Marketing Health Services

FOURTH EDITION

RICHARD K. THOMAS

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PREFACE TO THE FOURTH EDITION

Since the publication of the third edition of *Marketing Health Services* five years ago, the world of healthcare has changed significantly—and with it, the practice of healthcare marketing. At that time, healthcare had just entered the era of the Affordable Care Act (ACA), the most significant healthcare reform in decades. Since then, the healthcare arena has seen the emergence of value-based reimbursement, with all that implies. Simultaneously, population health management has come to the fore, with its emphasis on community health rather than individual patient care. All of these developments have served to turn the healthcare system on its head.

At the same time, the role of marketing has changed in response, demonstrating once again its indispensability during the uncertain times between the implementation of new rules and processes and the rush to adopt compliant strategies and adjust existing practices. In each case, the paradigm shifts in healthcare marketing have offered an opportunity to adapt to a changing environment.

This book, like the first three editions, enumerates the forces that are changing the healthcare environment and challenging the healthcare establishment. It chronicles the evolution of healthcare marketing—from a field purely associated with advertising and promotion to one that counts research, education, and strategy formulation as major responsibilities.

Since the 1970s when marketing was first introduced into healthcare, the field has gone through a series of highs and lows. The acceptance of marketing as a legitimate activity by healthcare organizations in the 1980s represented a milestone. At that time, healthcare organizations began to establish marketing departments, set marketing budgets, create new positions dedicated to marketing functions, and adopt marketing concepts and methods from other industries while realizing that the marketing of healthcare was much different from the marketing of other goods and services.

Through the 1990s and 2000s, healthcare marketing continued to prove itself a legitimate organizational function. More full-service marketing departments were being established in-house, and a cadre of professional marketers was elevated to the board room as partners in administration.

Sophisticated and healthcare-specific marketing techniques were developed and implemented. This proliferation of marketers dedicated to the business of healthcare imparted several lessons that still resonate today. First, marketing is so much broader than mass media advertising. Second, understanding the market in which the business operates, the customers who live in that market area, and those customers' needs, wants, behaviors, and motivations is critical. Third, marketing should drive the strategic direction of the organization and not vice versa, as was historically the case.

Although healthcare marketing has adopted concepts and methods from other industries, it continues to be distinguished from the marketing that takes place in other sectors. Its methods must be unique and appropriate for healthcare products and their consumers—not a copy of the prevailing techniques used in other industries. This book walks readers through the traditional and contemporary approaches that healthcare marketers rely on and that enable healthcare organizations to rise above current trends and turmoil to position themselves for the future healthcare environment.

Instructor Resources

This book's instructor resources include an instructor's manual, updated and enhanced PowerPoint slides, answers to selected case study questions, and a test bank.

For the most up-to-date information about this book and its instructor resources, go to ache.org/HAP and search for the book's order code (2404I).

This book's instructor resources are available to instructors who adopt this book for use in their course. For access information, please email hapbooks@ache.org.

INTRODUCTION

This book explores the history, perspectives, concepts, processes, and role of marketing in the healthcare industry—particularly the health services delivery setting. This fourth edition retains the features that readers found useful in previous editions, such as the examples, case studies, discussion questions, key points, and additional resources. In this edition, new examples, exhibits, recommendations, and statistics have been added; some case studies have been revised; and updated resources have been included. Definitions of important terms and concepts appear in the margins, supplementing the full-length discussions.

The content—although it remains true to its original intent of being a comprehensive guide—has been updated at every possible turn to reflect the changes that have taken place in the healthcare environment. The Affordable Care Act (ACA) has been the law of the land for a decade, and that initiative continues to have implications for healthcare marketing. The use of social media, described in the previous edition, has exploded, with an ever-increasing number of social media channels.

Of particular importance has been the emergence of a new paradigm that is upending the healthcare system. The population health model is gaining momentum, and it will have significant implications for healthcare marketing. This model promises to transform healthcare marketing as it shifts the emphasis among healthcare providers from quantity to quality, from sick people to well people, from individual patients to groups of consumers, and from treatment to prevention.

The Target Audience

Students in healthcare administration and healthcare marketing programs as well as students in business administration programs with a healthcare marketing component make up the primary audience for this book. It can also serve as a reference text for professors or instructors of healthcare administration

or marketing courses and for academicians who conduct research on these topics but are not marketing practitioners themselves.

Health professionals (including physicians, nurses, and other clinicians) represent the secondary audience for this book, as well as healthcare executives and administrators, health planners, and other facility staff involved in marketing activities. In today's ultracompetitive environment, most health professionals—regardless of official title or span of responsibilities—are expected to be at least familiar with marketing concepts.

The third category of audience is composed of marketing professionals—whether they work for a marketing agency or related consulting firm or as independent agents—who intend to do business in the healthcare arena. Whether they are new to the marketing field or are seasoned marketing veterans, they will find something in the book that will prove useful for their healthcare clients.

The Content

At times, the topics covered in the chapters overlap or appear in more than one chapter. That is intentional—to emphasize and review the basic points or to put them in context. The following sections summarize the content of each chapter.

Part I: History and Concepts
- Chapter 1 presents an overview of the history of marketing—from its introduction to healthcare to its contemporary incarnation. The ways in which healthcare differs from other industries and the ways in which healthcare marketing is different from other types of marketing are examined. In addition, the chapter sheds light on the factors that have helped marketing become accepted in healthcare and the contribution that marketing can make to the industry. Finally, it reviews current developments in healthcare and their implications for marketing.
- Chapter 2 defines the key terms and concepts that form the foundation of marketing and reviews their application to healthcare. The "four Ps" of marketing and their expansion to the seven Ps (for the healthcare industry) are discussed. Marketing functions, techniques, and approaches are enumerated, and the challenge of adapting marketing processes from other industries to healthcare is addressed.
- Chapter 3 focuses on marketing as a function in healthcare organizations. It identifies the types of marketing techniques typically used by different types of organizations. The factors that influenced

healthcare's adoption of marketing are reviewed, along with the factors that are affecting the contemporary nature of healthcare marketing.

Part II: Healthcare Markets and Products
- Chapter 4 discusses how a healthcare market is described and delineated. Among the concepts addressed are geographic and nongeographic boundaries, consumer demand, market profiling, mass marketing and micromarketing, and effective markets.
- Chapter 5 answers the questions "Who are healthcare customers?" and "How are they similar and dissimilar from other customers?" It explains consumer behavior and attitudes, the different types of market segmentation (e.g., geographic, demographic, psychographic), and the consumer decision-making process.
- Chapter 6 is all about the healthcare product—the goods sold and services provided by healthcare organizations. The product mix is explained, as well as the different types of goods and services available in the market. The common classifications and coding systems used in healthcare are highlighted.
- Chapter 7 addresses the factors that contribute to the demand for health services. It touches on healthcare wants and needs, recommended standards for healthcare, and utilization patterns. It also proposes methods marketers can use to measure demand and introduces various indicators of health services utilization. The numerous factors that determine the demand for and ultimate consumption of health services are identified.

Part III: Healthcare Marketing Techniques
- Chapter 8, new in this edition, sets the stage for subsequent chapters dealing with strategy development, health communications, traditional and contemporary marketing techniques, and the use of social media in marketing. This chapter reviews the changes taking place in the healthcare environment and outlines the implications of those changes for healthcare marketing.
- Chapter 9 focuses on marketing strategies. The need to align marketing strategies with the organization's overall strategic plan is emphasized. It summarizes the steps in strategic planning, the processes for developing and selecting a strategy, and the strategic approaches that may be taken. Branding as a strategy is discussed as well. The possible implications for healthcare marketing of the ACA and the emerging population health model are highlighted.

- Chapter 10—new to this edition—addresses the topic of health communication and its crucial role in healthcare marketing. This chapter reviews the nature of communication, its function, and the process of developing a communication plan. The attributes of effective communication initiatives are described, along with the variety of ways in which communication may be employed within the healthcare setting.
- Chapter 11 details the traditional marketing techniques commonly used by healthcare marketers, such as public relations, advertising, personal sales, sales promotion, and direct marketing. It provides an overview of media options, social marketing, and integrated marketing. It also explains the modifications marketers must make to adapt traditional promotional approaches to the healthcare arena.
- Chapter 12 presents contemporary marketing techniques. One set of techniques is based on traditional marketing programs and includes direct-to-consumer marketing, business-to-business marketing, internal marketing, and affinity marketing. The other set of techniques is based on technology and includes database marketing, customer relationship management, and internet marketing. Consumer engagement as an emerging theme in marketing is addressed.
- Chapter 13 focuses on social media and their application to healthcare marketing. It identifies the common types of social media, their value to consumers and marketers, and their healthcare-specific uses.

Part IV: The Marketing Endeavor

- Chapter 14 explores the ins and outs of managing a marketing campaign. It breaks down the steps involved—from concept to plan to implementation to evaluation. It pinpoints the players (including both internal and external marketing agents, suppliers, and consultants) and departments (including creative, production, and media planning and buying departments) of the marketing function. The financial aspects— the marketing budget and return on investment—are also described.
- Chapter 15 presents an overview of the healthcare marketing research process. It describes the types, steps, and methods researchers undertake to collect data and information on markets, products, prices, promotions, and distributions. Geographic information systems, quantitative and qualitative research, and surveys and interviews are among the tools discussed.
- Chapter 16 offers a comprehensive look at marketing planning. It presents the common steps in the planning process and examples of how the steps are applied in real-world marketing scenarios.

- Chapter 17 examines the various types of marketing data and the sources of such data. It discusses the complications of mining and using patient and customer information under Health Insurance Portability and Accountability Act rules as well as the dimensions and traits that make data useful to healthcare marketers. Methods for generating population data and estimating demand in the absence of actual data are included, along with data compendia collected and released by the federal government.

Part V: The Future of Healthcare Marketing

- Chapter 18 summarizes where healthcare marketing is at present and where it is headed in the near future. The discussion revolves around the current trends and factors that are likely to influence the future characteristics of both healthcare and marketing.

HISTORY AND CONCEPTS

Part I places the field of marketing and its applications to healthcare in a historical context and introduces basic marketing concepts. Chapter 1 presents the history of healthcare marketing, chapter 2 introduces the terms and concepts used throughout the book, and chapter 3 describes the role of marketing in healthcare organizations.

THE ORIGIN AND EVOLUTION OF MARKETING IN HEALTHCARE

Since the notion of marketing was introduced to healthcare providers during the 1970s, the field has experienced periods of growth, decline, retrenchment, and renewed growth. This chapter reviews the history of marketing in the US economy and traces its evolution in healthcare over the second half of the twentieth century and the first two decades of the twenty-first century. The chapter then turns to the challenges marketers have faced in their efforts to gain a foothold in healthcare.

The History of Marketing

Marketing, as the term is used today, is a modern concept. The term was first used around 1910 to refer to what is now called *sales*. Marketing is also a uniquely American concept; the word has been adopted into the vocabularies of other languages that lack a word for this activity. Although the 1950s mark the beginning of the marketing era in the United States, the marketing function took several decades (in stages) to become established in the US economy, and marketers had to overcome a number of factors that slowed the field's development.

Many of these factors reflected economic characteristics carried over from the World War II period. In the 1950s, America was still in the Industrial Age, and the economy was production oriented until well after the war. Because all aspects of the economy were geared to **production**, the prevailing mind-set emphasized the producer's interests over the consumer's. This production orientation assumed that producers already knew what consumers needed. Products were made to the manufacturer's specifications, and then customers were sought. A "here is our product—take it or leave it" approach characterized most industries during this period.

The evolution of marketing took place in four stages.

production
A focus on generating (rather than distributing) goods that deemphasizes the role of marketing.

Stage 1: The Rise of Product Differentiation and Consumerism
A wide variety of new products and services emerged during the postwar period, particularly in consumer goods industries. Newly empowered consumers demanded a growing array of goods and services. This development

contributed to the emergence of marketing, for three main reasons. First, consumers had to be introduced to and educated about these new goods and services. Second, the entry of new producers into the market gave rise to a level of competition that was unknown before World War II. Mechanisms had to be developed to make the public aware of new products and to distinguish those products (in the eyes of potential customers) from those offered by competitors. Consumers had to be made aware of opportunities to purchase goods and then persuaded to buy a certain brand. Third, the standardization of existing products during this period contributed to the need to convince consumers to choose one good or service over another. When few differences existed between the products in a market, marketing became crucial. Marketers were enlisted to highlight and, if necessary, create differences between similar products.

As a result of these developments, the seller's market was transformed into a buyer's market. Once companies began to tap the consumer market, a highly elastic demand for many types of goods became evident. The prewar mentality had emphasized meeting consumer needs and assumed that a population could purchase a finite amount of goods and services. As discretionary income increased and consumer credit was introduced after World War II, consumers began to satisfy their wants. Fledgling marketers discovered that they could influence consumers' decision-making processes and create demand for certain goods and services.

culture
A society's tangible and intangible aspects reflecting its beliefs, values, and norms.

The acceptance of marketing was aided by changes in American **culture**. The postwar period was marked by an emphasis on consumption and acquisition. The frugality of the Great Depression gave way to a degree of materialism that shocked older generations. The availability of consumer credit and a mind-set that emphasized "keeping up with the Joneses" generated demand for a growing range of goods and services. This period witnessed the birth of the first generation of Americans with a consumer mentality.

By the 1970s, there was a growing emphasis on self-actualization in American culture. This development called for additional goods and services and even created a market for consumer health services (e.g., psychotherapy, cosmetic surgery). A consumer market with expanding needs, coupled with a proliferation of products, created fertile ground for marketing.

As American society underwent major transformations, change not only became accepted as inevitable but took on a positive connotation. An emerging future orientation underscored the importance of change in forging a path toward a better future. People began changing jobs, residences, and even spouses at faster rates. The social and economic advancement of each generation over the previous one became an expectation—a part of the American dream.

Stage 2: The Shifting Role of Sales

The second stage in the evolution of marketing focused on **sales**. Many US producers had enjoyed regional **monopolies** (or at least **oligopolies**) since the dawn of the Industrial Age. Under these conditions, sales representatives took orders from what were essentially captive **audiences**. Marketing would have been considered an unnecessary expense.

As competition increased in most industries after World War II, these regional monopolies began to weaken. Companies with new products took advantage of the growing economy and newly empowered consumers to compete with well-established companies. The notion of *marketing* as distinguished from *sales* emerged, and the "Mad Men" phenomenon was born.

The emphasis on sales persisted through the last third of the twentieth century, reflecting the residual production orientation of society. Sales representatives served as a bridge between the production economy and the service economy as they developed and maintained relationships with customers. Their role progressed from being "order takers" to serving as "consultants" to their clients, sending information from customers back to producers and facilitating the emergence of a market orientation in American business. Despite seismic shifts in the American economy, the emphasis on product sales overshadowed the nascent emphasis on marketing of services until at least the 1990s.

Stage 3: The Emergence of the Consumer's Point of View and the Service Economy

By the last quarter of the twentieth century, the industrial economy had given way to a service economy, and the production industries that remained became increasingly standardized. The shift from a product orientation to a service orientation represented a sea change for marketing. Service industries tend to be market driven, and American corporations began abandoning their outdated mind-set in favor of a market orientation. For the first time, progressive managers in a wide range of industries sought to determine what consumers wanted and then strived to fulfill those needs. This shift opened the door to marketing research and the exploitation of consumer desires by professional marketers. The new market-driven firms adopted an outside-in way of thinking that viewed service delivery from the customer's point of view.

The emergence of the service economy had important implications for both marketing and healthcare. Services are distinguished from goods in that they are generally consumed as they are produced and cannot be stored or taken away. The marketing of services is different from the marketing of goods, presenting a different set of challenges for marketers in any field, including healthcare. A different mind-set accompanied by new promotional approaches to the marketing of services had to be developed as the United States became a service-oriented economy.

sales
An approach to business that emphasizes transactions rather than promotions.

monopoly
Control of the total market for a good or service by one organization.

oligopoly
Domination of a market or an industry by a few organizations.

audience
People or organizations that read, view, hear, or are otherwise exposed to a promotional message.

Stage 4: The Rise of the Electronic Age

At the turn of the twenty-first century, healthcare marketing—like marketing in other sectors of the economy—experienced an electronic revolution. Electronically empowered consumers could now research, compare, and buy health-related products on the internet and, with the advent of social media, instantaneously share their healthcare experiences and opinions. In addition, consumers could consult websites for information on medical conditions, healthcare providers, and healthcare facilities. Healthcare organizations, too, increasingly began to incorporate electronic health records and other secure data systems into their operations. Healthcare organizations also started interacting with their patients online—for example, through websites, blogs, and social media.

Social media platforms such as Facebook—through profiles "owned" by an organization, a provider, or an individual consumer—have become forums for consumers to discuss the quality of care at a facility, a doctor's characteristics or expertise, general information about a provider or a group, disease symptoms and diagnoses, treatment options, pricing or cost of services, and healthcare industry news. For example, when the **Patient Protection and Affordable Care Act (ACA)** was enacted in 2010, social networks were abuzz with information (and misinformation) on the healthcare reform's provisions and implementation. (Chapter 13 is devoted to social media, reflecting its ascendancy in American society.)

Patient Protection and Affordable Care Act (ACA) Legislation enacted in 2010 that aimed to expand health insurance coverage and improve healthcare delivery and quality.

The Introduction of Marketing in Healthcare

Healthcare did not adopt marketing approaches to any significant extent until the 1980s, although some healthcare organizations in the retail and supplier sectors had long employed marketing techniques to promote their products. Long after other industries had adopted marketing, these activities were still uncommon among organizations involved in patient care.

Nevertheless, some precursors to marketing were well established in the industry. Every hospital and many other healthcare organizations had long-standing public relations functions that disseminated information about the organization and announced new developments (e.g., new staff, equipment purchases). Public relations staff worked mainly with the media—issuing press releases, responding to requests for information, and dealing with reporters when a negative event occurred.

Most large provider organizations also had communications functions, often under the auspices of the public relations department. Communications staff developed materials to disseminate to the public and to the employees

of the organization, such as internal newsletters and, later, patient-oriented educational materials.

Some of the larger healthcare organizations also established government relations offices. Government relations staff were responsible for tracking regulatory and legislative activities that might affect the organization, interfaced with government officials, and acted as lobbyists when necessary. Government relations offices frequently became involved in addressing the requirements of regulatory agencies.

Healthcare organizations of all types undertook informal promotional activities to an extent. Hospitals sponsored health education seminars, held open houses at new facilities, and supported community events. Hospitals marketed themselves by making their facilities available to the community for public meetings and otherwise attempting to be good corporate citizens. Physicians marketed themselves through such activities as networking with colleagues in social and professional settings, sending letters of appreciation to referring physicians, and providing services to high school athletic teams.

The Evolution of Healthcare Marketing

The periods through which marketing has evolved in the healthcare setting are outlined in this section. Exhibit 1.1 summarizes the implications of this evolution for the hospital industry.

The 1950s

Although the 1950s are often viewed as the "age of marketing," marketing did not appear on healthcare's radar until several decades later. The emerging pharmaceutical industry, however, was beginning to market to physicians, and the fledgling insurance industry had begun to market **health plans** to consumers. Hospitals and physicians, for the most part, still considered marketing to be inappropriate and even unethical. This stance, however, did not preclude hospitals from offering free educational programs or implementing

health plan
Public or private medical insurance.

Business orientation	Organizational goal	Desired outcome
Production	Produce quality product	Deliver quality care
Sales	Generate volume	Fill hospital beds
Marketing	Satisfy consumer needs and wants	Satisfy consumer needs and wants

EXHIBIT 1.1
The Evolution of Marketing in Healthcare

public relations campaigns, nor did it prevent physicians from cozying up to potential referring physicians and networking with colleagues.

Since the demand for physician and hospital services was considered inelastic, little attention was paid to the characteristics of current patients or prospective customers. The emphasis was on providing quality care, and most providers held monopolies or oligopolies that shielded them from competition within their markets.

The 1960s

As the health services sector expanded during the 1960s, the role of public relations also grew. Although the developments that would force hospitals and other healthcare organizations to embrace marketing were at least a decade away, the public relations field was flourishing as the healthcare organization's primary means of maintaining contact with its constituents.

not-for-profit
An organization granted tax-exempt status by the Internal Revenue Service.

The stakeholders of this period were primarily the physicians who admitted or referred patients to healthcare facilities and, in the case of **not-for-profit** organizations, the donors who made charitable contributions. Consumers were not considered an important constituency because they did not directly choose hospitals but were referred by their physicians.

electronic media
Media that transmit content electronically, such as radio, television, and the internet.

Print was the medium of choice for communications throughout the 1960s, despite the increasingly influential role of **electronic media** (e.g., television and radio) for marketing in other industries. This era was marked by polished annual reports, informational brochures, and publications targeted to the community. Healthcare communications became a well-developed function, and hospitals continued to expand the role of public relations.

Some segments of the healthcare industry that were not involved in patient care entered the sales stage (stage 2 in the evolution of the marketing function) during this decade. For example, pharmaceutical companies and insurance plans established sales forces to promote their drugs to physicians and market insurance plans to employers and individuals, respectively.

Medicare
The federal health insurance program for Americans aged 65 or older.

Medicaid
The joint federal–state health insurance program for low-income individuals.

Significantly, the 1960s witnessed the introduction of the **Medicare** and **Medicaid** programs during the administration of President Lyndon B. Johnson. The operation of these two programs had a major impact on medical practice patterns and, ultimately, the nature of the healthcare system. The Medicare program was designed to provide coverage for senior citizens, with all Americans automatically enrolled in this federally administered program at age 65. The Medicaid program is a joint federal–state program designed to cover low-income patients who would not otherwise have access to health services. Between the two programs, the federal government accounts for about one-third of the expenditures for medical care, while the states provide matching funds for (and administer) the Medicaid program. It has been suggested that the introduction of Medicare had a

greater influence on practice patterns in the US healthcare system than any other single development.

The 1970s

By the 1970s, competition for patients among hospitals was heating up. The desire for greater market presence was reinforced by the growing conviction that, in the future, healthcare organizations would need to be able to attract customers. The for-profit hospital sector grew in importance during the 1970s. With few limits on reimbursement, both not-for-profit and for-profit hospitals expanded their services. Continued high demand for health services and the stable payment system created by Medicare made the industry attractive to investor-owned companies. Numerous national for-profit hospital and nursing home chains emerged during this period.

Some early attempts at **advertising** health services were made, and interest in marketing research began to emerge. The marketing movement in healthcare was given further impetus by rulings that relaxed restrictions on advertising for healthcare providers, which previously had been imposed by regulatory agencies.

advertising
Any paid form of presentation or promotion of ideas, goods, or services.

For hospitals, the marketing era began in the mid-1970s, spurred by changes in reimbursement practices. Under the system of cost-based reimbursement (e.g., Medicare), competition with other hospitals had not been a major concern. However, once hospitals recognized that patients might play a role in the hospital selection decision, their appreciation for marketing increased. By the mid-1970s, some hospitals adopted mass advertising strategies to promote their programs.

The marketer's goal was to convince prospective patients to use a particular hospital when presented with a choice between competing providers (Berkowitz 2016). Communications began to target patients, and patient satisfaction research grew in importance. Even so, marketing in the sense of managing the flow of services between an organization and its customers was still not a recognized function of most healthcare organizations.

The 1980s

If healthcare marketing was born in the 1970s, it came of age in the 1980s. The healthcare industry had evolved from a seller's market to a buyer's market, a change that would have a profound effect on the marketing of health services. Employers and consumers had become purchasers of healthcare, and the physician's role in referring patients for hospital services was beginning to diminish. The hospital industry continued to grow during the 1980s, as centrally managed health systems (both for-profit and not-for-profit) expanded and national chains of hospitals, nursing homes, and home health agencies were established.