	6	High
Ease of exit from market	Difficult	0	1	2	3	4	5	6	Easy
Risk involved in business	Much	0	1	2	3	4	5	6	Little
Other: Inventory turnover	Slow	0	1	2	3	4	5	6	Fast

Average 1.6

Critical factors

Very little liquidity; too much debt.

Comments

Financial position very weak; cash inflow has to be increased in order to improve liquidity; outside financing difficult because of high leverage.

* Represent important competitive advantages.

Source: ♦ Adapted from Alan J. Rowe, Richard O. Mason, Karl E. Dickel, and Neil H. Snyder, *Strategic Management: A Methodological Approach*, 3rd edn. (1989), pp. 148–149. Reprinted by permission.

Exhibit 7–11: ♦ SPACE Profile for a Regional Hospital System

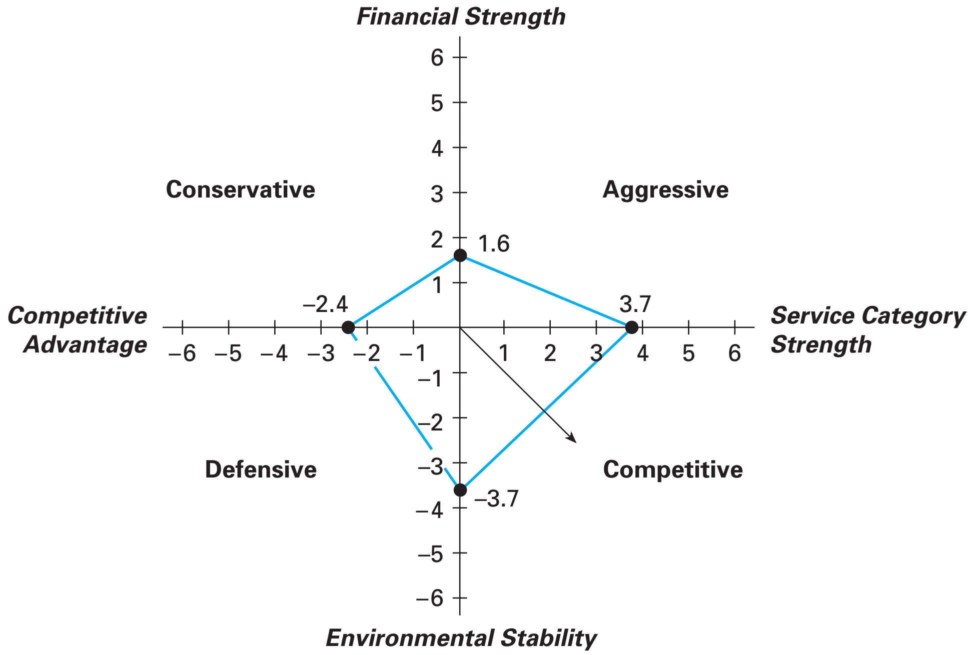
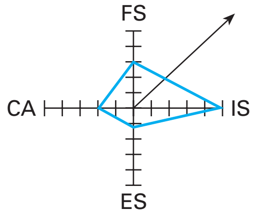
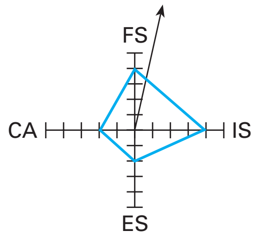


Exhibit 7–12: ♦ Space Strategy Profiles

Aggressive Profiles

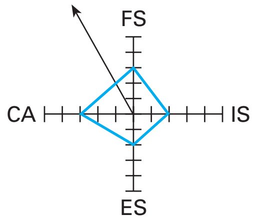


A financially strong organization that has achieved major competitive advantages in a growing and stable service category

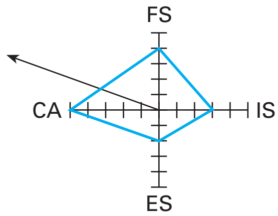


An organization whose financial strength is a dominating factor in the service category

Conservative Profiles

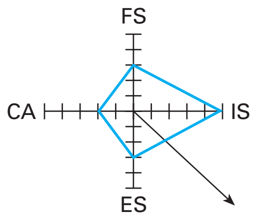


An organization that has achieved financial strength in a stable service category that is not growing; the organization has no major competitive advantages

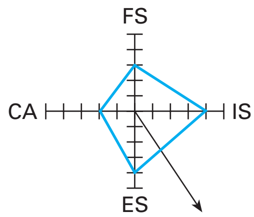


An organization that suffers from major competitive disadvantages in a service category that is technologically stable but declining in revenue

Competitive Profiles

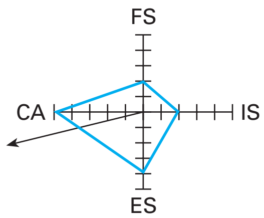


An organization with major competitive advantages but limited financial strength in a high-growth service category

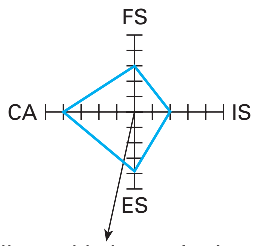


An organization that is competing fairly well in a service category where there is substantial environmental uncertainty

Defensive Profiles



An organization that has a very weak competitive position in a negative-growth, stable but weak service category



A financially troubled organization in a very unstable and weak service category

Source: ♦ Adapted from Fred R. David, *Strategic Management,* 2nd edn. (Columbus, Ohis: Merrill Publishing Co., 1989), p. 216.

Exhibit 7–13: ♦ Strategic Alternatives for SPACE Quadrants

Conservative • Status Quo • Unrelated Diversification • Harvesting	**Aggressive** • Related Diversification • Market Development • Product Development • Vertical Integration
Defensive • Divestiture • Liquidation • Retrenchment	**Competitive** • Penetration • Enhancement • Product Development • Market Development • Status Quo

Exhibit 7–14: ♦ Public Health and Not-for-profit Adaptive Strategic Decisions

		Organizational Capacity	
		High	***Low***
Community Need	***High***	**Expansion Strategies** • Vertical Integration • Related Diversification • Product Development • Market Development • Penetration	**Maintenance/Contraction** • Enhancement • Status Quo • Retrenchment • Harvesting
	Low	**Contraction/Maintenance** • Related Diversification • Retrenchment • Harvesting • Status Quo	**Contraction** • Liquidation • Harvesting • Divestiture • Retrenchment

Exhibit 7–15: ♦ Department of Public Health Q-Sort Results*

				Cancer Prevention 4.88				
			Seafood Sanitation 6.11	Lodging/Jails Inspection 4.88	Microbiology 4.44			
			Infection Control 5.77	Injury Prevention 4.77	Home Health 4.22			
		Immunization 6.99	Health Education 5.66	Disaster Preparedness 4.77	Quality Assurance 4.11	Administrative Support 3.99		
		Tuberculosis Control 6.88	Family Planning 5.66	Public Health Nursing 4.75	Primary-Care Support 4.11	Vector Control 3.99		
	Sewage Regulation 7.22	Licensure and Certification 6.77	Child Health 5.55	Lead Assessment 4.62	School Health Education 4.0	Dental Health 3.87	Medicaid Waiver 3.33	
	STD Control 7.22	Newborn Screening 6.62	Emergency Medicine 5.50	HMO Regulation 4.55	WIC 4.0	Diabetes 3.77	Swimming Pools 3.11	
Food Sanitation 8.0	Milk Sanitation 7.0	Health Statistics 6.44	Radiation Control 5.44	Hypertension 4.55	Vital Records 4.0	Indoor Air Quality 3.66	Adolescent Health 2.66	Hearing Aid Regulation 1.88
Epidemiology 8.0	HIV/AIDS Planning and Control 7.0	Solid Waste 6.33	Maternity 5.22	Myco-bacteriology 4.55	Serology 4.0	Public Health Social Work 3.44	Plumbing Inspection 2.55	Animal Control 1.44
Most Important	***Next Most Important***	***Next Most Important***	***Next Most Important***	***Next Most Important***	***Next Most Important***	***Next Most Important***	***Next Most Important***	***Next Most Important***
5%	7.5%	12.5%	15%	20%	15%	12.5%	7.5%	5%

* Program name and mean score in each box.