of prestige. If prestige could be gained through having the best doctors, the latest equipment, and the nicest facilities, these factors needed to be conveyed to the general public.

- **Attracting medical staff and employees.** As the healthcare industry expanded, competition for skilled workers increased. Hospitals and other healthcare providers needed to promote themselves to potential employees by marketing the superior benefits they offered to recruits.

- **Serving as an information resource.** As healthcare became more complex and the array of services offered by healthcare organizations grew, these organizations needed to constantly inform the general public and the medical community about the products they had to offer. Whether through press releases or recorded telephone announcements, there was growing pressure to get the word out.

- **Influencing consumer decision making.** Once healthcare organizations realized that consumers had a role to play in healthcare decision making, the role of marketing in influencing this process became recognized. Whether it involved convincing consumers to decide on a particular organization’s services or to speed up the decision-making process, marketing was becoming increasingly important.

- **Offsetting competitive marketing.** Once healthcare organizations realized their competitors were adopting aggressive marketing approaches, they began to adopt a stance of defensive marketing. They felt compelled to respond to the gambits of competitors by out-marketing them.

### Healthcare Marketing Comes of Age

What evidence exists today that the healthcare industry has accepted marketing as a legitimate function? Beyond the traditional marketing-oriented sectors (e.g., pharmaceuticals, consumer products, health plans), have healthcare organizations embraced marketing? A number of indicators attest to this acceptance.

The industry has witnessed a continuous, if unsteady, advance in the role and status of marketing over the past 25 years. During the period after World War II, the concept of marketing was unknown in healthcare. The public relations role was expanded over time, and communications and government relations functions were added. By the late 1970s, formal marketing activities were being initiated, and advertising on the part of healthcare providers was becoming common. Even during the 1980s, however, many still saw marketing as an external function—not something inherent to healthcare, but a supportive service that was used when needed.
By the end of the 1980s, marketing was being incorporated into the structure of healthcare organizations. Marketing departments were being established, and marketing expenses were being factored into organizational budgets. Marketers were being promoted and became managers, directors, and, ultimately, vice presidents. Marketing was moving from the periphery of the organization to the boardroom. Once technical resources who were consulted as needed, marketers were becoming full partners in the corporate decision-making process. The most progressive healthcare organizations developed a marketing mind-set to ensure that marketing was a consideration in every initiative and that marketers provided input on the direction of the enterprise.

A 2007 Society for Healthcare Strategy and Market Development (SHSMD) survey of nearly 300 hospitals found that hospital marketing departments averaged 4.9 staff members and budgets of $1.2 million. Larger hospitals reported an average of 10 staff members and budgets near $3 million. Most marketing executives were at the director or vice president level of the organization, with over one-third of marketing managers holding the title of vice president or senior vice president (SHSMD 2008). Another SHSMD study of 833 marketing, communications, and strategy staff reported that marketing executives earned an average annual salary of $149,575 in 2008. This figure compares favorably to the compensation of healthcare executives in other departments (SHSMD 2009).

The importance of marketing in healthcare is also reflected in the emergence of publications devoted to the topic, including *Marketing Health Services*, the healthcare journal of the American Marketing Association, and *Health Marketing Quarterly*. Articles on healthcare marketing regularly appear in other marketing journals as well. Numerous newsletters are devoted to healthcare marketing or some component of it, such as health communications or public relations.

Associations devoted to healthcare marketing have been established, such as SHSMD. The American Marketing Association has an active healthcare marketing division, and one of its eight special interest groups is devoted to healthcare.

Textbooks on healthcare marketing began appearing in the 1980s, and healthcare marketing courses are part of the marketing curriculum in many U.S. universities. Courses on the topic are now standard in healthcare administration programs. Numerous universities and other training programs offer specialized training programs on various aspects of healthcare marketing.

These developments reflect the growing importance of marketing in the healthcare arena and its changing role. The ways in which marketing is being transformed as it matures in the healthcare industry will be discussed throughout this book.
Summary

Since the concept of marketing was introduced to healthcare providers in the 1970s, the field has undergone periods of growth, decline, retrenchment, and renewed growth. Initial resistance to healthcare marketing had to be overcome by an industry that was primarily not-for-profit and averse to self-promotion. The healthcare industry is unique in a number of ways, and numerous barriers prevented the immediate acceptance of marketing as an essential function.

Healthcare organizations slowly adopted marketing concepts and techniques from other industries and eventually developed approaches more suited to the unique nature of healthcare. Early on, marketing was often equated with advertising, so many healthcare organizations mounted major advertising campaigns during the 1980s. Realizing the limitations of advertising in a service industry, healthcare organizations added direct-sales capabilities and technology-based marketing approaches to supplement the more traditional public relations and communication marketing techniques.

Over time, a new generation of health professionals more oriented to business principles emerged. Marketing departments were established, positions were carved out for marketing directors and vice presidents, and marketing became an accepted part of healthcare administration. By the 1990s, most healthcare organizations had active marketing programs, and marketers were brought into the inner circle, converting marketing from an external activity to a core function of a progressive healthcare organization.

Key Points

- Although American industry accepted marketing in the 1950s, a number of factors prevented the healthcare industry from adopting marketing initially.
- The pioneers in healthcare marketing can be traced back to the 1970s, but marketing was not widely accepted as a legitimate function for healthcare organizations until much later.
- Early on, there were no experienced healthcare marketers, and marketing experts had to be imported from other industries.
- Changes in the healthcare arena during the 1980s (particularly the increase in competition) resulted in a surge of interest in marketing.
- Once health professionals accepted marketing, the field underwent various stages of growth and contraction in response to market developments.
Initially, marketing was often equated with advertising, and organizations underwent considerable trial and error before accepting other promotional techniques.

By the 1990s, healthcare marketing was maturing as a field, and a new generation of hospital administrators and healthcare marketers was on board.

By the turn of the twenty-first century, healthcare organizations had come to consider marketing an essential function for healthcare organizations, and marketing resources were increasingly wed to strategic planning and development efforts.

**Discussion Questions**

- Why didn’t healthcare professionals consider marketing to be important until the 1980s?
- What factors mitigated against the introduction of marketing into healthcare?
- Why do health professionals view marketing in a different way than their counterparts in other industries do?
- How do ethical and legal constraints affect marketing in healthcare more than in other industries?
- What factors ultimately forced the incorporation of marketing into healthcare?
- Why is today’s healthcare environment more hospitable to marketing and marketers than past environments were?
- What indicators attest that marketing has matured as a legitimate function in the healthcare field?

**Additional Resources**

American Marketing Association website: www.marketingpower.com

*Health Marketing Quarterly* (periodical): Published by The Haworth Press

*Marketing Health Services* (periodical): Published by the American Marketing Association

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The evolving Societal and Healthcare Context

Several developments in U.S. society and in healthcare over the last quarter of the twentieth century laid the foundation for the emergence of healthcare marketing. Current trends in healthcare have now brought marketing to center stage. Changes in demographic characteristics, lifestyles, and other population attributes have all contributed to the growing importance of healthcare marketing. Trends in the healthcare arena that are anticipated to continue for the foreseeable future indicate that the role of marketing in healthcare is growing. This chapter reviews recent developments in U.S. society and the healthcare system and discusses the implications for healthcare marketing.

The Emergence of Healthcare as an Institution

No two healthcare delivery systems are exactly alike. A healthcare system can be understood only within the sociocultural context of the society in which it exists. Differences between healthcare systems are primarily a function of this context. The social structure of a society, along with its cultural values, establishes the parameters for the healthcare system. In this sense, the form and function of the healthcare system reflect the form and function of the society in which it resides. Ultimately, the development of marketing in healthcare (or any industry) reflects the characteristics of both that industry and that society.

Social Context and Governance

American society (or any society for that matter) can be viewed as a system, or an assemblage of parts combined in a complex whole. Each part is interconnected directly or indirectly, and, thus, all are interdependent. These parts, working in concert, create a dynamic, self-sustaining system that maintains a state of equilibrium. The parts perform their respective functions, and each component must work in synchronization with the others if the system
is to function efficiently and remain viable. These major components can be thought of as institutions, the intangible structures involving patterns of behavior directed toward accomplishing societal goals.

The goals of society reflect the needs every social system must address. Every society must perform certain functions: reproduce new society members, socialize the new members, distribute resources, maintain internal order, provide for defense, deal with spiritual/religious issues, and provide for the health and well-being of the population. Organizational structures (institutions) evolve to meet each of these needs. Some form of family evolves to manage reproduction, some form of educational system develops to deal with socialization, some form of economic system emerges to deal with the allocation of resources, and so forth. Likewise, a healthcare/social services system of some type evolves to ensure the health and welfare of the population. Because healthcare was dependent on a certain level of knowledge and technological progress to be able to fully develop, it was one of the slowest U.S. institutions to be formally established.

Like other institutions, healthcare sets forth rules that guide the behavior of individuals in the institutional context. For example, there are guidelines for living a long, healthy life. If citizens don’t follow these rules, they risk sickness and early death. These guidelines are often codified in the form of doctor’s orders. Because individuals in a free society cannot be forced to live a healthy lifestyle, the healthcare institution invokes legal and regulatory contrivances to enforce its requirements. Thus, people are generally required to obtain certain childhood immunizations, addicts may be required to enter rehabilitation, and patients with contagious diseases can be isolated from the rest of the population.

On another level, there are rules stating that patients must have insurance before being treated by certain healthcare providers, that health plan members must meet certain requirements in order to reduce their insurance premiums, and that people involved in risky activities must pay higher prices for insurance. Although there is no systematic plan for encouraging or discouraging health-related behaviors, various parties, appearing to act in their self-interest, work toward the goals of the healthcare institution by promulgating such rules.

Adaptability and Change

Despite the permanence institutions achieve in society, they must also have the flexibility to adjust to changing conditions. No other institution has undergone the rapid changes that healthcare experienced during the twentieth century. At the start of that century, healthcare was a rudimentary institution with limited visibility and little credibility. Hospitals were perceived as places where people went to die, and doctors were to be avoided at all costs. Indeed,
there was little doctors could do for patients anyway. There was no agreement on the nature of health and illness, and scientists were only beginning to understand the effects of various therapeutic approaches. Healthcare was not even on the national radar screen for the first half of the twentieth century, and it accounted for a negligible amount of the gross national product.

By the end of the twentieth century, however, not only had the institution become well established in the United States, but it had also come to play a dominant role in U.S. society. The importance of the institution was such that sociologists often referred to the medicalization of American society. Few members of contemporary U.S. society are not under some type of medical management. In the last half of the twentieth century, the institution came to be accorded high prestige and to exert a major influence over other institutions. At the beginning of the twenty-first century, the healthcare institution claimed approximately 11 percent of the nation’s workforce and 15 percent of the gross national product, a share that is expected to continue to grow (AAHC 2006).

**Formal Organization and Scope of Influence**

The ascendancy of the healthcare institution in the twentieth century was given impetus by the growing dependence on formal organizations of all types. The industrialization and urbanization of the United States reflected a transformation from a traditional, agrarian society to a complex, modern society in which change, not tradition, was the central theme. In such a society, formal solutions to societal needs take precedence over informal responses.

Healthcare provides possibly the best example of this emergent dependence on formal solutions because it is an institution whose very development was a result of this transformation. People in the nineteenth century would have considered formal healthcare to be the last resort when faced with sickness and disability. Few of them ever entered a hospital or regularly saw a physician. Today, in contrast, the healthcare system is often seen as the first resort when health problems arise. Traditional, informal responses to health problems have given way to complex, institutionalized responses. Healthcare has become entrenched in the fabric of American life to the point that Americans turn to it not only for clear-cut health problems but also for a broad range of psychological, social, interpersonal, and spiritual problems.

By any measure, healthcare could be considered a dominant institution in contemporary American society. Other institutions, such as the political institution, the military, and the arts, receive comparatively fewer resources. Further, Americans have become increasingly obsessed with their health. On public opinion polls, respondents frequently cite health as one of their most pressing personal concerns and healthcare as a leading national concern. Exhibit 2.1 displays trends in healthcare as a proportion of the nation’s gross national product.
The size of the healthcare institution has attracted substantial resources from other industrial sectors, and healthcare is an unavoidable issue in political campaigns. The pharmaceutical industry, insurance industry, American Medical Association, and American Hospital Association are major political lobbying groups. Further, much of the educational system is devoted to training health personnel. The fact that the federal government has become responsible for 60 percent of personal healthcare expenditures attests to the influence of healthcare on the central government.

Americans increasingly turned to the healthcare institution in the late twentieth century as the solution for a wide range of social, psychological, and even spiritual issues, and physicians came to be regarded as experts on virtually any human problem. This expansion of scope is evidenced by the fact that less than half of the people in a general practitioner's waiting room suffer from a clear-cut medical problem. They are there because of emotional disorders, sexual dysfunction, social adjustment issues, nutritional problems, or some other nonclinical threat to their well-being. Even though physicians are generally not trained to deal with these conditions, the healthcare system is seen as an appropriate place to seek solutions to these and other nonmedical maladies.

**Media Coverage**

Another indicator of healthcare’s dominance is the amount of media airtime devoted to health-related topics. Americans continue to be deluged by advertisements for all kinds of consumer goods, and over the past 20 years, there has been an explosion of advertisements and paid programming related to
health, beauty, and fitness. Television commercials for health products and services are ubiquitous. Paid programming featuring fitness training and cable television channels devoted solely to health issues indicate the extent to which the healthcare institution has gained ascendancy. In a few short years, healthcare marketing in the media has grown from a nonentity to a major presence in both print and electronic media.

The rise of healthcare marketing in the media has been accompanied by the enormous growth of healthcare information on the Internet. According to some estimates, there are more sites devoted to healthcare than to any other topic. More and more healthcare consumers are turning to the Internet for their healthcare information, and the health-related content of the Internet is playing an increasing role in consumer decision making. Consumer interest in cyber-information has been accompanied by increased use of Internet-based marketing on the part of healthcare organizations. Once considered a mechanism only for providing information about hospitals, health plans, pharmaceutical companies, and consumer products companies, the Internet has now become a medium for aggressive marketing of healthcare goods and services.

All things considered, healthcare was the up-and-coming institution of the second half of the twentieth century. The growing significance of health for consumers’ personal lives and healthcare’s growing role in the public arena cannot be denied. Indeed, many corporations have indicated that health benefits are one of their single largest costs. The increasing involvement of U.S. citizens in the use of health services and the annual per capita expenditures on healthcare set the United States apart from other countries and are reflected in the growing importance of healthcare marketing.

The Cultural Revolution and Healthcare

The restructuring of U.S. institutions during the twentieth century was accompanied by a cultural revolution that resulted in an extensive value reorientation in American society. The values associated with traditional societies, such as kinship, community, authority, and primary relationships, were overshadowed by the values of modern industrialized societies, such as secularism, urbanism, and self-actualization. Ultimately, the restructuring of American values was instrumental in the emergence of healthcare as an important institution.

The modern values that emerged in the United States after World War II supported the development of an institutional structure that would subsequently spawn the development of modern Western medicine. These values shifted the emphasis in American society to economic success, educational achievement, and scientific and technological advancement and supported the ascendancy of healthcare as a dominant institution.
Implicit throughout the evolution of the U.S. healthcare system has been the importance of economic success, as the U.S. healthcare system has emerged as the only for-profit healthcare system in the world. Today, the profit motive remains strong as for-profit national chains have absorbed much of the nation’s health services delivery capacity. This free-enterprise aspect of healthcare is intrinsically linked to other American values, such as freedom of choice and individualism.

Other values became important as American culture evolved in the twentieth century. Change became recognized as a value in its own right, and Americans eagerly embraced changes in residences, jobs, partners, and lifestyles. At the same time, an activist orientation emerged that called for a proactive approach to all issues, and the aggressive approach taken by Americans faced with health problems reflects this activist orientation.

The conceptualization of health as a distinct value in U.S. society represented a major development in the emergence of the healthcare institution. Before World War II, health was generally not recognized as a value by Americans but was vaguely tied to other notions of well-being. Public opinion polls before the war did not identify personal health as an issue for the U.S. populace, nor was healthcare delivery considered a societal concern. By the 1960s, however, personal health had climbed to the top of public opinion polls as an issue, and the adequate provision of health services became an important issue in the mind of the American public (Thomas 2003b). By the last third of the twentieth century, Americans had become obsessed with health as a value and with the importance of institutional solutions to health problems.

Once health became established as a value, it was a short step to establishing a formal healthcare system as the institutional means of achieving that value. An environment was created that encouraged the emergence of a powerful institution that supported many other contemporary American values. Some values, like the value placed on human life, were considered immutable. The ethos promoted by the emerging scientific, technological, and research communities contributed to the growth of the industry. The value that Americans came to place on youth, beauty, and self-actualization further contributed to the expanded role of healthcare. The ability of the nascent healthcare system to capitalize on emerging U.S. values and garner support from the economic, political, and educational institutions ensured the emergence of an increasingly influential healthcare system.

The Changing Societal Context

The twentieth century spawned a dependence on formal institutions of all types, and this created a favorable environment for the rise of a strong
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healthcare system. Just as Americans had turned to formal educational, political, and economic systems for meeting their social needs, they began to turn to a formal healthcare system to meet their health-related needs. The transformation of American society in the twentieth century clearly affected the provision of healthcare, as the traditional managers of sickness and death—the family and the church—gave way to more formal responses to health problems. The health of the population became the responsibility of the economic, educational, and political systems and, eventually, of a fully developed and powerful healthcare system. Traditional, informal responses to health problems gave way to complex, institutional responses. Home remedies, with their high-touch nature, could not compete in an environment that valued high-tech (and subsequently high-status) responses to health problems.

Demographic Trends

The U.S. population experienced a number of dramatic demographic trends during the last half of the twentieth century that contributed to changes in its composition. This demographic transformation may have been a major determinant of the needs the healthcare system had to address. The impact did not end simply with a different age distribution or racial composition but was reflected in the radically changed attitudes of healthcare consumers.

These demographic trends also triggered the epidemiologic transition that took place in the United States in the second half of the twentieth century. Throughout recorded history, acute health conditions were major health threats and the leading causes of death. Communicable, infectious, and parasitic conditions; accidents; complications of childbirth; and other acute conditions were ubiquitous in human society. At the beginning of the twentieth century, the leading causes of death were tuberculosis, influenza, and other communicable diseases.

As a result of the demographic transformation of the second half of the twentieth century, chronic conditions superseded acute conditions as the predominant form of health problem. Improved living conditions, better nutrition, and higher standards of living, accompanied by advances in medical science, reduced or eliminated the burden of disease from acute conditions. This void was filled, however, by the emergence of chronic conditions as the leading health problems and leading causes of death. People were living longer, but this older population was plagued by hypertension, arthritis, and diabetes, as well as numerous conditions that reflected the lifestyles that emerged in the American population in the postwar period.

The following sections focus on key demographic trends that helped drive changes in the healthcare environment and their likely implications for healthcare marketing.
The Changing Age Structure

The first and perhaps most important demographic trend is the U.S. population’s changing age distribution. The aging of America has been one of the most publicized demographic trends in history, and the implications of this trend on the demand for health services are especially significant.

Population growth in the older age cohorts (aged 55 or older), particularly among the oldest-old (aged 85 or older), is currently faster than that in the younger cohorts. The total population increased by an estimated 6.2 percent between 2000 and 2006, but the population aged 85 or over increased by more than 21 percent. As baby boomers enter middle age, the largest age cohort in the first decade of the twenty-first century is those aged 45 to 65. Several younger cohorts (e.g., those aged 25 to 34) have experienced virtually no growth since 2000 (U.S. Census Bureau 2009).

Among age-related factors, the movement of the huge baby boom cohort into middle age has the most significant implications for future healthcare demand. The first of some 77 million baby boomers turned 60 during the first decade of the twenty-first century. This cohort grew up in affluence and comfort, and baby boomers are used to having things, including their health, in working order. Now having to contend with the onset of chronic disease and the natural deterioration that comes with aging, their impact on the healthcare system is being increasingly felt. This cohort grew up during the marketing era and is more comfortable than any previous generation with healthcare marketing. Because baby boomers are savvy consumers, healthcare marketers will have to give them special consideration.

The nature of the future senior population will be determined to a great extent by the characteristics of the baby boomers. In fact, boomers have already influenced the healthcare delivery system in significant ways. This group is primarily responsible for the success of health maintenance organizations, birthing centers, urgent care centers, and outpatient surgery centers. Now it is driving the demand for a wide range of new services, such as laser eye surgery, skin rejuvenation, and menopause management. Because the golden years are a context for new and different lifestyles, boomers are determined to reinvent retirement. The changing age distribution also has important implications for the population’s ratio of males to females. Generally speaking, the older the population is, the greater the “excess” of females. Except for the youngest age groups, females outnumber males in every age cohort. Among seniors, females outnumber males two to one, and, at the oldest ages, there may be four times as many women as men. In 2006, the median age for women was 37.8 years, compared to 35.2 years for men. Further, 25.1 percent of the female population was aged 55 or older, compared to 21.0 percent of the male population. In 2006, there were an estimated 4.5
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million more women than men in the U.S. population (U.S. Census Bureau 2009).

These statistics on the female population have important implications for healthcare marketers. For one, the female healthcare market is considerably larger than the male market. Further, women are more aggressive users of health services than are men. Perhaps even more important, women bear much of the burden for healthcare decision making, not only for themselves but also for their families. They are also more likely to influence the health behavior of their peers.

Growing Racial and Ethnic Diversity
Another demographic trend that characterized American society during the last half of the twentieth century was increasing racial and ethnic diversity. The number of newcomers who immigrated to the United States from foreign countries during the 1990s broke century-old records. In addition, long-established ethnic and racial minorities are growing at faster rates than are native-born whites. The cumulative effect of the trends of the past several years has been a shrinking of the relative size of the white population (especially the non-Hispanic white population) and the growth of the African American, Asian, and Hispanic components of U.S. society. More important, by 2001, according to the U.S. Census Bureau, Hispanics had surpassed African Americans as a percentage of the U.S. population. As most population growth for the foreseeable future will be a function of immigration, the proportion of non-Hispanic whites in the population will continue to decline. A telling statistic is the fact that, in 2000, minorities accounted for more than 46 percent of children under five years old but accounted for only 37 percent of the total population (U.S. Census Bureau 2009).

Given that the U.S. healthcare system has historically been geared to the needs of the mainstream white population, the trend toward greater racial and ethnic diversity has major implications for the healthcare operations. Marketing activities must take into consideration the changing racial and ethnic characteristics of the population and the demands these changes will make on the system. Indeed, a subfield of healthcare marketing has developed that is devoted to marketing to ethnic groups and minorities.

Changing Household and Family Structure
The changing household and family structure is another demographic development characterizing U.S. society. This trend is no surprise to demographers, although it has seldom been linked to health issues. For decades, the family has been undergoing change. First it was high divorce rates, then it was fewer people marrying (and those who did marry were marrying at a later
age), and then it was fewer people having children (and those who did have children had fewer of them and at a later age).

In 2006, an estimated 50.1 percent of the U.S. population over age 15 years was married—a low figure by historical standards, and four points lower than the figure for 2000. Some 30.6 percent had never married, 12.7 percent were separated or divorced, and 6.4 percent were widowed. These figures for the unmarried all represent record highs (U.S. Census Bureau 2009).

These changes in marital status have had major implications for the structure of U.S. households. What is popularly considered the typical American family (i.e., 2 parents and 2.5 children) has become a rarity, accounting for only 24 percent of households in 2000. Today, the most common household form is married couples without children. Even so, this type of household accounts for less than 28 percent of the total. Nontraditional households have become the norm, and an unprecedented proportion of households are one-person households (U.S. Census Bureau 2009).

Changing patterns of marital status and household structure have important implications for health status and health behavior. Two-parent families, single-parent families, and elderly people living alone place different demands on, and require different responses from, the healthcare system. The continued diversification of U.S. household types for the foreseeable future is likely to require commensurate modifications to the healthcare delivery system. To a great extent, health services have been historically geared to the needs of traditional households involving two parents and one or more children. This orientation was encouraged by the extensive provision of employer-sponsored insurance that focused on the wage-earning head of household. In addition, traditional marketing approaches in other industries have focused on the family life cycle as a guide for the appropriate marketing approach. Future marketing initiatives must take into consideration the growing complexity of the U.S. household structure.

Changing Consumer Attitudes

Although patterns of consumer attitudes in U.S. society tend to be complex, a new orientation toward healthcare clearly emerged during the second half of the twentieth century. The “patient” was transformed into a “customer,” creating a new entity who had the combined expectations of a traditional patient and a contemporary customer. This consumer was more knowledgeable about the healthcare system, more open to innovative approaches, and more intent on playing an active role in the diagnostic, therapeutic, and health maintenance processes than any previous generation had been.

These new attitudes were fostered by the baby boomers, a cohort that is now facing the chronic conditions associated with middle age. This group
has been influential in limiting the discretion and control of physicians and hospitals and has provided the impetus for the rise of alternative therapy as a competitor to mainstream allopathic medicine.

The baby boom population favors a more patient-centered approach to healthcare and is more likely to emphasize its nonmedical aspects. In general, baby boomers are less trusting of professionals and institutions and are control oriented to the point of stubbornness. This group is more self-reliant than previous generations, places greater value on self-care and home care, and is outcome oriented and cost sensitive. This generation prides itself in getting results and extracting value for its expenditures. Although baby boomers began influencing the healthcare system by “voting with their feet” (i.e., switching to new types of providers) during the 1980s, they are increasingly assuming positions of power that allow them to influence the shape of the healthcare landscape.

To a certain extent, these new attitudes toward healthcare reflect the rise of consumerism that is affecting all segments of society. Seeing themselves as customers rather than patients, these new consumers expect to receive adequate information, demand to participate in healthcare decisions that directly affect them, and insist that they receive the highest-quality care possible. These consumers want to receive their healthcare close to their homes, with minimal interruption to their family life and work schedules. They also want to maximize the value they receive for their healthcare expenditures. The transformation of baby boomers from patients to consumers clearly has significant implications for healthcare marketing.

Healthcare Developments

The trends affecting U.S. society during the second half of the twentieth century were accompanied by a number of significant healthcare developments. During the 1980s and 1990s, America experienced a major transformation in the delivery and financing of healthcare. A new generation of therapeutic techniques and pharmaceuticals was introduced. The delivery of healthcare shifted to a great extent from inpatient settings to outpatient settings, and the manner of financing healthcare was modified as managed care became a dominant feature of the healthcare landscape.

At the same time, the healthcare institution experienced shifting power relationships. The unfettered influence of the physician was challenged by other competing providers, and third-party payers increasingly set the parameters for reimbursement and, hence, the delivery of care. Employers, who were bearing most of the cost of private insurance, began to play a more active role and brought numerous changes to care delivery.
The physician’s high and unassailable status had come into question by the end of the twentieth century as evidence of the fallibility and limitations of medical care mounted. The increasing number of women and foreign-trained physicians in the medical profession also changed the image of the physician. Baby boomers, armed with information from the Internet, influenced the shift away from the dependent patient to an aggressive consumer-patient who demanded a role in the therapeutic process.

The changes in healthcare in the 1980s and 1990s were numerous and dramatic and transformed the healthcare industry of the early 1980s into a different creature. These changes also had significant implications for healthcare marketing. Space does not allow a review of all of the changes that occurred during this time, but some of the more important ones are described in the following sections, along with their significance for healthcare marketing.

**Growing Competition**

During the 1980s, healthcare providers were exposed to unprecedented competition on a number of fronts. For the first time, healthcare providers were forced to profile their customers so they would be able to determine their needs. They also had to understand their competition and develop a level of market intelligence never dreamed of in the past. Most observers would agree that the emergence of competition has been a major driver of healthcare marketing.

**A Shift of Emphasis from Inpatient Care to Outpatient Care**

At one time, medical care was synonymous with inpatient care, and hospitalization was often a prerequisite before insurance coverage would kick in. By the 1980s, however, numerous factors were discouraging the use of inpatient care. Hospitals had to rapidly understand changing market conditions and position themselves to capture the growing outpatient market. Hospitals had to think in terms of a different approach to marketing as the traditional patterns of physician referral for inpatient care were deemphasized and consumerism emerged as a force in the system.

**A Shift of Emphasis from Specialty Care to Primary Care**

Historically, hospitals have relied on the medical specialists on their staffs to admit patients and generate their revenue. By the late 1980s, industry forces were encouraging the use of primary care physicians rather than specialists. Hospital systems had to examine their referral patterns and revise their thinking with regard to primary care physicians. Hospitals began to actively court family practitioners, internists, and pediatricians; marketers had to develop a means of showcasing the primary care capabilities of hospitals to consum-
ers and health plans. Although reimbursement still favors specialists, primary physicians are expected to play a greater role in the future healthcare system.

The Emergence of Employers as Major Players in the Industry

After World War II, employers began offering health insurance to their employees and passively footed the bill for their medical expenses. By the mid-1980s, however, employers were taking a more active role in managing their employees’ health benefits. Suddenly, healthcare providers found they had a new customer with a set of needs that was different from that of their traditional customers. Business coalitions emerged to negotiate with healthcare providers from a position of strength, and the health benefit costs borne by employers became a major driver of healthcare reform.

An Increasingly Market-Driven Industry

Until the healthcare industry became market driven in the 1980s, patients’ opinions were seldom considered important. All of a sudden, however, healthcare providers needed to know what the patient liked and did not like about the services provided. Patient satisfaction surveys became commonplace, and patients started rating the performance of providers and health plans with report cards. Marketers were called on not only to identify the wants and needs of the market but also to provide consultation on ways to improve customer satisfaction.

The Emergence of Managed Care as a Dominant Force

The emergence of managed care as a major force essentially changed the ground rules for healthcare providers. The patient had been transformed into an enrollee or a plan member. Instead of searching for sick patients who would require health services, marketers were encouraged to identify healthy persons who would not run up costs by using a lot of services. Healthcare providers participating in managed care plans had to shift their focus from treatment and cure to health maintenance. Managed care plans developed marketing expertise to capture the employer market, and managed care negotiations came to be considered a marketing function by many health systems.

The Changed Nature of the Decision Maker

Before the marketing era in healthcare, physicians made most decisions, and consumers had limited control over their medical episodes. Later, health plans began exercising inordinate influence over the use of health services as their enrollees were directed to specific provider networks. During the 1990s, consumers began to wield considerable influence as consumer choice began to characterize the industry, and changes in the nature of health benefits brought a new perspective to healthcare marketing. Each of these developments had
implications for marketers as the focus shifted from physician to health plan to consumer. Pharmaceutical companies and health plans, which had traditionally marketed to intermediaries, began focusing on consumers.

The Redefinition of Medical Care as Healthcare

Most observers of the healthcare scene contend that the overarching development in healthcare of the 1980s and 1990s was the paradigm shift from an emphasis on medical care to an emphasis on healthcare (see Exhibit 2.2). The broader concept of “healthcare” was replacing the narrower concept of “medical care.” The latter focused almost exclusively on the clinical aspects of care, while the former also considers social and psychological factors. As health and healthcare took on broader connotations, the role of the marketer increased in importance.

EXHIBIT 2.2
From Medical Care to Healthcare

Since the 1970s, there has been a movement away from medical care toward healthcare. The growing awareness of the connection between health status and lifestyle and the realization that medical care is limited in its ability to control the disorders of modern society have prompted a move away from a strictly medical model of health and illness to one that incorporates more of a social and psychological perspective. Originally noted by Engel (1977), this paradigm shift in which “medical care” was redefined as “healthcare” gained momentum during the 1980s and 1990s.

Medical care is narrowly defined in terms of the formal services provided by the healthcare system and refers primarily to those activities that are under the control of a physician. This concept focuses on the clinical or treatment aspects of care and excludes the nonmedical dimension. Healthcare refers to any function that might be directly or indirectly related to preserving, maintaining, and/or enhancing health status. This concept includes not only formal activities (such as visiting a health professional) but also such informal activities as preventive care (e.g., brushing teeth), exercise, proper diet, and other health maintenance activities.

Since the beginning of the twentieth century, the dominant paradigm in Western medical science has been the medical model of disease. Built on the germ theory formulated late in the nineteenth century, the medical model provided an appropriate framework within
which to address and respond to the acute health conditions prevalent well into the twentieth century. By the 1970s, however, enough anomalies had been identified to bring the prevailing paradigm into question. Despite the ever-increasing sophistication of medical technology, the importance of the nonmedical aspects of care was increasingly recognized.

Clearly, the epidemiologic transition, by which acute conditions were displaced by chronic disorders, has played a major role. As acute conditions waned in importance and chronic and degenerative conditions came to the forefront, the medical model began to lose some of its salience. Once the cause of most health conditions ceased to be environmental microorganisms and became aspects of lifestyle, a new model of health and illness was required. The chronic conditions that had come to account for most health problems did not respond well to the treatment-and-cure approach of the medical model. Chronic conditions could not be cured but had to be managed over a lifetime, and this called for a quite different approach.

Independent of this trend, patients had been expressing growing dissatisfaction with the operation of the healthcare system. The traditional approach to care was not a comfortable fit with the attitudes baby boomers were bringing to the doctor’s office. This population, more than any other group in U.S. society, has led the movement toward the changing emphasis in healthcare. This cohort emphasizes convenience, value, responsiveness, patient participation, and other attributes not traditionally incorporated into the medical model. Further, the runaway costs of the system have led all observers to question the wisdom of pursuing the one-size-fits-all approach to solving health problems that is traditional in medical care.

The transition from medical care to healthcare has affected every aspect of care from the standard definitions of health and illness to the manner in which healthcare is delivered. Health status is now defined as a continuous process rather than in terms of a specific episode of care. Causes of ill health are now sought in the environment and the patient’s social context as often as under the microscope. The importance of the nonmedical component of therapy has come to be recognized to the point that fathers are now allowed to participate in childbirth and families are encouraged to participate in the treatment of cancer patients. This paradigm shift calls for a significant change in the manner in which healthcare organizations structure their marketing activities.
The Redefinition of the “Patient”

Of all the developments in healthcare during the 1980s and 1990s, perhaps the one with the most implications for healthcare marketing was the reconceptualization of the patient. By the end of the twentieth century, fewer health professionals were using the term patient because of its narrow connotation. Patients came to be referred to as clients, customers, consumers, or enrollees. The major consideration, regardless of the label applied, was the fact that clients, customers, consumers, and enrollees all had different characteristics from patients. While the term patient implies a dependent, submissive status, each of the other terms implies proactive involvement in the therapeutic process. Ultimately, this development made healthcare marketing more similar to the marketing activities of other industries, as the consumer of the product became, for the first time, the focus of the healthcare marketer. The emphasis healthcare marketers placed on “consumer engagement” in the early part of the twenty-first century reflects the growing need for marketing expertise. Case Study 2.1 describes a marketing approach to the new consumer-patient.

CASE STUDY 2.1
Capturing an Emerging Market

The growing racial and ethnic diversity of the U.S. population seems to overwhelm some healthcare providers. A system that is used to providing one-size-fits-all care is now faced with a patient population that is increasingly heterogeneous and whose members often have different perspectives on healthcare than do the providers of care. However, if a provider can adapt to the needs of this growing market, a lot of opportunities will present themselves.

For example, the challenge of engaging a community in the opening of a birthing center is always significant, and it becomes even more daunting when community members speak 40 different languages. One hospital in an urban Midwestern community not only took on this challenge but also turned it into one of its greatest marketing successes.

Thirteen hospitals within a ten-mile radius of the primary service area provided obstetrics services to the community. An estimated 24,274 women of childbearing age lived in the primary service area. Another 134,055 women of childbearing age lived in the secondary service area. A service area analysis identified the following ethnic breakdown for the population: 72.2 percent white (including 18.9 percent Hispanic), 11.2 percent Asian or Pacific Islander, 9.1 percent other, 7.0 percent...
African American, and 0.5 percent American Indian. The percentage of Asians in the service area was quadruple state and national averages, and the percentage of Hispanics was double state and national figures. The racial and ethnic breakdown, however, failed to convey the unique features of the service area. Among the white population, recent immigrants from the Middle East and Eastern Europe supplemented the Hispanic population. The Asian immigrants came predominantly from Korea, Pakistan, India, and the Philippines.

To more narrowly define the major ethnic breakdown of the childbearing market, obstetrics discharge data by physician were reviewed, and physicians were asked to identify the major ethnic and cultural groups of their patients. The following major groups using obstetrics services were identified using this technique: Indian, Pakistani, and Middle Eastern (29 percent); Korean (23 percent); Hispanic (13 percent); and Assyrian (6 percent). Research into cultural considerations for these groups identified a significant subgroup of Indian, Pakistani, and Middle Eastern patients who were Muslim. On the basis of this information, four target ethnic markets were defined: Korean, Middle Eastern, Muslim (Middle Eastern, Pakistani, and Indian), and Hispanic (Mexican, Puerto Rican, and Cuban).

To increase market share for obstetrics services at the hospital, marketing strategies were developed to raise awareness of the new family birthing center in these ethnic communities. To achieve this goal in a highly competitive market, the following objectives were adopted:

- Differentiate services from those of competitors by means of
  - graphic images and color coding for directional signage in the facility;
  - multilingual and multicultural physicians (men and women), nursing staff, cultural liaisons, and interpreters;
  - culturally diverse artwork throughout the facility;
  - large state-of-the-art labor/delivery/recovery/postpartum rooms with hot tubs and space for family members;
  - ethnic menus along with microwaves and refrigerators for patient use;
  - childbirth preparation classes taught in Spanish, Korean, Arabic, and Hindi by native speakers;
  - a family-centered program of care; and
  - superior quality measures.

(continued)
Enhance the hospital’s marketing presence through
- creating a new maternity services brand for the hospital, featuring the graphic image of infant footprints;
- aggressively marketing and promoting the new features and benefits of the hospital’s maternity services; and
- reinforcing the hospital’s unique positioning as a provider of culturally sensitive, family-centered maternity care.

On the basis of these objectives, the following marketing initiatives were identified for the hospital:

- Tailor market research to build knowledge and understanding of each ethnic group.
- Implement culturally appropriate advertising campaigns for each targeted group, including native-language posters/fliers, newspaper ads, billboards, and radio ads.
- Develop a comprehensive guide to hospital services in Spanish, Arabic, Hindi, and Korean.
- Launch aggressive media relations efforts to promote the hospital’s unique commitment to meeting the needs of its “neighborhood of nations.”
- Implement a comprehensive community relations program.
- Tailor a series of grand opening events to each ethnic market, with ethnic menus, appropriate dignitaries, and entertainment.
- Develop a strong community presence for customized ethnic maternity services. Include photos of the physical space and amenities in the hospital newsletter distributed to 125,000 households in the primary and secondary service areas.
- Distribute fliers to the religious institutions in the target market.

Source: Adapted from Noonan and Savolaine (2001).

Discussion Questions

- What changes taking place in American society make a one-size-fits-all healthcare system obsolete?
- What particular challenge did the community hospital face?
- What marketing techniques were utilized to address the needs of a diverse population?
Chapter 2: The Evolving Societal and Healthcare Context

Anticipated Future Trends

Most of the trends described in this chapter are expected to continue for the foreseeable future. The healthcare institution will remain a dominant institution, and its share of the gross national product is expected to continue to grow. Healthcare delivery will continue to be influenced by the major demographic trends affecting U.S. society, particularly the continued aging of the population and its increasing diversity. Various parties will continue to vie for influence within the system, and recent political developments have raised the prospect of healthcare reform. The growing numbers of uninsured and underinsured citizens will continue to be a concern because of the implications of this situation on the viability of the system and the health status of the population. The paradigm shift from medical care to healthcare will continue as chronic disease becomes more common than acute conditions.

Nearly all trends point to the growing importance of marketing in the healthcare system. Competition is expected to remain intense as more providers vie for fewer patients. The redefinition of the patient as consumer means healthcare organizations must become increasingly market driven. The growing role of the consumer means healthcare organizations must be more knowledgeable about their current and prospective customers than they were in the past. The growing emphasis on consumer engagement opens the door to a wide range of marketing activities.

Summary

Changes in demographic characteristics, lifestyles, and other population attributes are all contributing to the growing importance of healthcare marketing. A number of trends in the healthcare arena are expected to continue for the foreseeable future and portend a growing role for marketing professionals. Just as the form and function of the healthcare system reflect the form and function of society, the attributes of healthcare marketing reflect the nature of both the industry and the society in which it resides.

- In what ways did the hospital disseminate its message to the community (rather than relying on impersonal advertising)?
- What indicators could the hospital have used to evaluate the impact of these marketing efforts?

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Healthcare, like any other social institution, has evolved to meet the needs of an increasingly medicalized society and has become a dominant industry as a result of that growing emphasis. The fact that healthcare now accounts for more than 15 percent of the gross national product reflects, among other trends, the growing concern of Americans for their health.

The cultural revolution in the second half of the twentieth century laid the groundwork for the emergence of a powerful healthcare system. The growing emphasis on economic success, educational achievement, and technological advancement, along with the emphasis traditionally placed on human life, humanitarian efforts, and personal autonomy, all contributed to its rise and growth. Americans' obsession with youth and beauty and a growing emphasis on self-actualization further spurred its expansion. Several demographic trends affecting the United States during the last quarter of the twentieth century also had a major impact on the nature of the healthcare institution.

Within healthcare, growing competition, the shift from inpatient care to outpatient care, the growing influence of employers, the emergence of managed care, and other developments led to a major transformation of the industry. Of particular significance was the growing appreciation of the market's role in driving demand for health services and the newfound recognition of the consumer's impact on healthcare delivery. Not only has medical care been redefined as healthcare, but the nature of the patient has also been transformed. All of these trends have contributed to the growing importance of marketing in healthcare.

**Key Points**

- In any society, the healthcare institution reflects the values that are important to that society.
- At the same time, the healthcare institution can exert a powerful influence on other aspects of society.
- In the United States, healthcare evolved from a cottage industry at the time of World War II to become one of the society's most powerful institutions.
- Social and cultural changes, coupled with advances in the efficacy of medical care, contributed to the ascendency of the healthcare institution.
- During the 1980s, a number of trends emerged (most of which continue today) that resulted in the dramatic transformation of the healthcare system.
- The emergence of competition in the industry was a major factor in the introduction of healthcare marketing.
Chapter 2: The Evolving Societal and Healthcare Context

- As a result of changing consumer needs (and a shift in major health problems), the system’s emphasis evolved from medical care to healthcare.
- Over time, the healthcare system became more market driven and more consumer oriented.
- Almost every trend affecting healthcare in recent years has highlighted the importance of marketing for the industry.

Discussion Questions

- Before World War II, what factors constrained the development of healthcare as a distinct institution?
- After World War II, what social and cultural developments contributed to the emergence of healthcare as a modern institution?
- What are implications of the emergence of health as a distinct value in U.S. society?
- What evidence can be offered for the medicalization of U.S. society?
- How has the “epidemiologic transition” contributed to the changing nature of U.S. healthcare?
- What factors led to the redefinition of the patient as consumer in the late twentieth century?
- What developments led to the paradigm shift from medical care to healthcare, and what were the implications of this shift for healthcare marketing?

Additional Resources

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Basic Marketing Concepts

This chapter introduces the basic marketing concepts used in healthcare and other industries. Standard marketing terminology is presented, and relationships between the various concepts are outlined. Many of these concepts are foreign to healthcare, and some are problematic in the healthcare setting. However, these definitions lay the groundwork for an understanding of the marketing endeavor and help health professionals understand the language marketers use. Most of the concepts considered in this chapter are addressed in more detail in later chapters.

Marketing Concepts

Far too often, authors of textbooks dive straight into the intricacies of their subject matter without clearly defining the concepts with which they are working. They assume that the reader already has an appreciation of the basics. This assumption is often not the case and not likely to be true for those approaching healthcare marketing for the first time. For this reason, the fundamentals discussed in this text are presented here, along with a discussion of their applications in the healthcare arena.

Marketing

Marketing can be defined in a variety of ways. According to the American Marketing Association, marketing is “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives” (Bennett 1995). Another definition depicts marketing as a management process that identifies, anticipates, and supplies customer requirements efficiently and profitably. Philip Kotler, one of the early proponents of marketing in healthcare, defines marketing as a social and managerial process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others (Kotler 1999).
A parsing of the first definition provides some important information about marketing. First, marketing is a process, which implies that the marketing operation involves several systematic steps. The definition specifies planning as part of the process. In other words, marketing should not be done impulsively; the execution of a marketing campaign should be well thought out. This definition notes four components of the marketing process (elsewhere referred to as the four Ps): product conception, pricing, promotion, and the distribution channels (or “place”) through which the products are distributed.

Products include the ideas, goods, and/or services the organization is promoting. Ideas may involve such concepts as a hospital’s image or the notion that pregnant women should receive prenatal care. Goods and services combined are thought of as products, and in healthcare, products include tangible goods, such as crutches, hospital beds, and adhesive bandages, and intangible services, such as physical examinations, immunizations, and cardiac catheterization.

The economic aspect of the marketing transaction is demonstrated by the fact that an exchange is seen as the end result of the marketing process. Thus, a physician offers medical services in exchange for money (directly from the patient or from a third party), a hospital offers physicians staff privileges in exchange for their admissions, and an insurance plan offers healthcare coverage in exchange for the insured’s premiums. All of these exchanges are facilitated through marketing at some level. Ultimately, the intent of marketing is to meet the goals of the organization (as the seller) while, at the same time, meeting the goals of the customer (as the buyer). Unless the goals of both parties are met, the marketing process is considered unsuccessful.

**Healthcare Marketing**

When marketing is extended to the healthcare field, not all components of the original definition fit comfortably, and the process must often be modified for application to the healthcare environment. For example, providers may have limited ability to use pricing as a marketing tool because third-party payers are willing to pay only a specified amount, regardless of the provider’s fee. Or, hospitals may be limited in their ability to change their locations in response to consumer demand. Thus, one challenge for healthcare marketers is to adapt marketing principles to the unique characteristics of the healthcare industry. Exhibit 3.1 moves beyond the standard definitions and talks about what marketing really is.

**Market**

The concept of marketing implies the existence of a market. In its original premarketing form, a market referred to a real or virtual setting in which potential buyers and potential sellers of a good or service came together for the
Chapter 3: Basic Marketing Concepts

EXHIBIT 3.1
What Marketing Really Is

Most health professionals tend to think of marketing in terms of advertising, public relations, direct mail, or any number of other promotional techniques. All too often in healthcare, the term marketing is used to reference one of these specific functions, masking the range of activities carried out under the banner of marketing and the extent to which marketing should pervade an organization.

Marketing has been defined as any activity related to the development, packaging, pricing, and distribution of healthcare products along with any mechanisms used for promoting these products. This definition, however, does not capture the essence of marketing. Marketing is a multifaceted process that involves a wide range of activities of which the promotional piece (i.e., advertising) is a small—albeit highly visible—part. Marketing involves research, planning, strategy formulation, and a number of activities that have little to do with promotion. (Indeed, promotion is only one of the four Ps that constitute the marketing mix.)

Looked at in a less pecuniary light, marketing serves the healthcare consumer as a force for health education, an information resource, a guide to decision making, and an opportunity to make his or her perspective known. From the organization’s perspective, the marketing program can provide input into strategic direction, coordinate a wide range of corporate activities, and support the development of a customer service organization. Marketing can make or break the organization’s reputation and serve as the driving force in relationship development efforts.

Marketing—and marketers—are often looked at in a less than favorable light, not only in healthcare but in other industries as well. However, if one understands the true functions of marketing, marketing clearly can make a more significant contribution to the success of the organization than is generally acknowledged.

purpose of exchange. In this sense, it refers to both function (as in the system for exchange) and form (as in a marketplace). The notion of a market place has been modified to refer to the individuals or organizations in that market that are potential customers. Thus, to marketers, a market is a set of people (or organizations) who have an actual or a potential interest in a good or service or, according to Kotler (1999), a set of actual and potential buyers of a
product. Alternatively, a market is defined as a group of consumers who share some characteristic that affects their needs or wants and makes them potential customers for a good or service.

Markets are often thought of in terms of a “market area”—that is, a geographical area containing the customers of a particular organization for specific goods or services. Markets may also be defined in nongeographical terms and may refer to segments of the population independent of geography. The market, however defined, is thought to generate a measurable level of “market demand,” which represents the total volume of a product or service likely to be consumed by specific groups of customers in a specified market area during a specified period. (Demand is a problematic concept in healthcare. A later chapter is devoted to this topic.)

The Functions of Marketing

Now that the base definitions are out of the way, it may be worthwhile to consider what the functions of marketing in healthcare (or any other industry) actually are. The functions of marketing form a hierarchy with the broad, big-picture functions at the top and the narrow, focused functions at the bottom. The sections that follow describe the types of marketing functions at the various levels of the hierarchy.

Enterprise-Wide Functions

The most expansive marketing operations carried out by a healthcare organization affect the entire enterprise (i.e., the hospital, health system, or health plan). At this level, marketers have the following functions:

- **Conceptualizing the market.** From the perspective of the organization, a marketer’s primary function may be to conceptualize the market in which the organization operates. Conceptualization means profiling the organization in terms of its attributes, determining the market it serves (and the characteristics of the market area population), assessing the environment in which healthcare functions, and otherwise determining where the organization fits into the overall scheme of things.

- **Determining strategic direction.** The marketer’s functions include identifying the organization’s strategic thrust (if one has been stated), examining the organization’s position in the market, and identifying opportunities that might exist in the marketplace. The marketer considers various strategic options and chooses the approach that best fits the organization and the market it seeks to cultivate.
Chapter 3: Basic Marketing Concepts

- **Supporting business goals.** The marketer supports the organization’s business development by identifying segments of the market on which to focus, clarifying opportunities that exist in the marketplace, revealing the organization’s position in relation to its competitors, and otherwise determining the nature of the services the market desires. A range of promotional techniques can be used to support this function.

- **Establishing a reputation.** Some marketers would argue that the essence of marketing is building and enhancing an organization’s reputation. All organizations are assigned a reputation by the consuming public, whether they want one or not. Marketers are responsible for proactively creating a positive reputation, enhancing it through an integrated marketing approach, and protecting it against the efforts of competitors.

**Operational Functions**

Enterprise-wide marketing addresses the needs of the organization through strategy development and reputation management. Marketing also supports the narrower concerns related to the operations of the organization, as indicated by the following functions:

- **Performing marketing research.** Marketing research provides the foundation for all other marketing functions. On an ongoing basis, the marketer should delineate the service area for the organization, specify the service area’s characteristics and population, and analyze the competition. Marketing research should identify opportunities that exist in the market in terms of growing demand, underserved populations, and/or new product potential.

- **Developing a marketing plan.** Health professionals often neglect to develop systematic plans for accomplishing their goals, and in marketing, there is a tendency to rush into a marketing campaign without an overarching plan. The marketing plan should reflect the goals and objectives established by the organization, not just for marketing but also for overall organizational advancement. The marketer’s primary responsibility is to ensure that a well-conceived marketing plan is in place before any promotional activities are implemented.

- **Coordinating enterprise-wide promotional efforts.** One of the first things any marketer should do is to identify all existing promotional efforts that are under way on the part of the organization. Existing marketing efforts should be evaluated and standards developed to ensure a consistent message across all promotional activities. The marketer should coordinate the marketing efforts of the various entities in the
organization and serve as a liaison between internal marketing efforts and external marketing resources.

- **Developing relationships.** Many would argue that the primary goal of marketing is to develop relationships, which is also an area of emphasis in contemporary healthcare. Relationships may involve patients and other customers, referring physicians, health plans, business partners, government representatives, and a host of other entities with whom the healthcare organization needs to maintain relationships. The marketer has a key role in most aspects of developing and maintaining relationships.

- **Creating a marketing organization.** Organizations’ marketing efforts often overlook their own employees. Healthcare organizations can establish a marketing mind-set among their employees via internal marketing, thereby turning every associate into a salesperson and creating a marketing organization. Ideally, every employee should have some marketing skills, and every decision should be made with marketing implications in mind. The marketer is responsible for ensuring that marketing is incorporated into the organization’s DNA.

**Educational Functions**

An important but sometimes overlooked function of marketing is educating the public. As indicated in the following list, providing information to existing and prospective customers, referring physicians, potential donors, and other constituent groups is a major responsibility of marketing professionals.

- **Educating patients and the general public.** With the introduction of new products and the emergence of informed consumers, healthcare organizations must build awareness of their services and expose target audiences to their capabilities. Healthcare consumers have short attention spans, and the public must be continuously reminded of the organization’s availability. For some, the educational function of marketing takes precedence over all other functions.

- **Providing information and referral resources.** Healthcare organizations are considered an important resource for the community. Not only does marketing make consumers aware of the organization’s services; it also fulfills the organization’s responsibility to educate the community with regard to positive health behavior. In community after community, the most trusted healthcare organizations are those that are perceived as reliable sources of health information.

- **Enhancing visibility and corporate image.** With the increasing standardization of healthcare services and a growing appreciation of reputation, healthcare organizations find it necessary to initiate
marketing campaigns that improve top-of-mind awareness and distinguish them from their competitors. Consumers are bombarded by ever-increasing message “clutter,” and marketers must be able to communicate the organization’s message effectively to maintain a high level of visibility and promote a positive corporate image.

- **Differentiating the organization and its services.** At a time when it is increasingly difficult for healthcare consumers to distinguish one healthcare organization from another, a marketer needs to impress upon the target audience how his or her organization is different from its competitors and why consumers should care about the difference. In the unlikely case that little or no differences exist, the marketer must make a creative case that establishes a competitive advantage.

**Promotional Functions**

Promotional activities are generally the first things that come to mind when the topic of marketing comes up. The functions described in the following list relate to the day-to-day activities of marketers in a healthcare setting.

- **Influencing consumer decision making.** With consumers now taking a more active role in healthcare decision making, marketers have an unprecedented opportunity to make a case for their organization. After building awareness on the part of consumers, the marketer’s next responsibility is to influence consumer behavior. Marketers should be sensitive to the stage of readiness of various customer groups and implement marketing techniques accordingly.

- **Improving market penetration.** Healthcare organizations faced with growing competition can use marketing as a means of increasing patient volumes and growing market share. With few new patients in many markets, marketing becomes critical to retaining existing customers and attracting competitors’ customers. Marketers are well positioned to identify opportunities in the marketplace and implement programs that will attract customers and increase market penetration. If the organization cannot establish a favorable position in the market, its competitors will dictate its position.

- **Increasing profit.** On the surface, we might assume that the raison d’être for healthcare marketing should be to increase profits and, hence, should be first among marketing functions. The obvious conclusion may not be the most appropriate conclusion in healthcare, given the high proportion of not-for-profit organizations in the industry and the need to satisfy other goals in addition to bottom-line profits. More important, perhaps, is the need to perform a wide range of other functions before the profit motive can even be considered.
• **Winning awards versus being effective.** Note that the previous statements say nothing about winning awards for marketing campaigns. For many marketing professionals who entered healthcare from other industries, the goal was to sponsor award-winning media campaigns that involved flashy promotional materials or award-winning television spots. Unfortunately, there appears to be little correlation between receiving accolades for marketing campaigns and the success of the organization being promoted. For whatever reason, decision makers and those paying for services in healthcare are less influenced by slick advertising campaigns than they are by the actual substance offered by the healthcare organization.

### Marketing Techniques

The action dimension of marketing is embodied in the techniques marketers use to support the functions outlined in the previous lists. On a day-to-day basis, marketers are likely to pay less attention to the lofty goals of the marketing endeavor than they are to concrete marketing activities. The techniques marketers use to achieve their objectives are summarized here and described in more detail in a later chapter.

#### Public Relations

Public relations (often called *PR*) is a form of communication management that uses publicity and other nonpaid forms of promotion and information to influence feelings, opinions, or beliefs about an organization and its products. The PR function is carried out through press releases, press conferences, distribution of feature stories to the media, public service announcements, and other publicity-oriented activities. In the past, healthcare organizations have used PR to manage crises and control damage, justify questionable actions, explain negative events, and so forth. Over time, however, PR has been cast in a more proactive light as healthcare organizations have come to appreciate the benefits of a strong PR program.

#### Communications

Large healthcare organizations typically establish mechanisms for communicating with their publics (internal and external). Communications staff develops materials to disseminate to the public and to the employees of the organization, generates internal newsletters and publications geared to relevant customer groups (e.g., patients, enrollees), and develops patient education materials. Separate communications departments may be established, or this function may overlap with the public relations or community outreach
functions. Marketers expend a great deal of effort in determining the best approaches to communication. Exhibit 3.2 discusses communication concepts applied to healthcare marketing.

EXHIBIT 3.2
Communication Theories in Marketing

Communication refers to the transmission or exchange of information and implies the sharing of meaning among those who are communicating. Students of marketing have expended considerable effort in specifying models of communication that relate to the marketing process. Communication in marketing may be directed at (1) initiating actions; (2) making needs and requirements known; (3) exchanging information, ideas, attitudes, and beliefs; (4) establishing understanding; and/or (5) establishing and maintaining relations.

Communications in marketing can occur in a variety of ways:

- **Face-to-face communication** includes formal meetings, interviews, and informal contact.
- **Oral communication** includes telephone contact, public address systems, and video conferencing systems.
- **Written communication** includes letters (external), memoranda (internal), e-mail, reports, forms, notice boards, journals, bulletins, newsletters, and manuals.
- **Visual communication** includes charts, films, slides, video, and video conferencing.
- **Electronic communication** includes Internet chat, voice mail, and electronic data interchange.

A number of communication models have been developed for application to marketing, and Berkowitz (2006) has adapted one of these models for healthcare. According to Berkowitz, this marketing communication model has the following nine components in healthcare. An understanding of each of these components is important for effective marketing communication.

1. **Sender.** The sender is the party sending the message to the other party. Also referred to as the communicator or the source, the sender is the “who” of the process and takes the form of a person, company, or spokesperson for someone else.

(continued)
EXHIBIT 3.2 (continued)

2. **Message.** The message is the combination of symbols and words the sender wishes to transmit to the receiver. The message is the “what” of the process and indicates the content the sender wants to convey.

3. **Encoding.** Encoding is the process of translating the meaning of the message into symbolic form (e.g., words, signs, sounds). At this point, a concept is converted into something transmittable.

4. **Channel.** The channel is the means used to deliver a marketing message from sender to receiver. The channel is the “how” of the process and connects the sender to the receiver.

5. **Receiver.** The receiver is the party receiving the message, also known as the audience or the destination. Marketing efforts are directed toward a receiver.

6. **Decoding.** Decoding refers to the process carried out when the receiver converts the “symbols” transmitted by the sender into a form that makes sense to him or her. This process works under the assumption that the receiver is using the same basis for decoding that the sender used for encoding.

7. **Response.** Response refers to the receiver’s reaction to the message. At this point, the effect of the message is gauged in terms of the meaning the receiver attaches to it.

8. **Feedback.** Feedback refers to the aspect of the receiver’s response that the receiver communicates back to the sender. The type of feedback depends on the channel, and the effectiveness of the effort is gauged in terms of the feedback.

9. **Noise.** Noise refers to any factor that prevents the receiver from decoding a message in the way the sender intended. Noise can be generated by the sender, the receiver, the message, the channel, the environment, and so forth.

The marketing communication process could be unsuccessful for any number of reasons. Factors that might influence this process include selective attention on the part of the receiver, selective distortion on the part of the receiver (e.g., changing the message to fit preconceptions), selective recall (i.e., the receiver absorbs only part of the message), and message rehearsal (i.e., the message reminds the receiver of related issues that tend to distract from the point of the message).
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Community Outreach

Community outreach is a form of marketing that seeks to present the organization’s programs to the community and establish relationships with community organizations. Community outreach may involve episodic activities, such as health fairs or educational programs for community residents, or it may involve ongoing initiatives carried out by outreach workers who are visible in the community. This aspect of marketing emphasizes the organization’s commitment to the community and its support of local organizations. Community outreach initiatives seek to generate word-of-mouth communication concerning the organization and/or its services.

Government Relations

Long before most healthcare organizations considered incorporating a formal marketing function, they were involved in government relations activities. Healthcare organizations are typically regulated by state and federal government agencies. Decisions related to adding, eliminating, or changing a service may be constrained by government regulations, and the reimbursement available to healthcare providers may be controlled by government agencies. Not-for-profit organizations must continuously demonstrate that they deserve their tax-exempt status. For these reasons, healthcare organizations must maintain discourse with a variety of government agencies, cultivate relationships with politicians and other policymakers, and often initiate lobbying activities directed toward various levels of government.

Networking

Networking involves developing and nurturing relationships with individuals and organizations with which mutually beneficial transactions can be carried out. Physicians and other clinicians who, until recently, would never deign to

Communication experts indicate that effective communication requires certain attributes: It must contain value for the receiver; be meaningful, relevant, and understandable; and be transmittable in a few seconds. Further, the communication must lend itself to visual presentation, if possible; be relevant to the lives of everyday people; and stimulate the receiver emotionally. Marketing communication must also be interesting, entertaining, and stimulating.

Source: Adapted from Berkowitz (2006).
advertise actively network among their colleagues. Networking may take the form of a specialist casually running into potential referring physicians at the country club or a hospital administrator attending meetings that might involve potential clients, partners, or referral agents. Networking is particularly effective when dealing with parties who are reluctant to provide “face time” or when one prefers an informal setting involving personal interaction when getting to know prospective business associates.

**Sales Promotion**

Sales promotion involves any activities or materials that act as a direct inducement to customers by offering added value to a product. Sales promotions are more likely to be associated with the sale of consumer health products (e.g., rebates) or business-to-business healthcare sales (e.g., low-interest financing) than with the provision of health services. The sales promotion mix might involve health fairs and trade shows, exhibits, demonstrations, contests and games, premiums and gifts, rebates, low-interest financing, and trade-in allowances. Sales promotion is separate from, but often an adjunct to, personal sales.

**Advertising**

Advertising refers to any paid form of nonpersonal presentation or promotion of ideas, goods, or services by an identifiable sponsor transmitted via mass media for purposes of achieving marketing objectives. The advertising mix might include print advertisements, electronic advertisements, mailings, catalogs, brochures, posters, directories, outdoor advertisements, and displays. These activities are organized in the form of an advertising campaign that involves designing a series of advertisements and placing them in various advertising media to reach a target market.

**Personal Sales**

Personal sales involve the oral presentation of promotional material in a conversation with one or more prospective purchasers for the purpose of making sales. The salesperson attempts to foster a mutually profitable economic exchange between buyer and seller through interpersonal contact. The success of personal sales depends on the seller’s ability to communicate the product’s qualities and its benefits for the buyer. The personal selling mix might include sales presentations, sales meetings, incentive programs, distribution of samples, and participation in health fairs and trade shows.

**Database Marketing**

Database marketing involves establishing and exploiting data on past and current customers and future prospects in a way that allows effective marketing
strategies to be implemented. Database marketing can be used for any purpose that can benefit from access to customer information. These functions may include evaluating new prospects, cross-selling related products, launching new products to potential prospects, identifying new distribution channels, building customer loyalty, converting occasional users to regular users, generating inquiries and follow-up sales, and establishing niche marketing initiatives. The database established for this purpose often provides the basis for customer relationship management and may be an integral part of an organization’s call center.

**Direct Marketing**

Direct marketing targets groups or individuals with specific characteristics, and promotional messages are transmitted directly to them. These promotional activities may take the form of direct mail or telemarketing, as well as other approaches aimed at specific individuals. Increasingly, the Internet is being used for direct marketing. An advantage of direct marketing is that the message can be customized to meet the needs of target populations.

**Customer Relationship Management**

Customer relationship management (CRM) is a business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on customer relationships rather than transactions. Although long used in other industries, CRM is relatively new to healthcare. The industry’s lack of focus on customer characteristics and its limited data management capabilities have slowed the acceptance of CRM in healthcare. However, the new market-driven environment is encouraging healthcare organizations to develop and use customer databases.

**Social Marketing**

In healthcare, social marketing involves applying commercial marketing techniques to influence the attitudes, knowledge, and behavior of target audiences related to the improvement of individual and community health status. Social marketing differs from other types of marketing only with respect to the objectives of marketers and their organizations. Social marketers seek to influence social behaviors for the benefit of their target audience and general society, not for the benefit of the marketing organization. In contrast to the top-down approach of traditional marketing, social marketers listen to the needs and desires of the target audience and build the marketing campaign from the bottom up.

Case Study 3.1 describes a marketing campaign that uses a variety of marketing techniques.
CASE STUDY 3.1
Capturing the “Older Adult” Market

Many healthcare organizations came to see the aging of the baby boom generation as an opportunity to expand their services. Regional Medical Center* responded to this opportunity by establishing a service line devoted to “older adults.” The intent was to capture the business—and the loyalty—of this large, relatively affluent, and increasingly needy segment of the population. The service line was designed to meet the emerging needs of this population for specialty services such as cardiology, orthopedics, ophthalmology, and urology in a manner that was appealing to this relatively demanding consumer population.

Because this service was considered innovative in the community served by Regional Medical Center, an aggressive promotional campaign was undertaken. The Center’s marketing department considered a wide range of marketing options and decided on a multipronged campaign to approach the target population from a variety of directions. The first phase of the promotional campaign focused on internal marketing. It was important that the Center’s employees be familiar with this new program and be able to articulate its merits to potential customers. Many of the customers for the new program were likely to be existing patients of Regional Medical Center.

Well before the new program was scheduled to open, an aggressive PR campaign was initiated. Press releases were distributed, articles were prepared for local publications and professional journals, and celebrity spokespersons were lined up. Simple yet attractive collateral materials were developed for distribution to prospective customers and to referral agents who might channel customers to the Center. Information was distributed to other providers and organizations that might serve other needs of the target population, and the community’s major insurance plans were made aware of the new program and its benefits. Tours of the facility housing the new program were provided to key constituents such as referring physicians and health plan representatives, and open houses were scheduled for both medical professionals and the general public.

The marketing initiative also involved direct solicitation of members of the target population. The Center extracted data from its internal database on existing customers and purchased mailing lists of households that included members aged 50–65. Using the findings from previous research on the “buttons to push” in this age cohort, materials were prepared that would appeal to the particular needs of...
this population. The address lists were then used to mail materials directly to the target population.

While the Center did not want to rely on expensive media advertising for attracting customers, its marketers felt that some media presence was necessary, not only to attract customers who might be missed through the direct-mail campaign but also to make the general public aware of this new program. In some cases, other family members might be making decisions for the older adult population, and awareness of this program on the part of the general public was considered important. After careful research on the communication attributes of the target population, a series of newspaper, radio, and television advertisements were produced. These advertisements were placed in the sections of the local newspaper that members of this age group read, aired on the radio stations they preferred, and presented on the television channels they viewed most often. For the electronic media, particular attention was paid to the time of day and day of the week members of the target population were expected to be engaged.

The success of the new older adult service line offered by Regional Medical Center during the first year exceeded the expectations of the Center’s administrators. While it is difficult to determine which of the various promotional techniques had the most impact on the program’s early success, the Center’s marketing staff concluded on the basis of its evaluation of the campaign that it was the integrated approach—a variety of coordinated activities—that led to the successful program launch.

*“Regional Medical Center” is a fictional name for the organization on which this case study is based.

**Discussion Questions**

- Why did Regional Medical Center think that this population presented enough of an opportunity to establish an entirely new program?
- What information did the Center need to gather about this target population before the program could be established?
- What information did the Center need to gather about this target population before the marketing campaign could be planned?
- What were the different paths through which the Center attempted to reach the target audience?
- Which marketing techniques did the Center use to reach the target population?
- Why was internal marketing an important first step in marketing this new program?
Levels of Marketing

Marketers employ marketing strategies that reflect the audience they are soliciting. A campaign aimed at the general population will involve a different approach than one targeting a population subgroup. Depending on the circumstances, the approach may include mass marketing, target marketing, or micromarketing.

Mass Marketing

Mass marketing involves the development of generic messages that are widely broadcast to the entire service area. There is no attempt to target specific audiences, identify likely best customers, or tailor the message to a particular subgroup. This approach involves the use of mass media (e.g., newspaper, radio, television) to blanket the market area. The message has to be general and typically touts the merits of the organization rather than any specific services.

Hospitals’ use of mass marketing in the past reflected their desire to promote the organization overall (rather than specific services) and the belief that they could be all things to all people. No attempt was made to distinguish between different segments of the population, and only the crudest distinction based on geography was made between markets. This type of approach is effective at disseminating a small amount of information to a large number of people and can be useful when marketing a basic product that appeals to a homogenous audience.

Target Marketing

Target marketing refers to marketing initiatives that focus on a market segment to which an organization desires to offer goods and/or services. Target marketing is the opposite of mass marketing, which aims promotional efforts at the total market. Target markets in healthcare may be defined on the basis of geography, demographics, lifestyles, insurance coverage, usage rates, and/or other customer attributes. Thus, target marketing is likely to involve the use of customer segmentation systems.

Micromarketing

Micromarketing is a form of target marketing. Companies that use micromarketing tailor their marketing programs to the needs and wants of consumers narrowly defined in terms of geography, demographics, psychographics, or the benefits they desire. Customers and potential customers are identified at the household or individual level and marketed to directly using customized communication techniques. Micromarketing is most effective when marketers want to reach consumers with a narrow range of attributes.
Healthcare Products and Customers

The definition of marketing offered early in this chapter refers to the promotion of ideas, goods, or services. (The term product, used throughout the text, is often used interchangeably with healthcare service.) As mentioned in previous chapters, the product to be marketed in healthcare is often difficult to specify, unlike the products of other industries. Most of what healthcare organizations offer takes the form of services, and, unlike goods, they tend to be harder to precisely describe.

In addition, the nature of the product in healthcare has changed dramatically over the past couple of decades. Twenty years ago, one could define the product simply as a medical procedure, an orthotic device to correct a physical disability, or a consumer health product. In today’s climate, healthcare products include not only these traditional products but also such products and services as prepaid health insurance plans offered by health maintenance organizations or a group purchasing contract offered by a provider network. (The nature of healthcare products is discussed further in Chapter 7.)

Many healthcare organizations offer a variety of products to their customers. Certainly, the hospital is an example of an organization that offers a wide range of services and goods. A major hospital offers hundreds, if not thousands, of different procedures. In addition, hospitals offer a variety of goods (in the form of drugs, supplies, and equipment) that are charged to the customer. One can describe an organization’s product mix as it relates to the combination of services, goods, and even ideas it offers. These concepts are addressed in the sections that follow.

Ideas

Much of what healthcare organizations promote takes the form of ideas—intangible concepts that are intended to convey a perception to the consumer. The organization’s image is an idea that is likely to be conveyed through marketing activities. The organization may want to promote the perception of quality care, professionalism, value, or some other subjective attribute. The development of a brand, for example, involves the marketing of an idea. The intent is to establish a mind-set that places the organization at the top of the consumer’s mind on the assumption that familiarity will breed use.

When healthcare organizations first incorporated advertising, most of the attention was focused on promoting ideas. In particular, early marketers attempted to promote the organization’s image and establish it as the preferred provider in its market. Although the trend has shifted away from image advertising and toward service advertising, many healthcare organizations continue to market ideas to their target audiences.
**Goods**

For the purposes of this text, products can refer to goods or services. A *good* is a tangible product that is typically purchased in an impersonal setting on a one-at-a-time basis. The purchase of a good tends to be a one-shot episode, while the purchase of services may be fulfilled through an ongoing process. Although healthcare is generally perceived in terms of a service, the sale of goods is ubiquitous in the industry. Consumer health products (e.g., adhesive bandages, condoms, toothpaste) are household products. Pharmaceuticals—whether prescription or over the counter—are purchased by nearly everyone at some point. Consumers are even gaining access to home testing kits and therapeutic equipment, and the sale/rental of durable medical equipment is a major industry. Even in a hospital setting, the bill for care is likely to include a number of goods among the itemized charges.

**Services**

Relative to goods, *services* are difficult to conceptualize. Services (e.g., physical examinations) are intangible in that they do not take the concrete form of goods (e.g., drugs). Services are more difficult to quantify, and consumers evaluate them differently from tangible products. Because services are often more personal (especially in the case of healthcare), they are likely to be assessed in subjective rather than objective terms. They are variable in that they cannot be subjected to the quality controls placed on goods but reflect the variations that characterize the human beings who provide the services. Services are inseparable from the producer in that they are dispensed on the spot without separation from the provider. Services are perishable in that they cannot be stored, and once provided, they have no residual value. Finally, services defy ownership rules in that, unlike goods, they do not involve transfer of tangible property from the seller to the buyer.

**Consumers**

*Consumer*, as the term is usually used in healthcare, refers to any individual or organization that is a potential purchaser of a healthcare product. (This definition differs from the more economics-based notion of a consumer as the entity that actually *consumes* the product.) Theoretically, everyone is a potential consumer of health services, and consumer research, for example, is generally aimed at the public at large. The consumer is often the end user of a good or service but may not necessarily be the purchaser. The term *consumer behavior* refers to the utilization patterns and purchasing practices of the population of a market area.
Customers

In healthcare, the *customer* is typically thought of as the actual purchaser of a good or service. Although a patient may be a customer for certain goods and services, the end user (e.g., the patient) is often not the customer. Someone else may make the purchase on behalf of the patient. Further, treatment decisions may be made by someone other than the patient. For this reason, hospitals and other complex healthcare organizations are likely to serve a range of customers, including patients, referral agents, admitting physicians, employers, and a variety of other parties who may purchase goods or services from the organization. For this reason, the customer identification process in healthcare is more complicated than it is in other industries.

Clients

A *client* is a type of customer that consumes services rather than goods. A client relationship implies personal (rather than impersonal) interaction and an ongoing relationship (rather than a single encounter). Professionals typically have clients, whereas retailers, for example, have customers or purchasers. The relationships between service providers and clients are likely to be more symmetrical than the relationships between service providers and patients, who are typically dependent and powerless relative to the service provider. Many also believe the term *client* implies more respect than the term *patient*.

Patients

Although the term *patient* is used loosely in informal discussion, a patient is someone who has been defined as sick by a physician. This definition almost always implies formal contact with a clinical facility (e.g., physician’s office, hospital). Technically, a symptomatic individual does not become a patient until a physician officially designates the individual as such, even if the prospective patient has consumed over-the-counter drugs and taken other measures for self-care. Under this scenario, an individual remains a patient until discharged from medical care.

Nonphysician clinicians may treat patients, but because they do not provide medical services, they are discouraged from using the term. For example, behavioral health counselors are likely to refer to their patients as clients. Dependent practitioners, who work under the supervision of physicians (e.g., physical therapists), however, are likely to define their charges as patients.

Enrollees

Although health insurance plans have historically called their customers *enrollees*, use of this term has only recently become common among healthcare
providers. However, with the ascendancy of managed care as a major force in healthcare, other healthcare organizations began to adopt this term. Thus, providers who contracted to provide services for members of a health plan began to think in terms of enrollees. This shift in nomenclature is significant because enrollees and patients have different attributes. Enrollees may also be referred to as members, insureds, or covered lives. Exhibit 3.3 discusses how different definitions of healthcare customers have implications for the operation of the system.

EXHIBIT 3.3
What’s in a Name: Implications of Redefining the Patient

One of the developments in healthcare over the past couple of decades that has significant implications for marketing is the redefinition of health services users. The historical term patient is being replaced by consumer, client, and customer. Although the nomenclature changed in part to reflect the different parties that deal with the patient, this redefinition represents a paradigm shift in the system’s orientation toward the health services user.

The term patient refers to a person who is formally under the care of a physician. Although other clinicians may also refer to their charges as patients, the term implies that a symptomatic person has been formally diagnosed as sick and now takes on a new set of attributes. Conceptually, a patient is more clearly differentiated from a nonpatient than, for example, a customer is from a noncustomer.

The patient role (also referred to as the “sick role”), like any social role, involves certain characteristics. Someone performing this role is considered to be “abnormal” and, thus, different in important ways from other people. The patient role implies a degree of helplessness and a state of dependence on clinicians and health facilities. It also implies a condition of relative powerlessness and an inability to take an active part in the therapeutic process. A patient is also typically characterized by a relative lack of knowledge concerning the situation in question. The patient remains in this role until officially discharged by a physician.

A client is similar to a patient in many ways. In the healthcare context, a client is a patient of a nonphysician. Outside of healthcare, a client is someone who uses the services of a professional, and certain health professionals, including mental health professionals, social workers, and other nonmedical personnel, may refer to their customers as clients.
The difference between patients and clients extends well beyond the different professionals involved. Being a client involves a more symmetrical power relationship with the service provider than that involved in the doctor–patient relationship. Clients are typically not thought of as being dependent to the extent that patients are, and clients can fire their providers much more readily than patients can fire their doctors. Thus, a client is theoretically less dependent, more involved in the decision-making process, and more knowledgeable about the issue at hand than a patient is. Ultimately, a client has more control over the situation than a patient does.

As healthcare became more marketing oriented, terms like consumer and customer were introduced. Although some purists may consider use of these terms a sacrilege, the fact is that, like it or not, patients are steadily taking on the characteristics of consumers and customers, not because of redefinition by marketers but because of the dramatic changes that have occurred in healthcare.

For our purposes, a consumer is anyone who has the potential to consume a healthcare good or service. In other industries, a consumer is often thought of as the end user of the product, but this is not necessarily a comfortable concept in healthcare. From a marketing perspective, anyone could be considered a consumer because nearly everyone is a potential user of health services. Whereas patients or clients are effectively under the direction, if not control, of health professionals, consumers are thought to independently determine the choices they make with regard to consuming health services. Thus, the consumer decision-making process is referred to more often than the patient decision-making process, which implies that the consumer is objectively evaluating options with regard to health services and making choices based on the variety of factors that affect decision making with regard to other goods and services.

A customer, for our purposes, is a consumer who is currently consuming a good or service. The customer has chosen, for whatever reason, to purchase a healthcare product or use a healthcare service. In many cases, this definition may be synonymous with the concept of patient, but from a marketing perspective, customers are thought of in different terms.

Unlike a patient (even if it is the same person), a customer is someone who is knowledgeable about the available options and has made a rational choice with regard to consuming particular goods (continued)
The Four Ps of Marketing

The marketing mix is the set of controllable variables that an organization involved in marketing uses to influence the target market. The mix includes product, price, place, and promotion. These four Ps have long been the basis for marketing strategy in other industries and are increasingly being considered by healthcare organizations. However, as will be seen, these aspects of the marketing mix do not necessarily have the same meaning for health professionals as they do for marketers in other industries.

Product

The first P, the product of healthcare, represents what healthcare providers are marketing. The product takes the form of goods, services, or ideas offered by a healthcare organization. The product is difficult to precisely define
in healthcare, which creates a challenge for healthcare marketers. As noted above, products can refer to goods or services. A good is a tangible product that is typically purchased in an impersonal setting on a one-at-a-time basis. Services (e.g., physical examinations), on the other hand, are difficult to conceptualize and are intangible in that they do not take the concrete form of goods. For example, if a psychiatric problem is being treated with drugs, the product is easy to specify (e.g., so many pills of a certain dose per day). If the same condition is being treated through counseling, the description of the product is not as precise or standardized (e.g., an unpredictable number of counseling sessions).

In the past, healthcare providers seldom gave much thought to the product concept. A surgical procedure was considered just that and not something that had to be packaged. Today, however, the design of the product, its perceived attributes, and its packaging are all becoming more important concerns for healthcare providers and healthcare marketers.

**Price**

*Price* refers to the amount charged for a product, including the fees, charges, premium contributions, deductibles, copayments, and other out-of-pocket costs to consumers of health services. In economic terms, price is thought of in terms of an exchange. In other words, a healthcare provider offers a service in exchange for its customers’ dollars. An employee paying an annual premium to a health plan, an insurance company reimbursing a physician’s fee, or a consumer purchasing over-the-counter drugs are all exchanges involving a price. The price to the customer could also include the pain, discomfort, embarrassment, anxiety, frustration, and other emotional costs of dealing with providers, plans, and the disease or injury that prompted the experience. An obvious objective of marketing is to convince consumers that they will receive benefits for the price they pay.

Given the manner in which financing is structured in healthcare, price has not historically been a basis for competition. The issue of pricing for health services is a growing concern for marketers as the healthcare environment changes, and a number of factors are increasing the role of the pricing variable in developing a marketing strategy. For marketers, the challenge is understanding what a customer is willing to exchange for some wantsatisfying good or service and developing a pricing approach compatible with the organization’s goals and cost constraints.

**Place**

The third P, place, represents the manner in which goods or services are distributed for consumer use. Place relates to all factors of the transaction or relationship experience that make it easy rather than difficult for consumers to
obtain an organization’s products. Although the obvious factors of location and layout are included, so are hours, access, obstacles, waits for appointments, claims payment, and so on. In most cases, negative place aspects of an encounter impose such costs as lost time, frustration in finding the service site, parking fees, boredom, or other emotional burdens. Positive place aspects usually nullify such costs. For example, when a physician offers early morning or evening hours, patients can obtain care on the way to or from work and thus avoid having to take time off from their jobs.

In some cases, place factors may enhance perceptions of the product’s quality, as when the physician’s office or hospital is in a trendy location or on a campus that facilitates efficient treatment. Systems or health plans may speed up scheduling by allowing patients to make appointments over the Internet, for example. The online availability of medical records has added a different dimension to the concept of place. Allowing patients to sign up for health plans, check their status, and make benefit changes online at a work-site kiosk or home computer also adds place value.

**Promotion**

*Promotion* is the fourth P of the marketing mix. For many people, promotion has historically meant advertising, and advertising has meant marketing. Promotion represents any way of informing the marketplace that the organization has developed a response to meet its needs. Promotion involves a range of tactics involving publicity, advertising, and personal selling.

Promotion covers all forms of marketing communication and includes materials that deliver content in addition to those that foster transactions. For example, health plans can devise communications that help new members better understand their coverage, thereby enabling them to use their health plan more effectively. Providers can advise new patients on how to avoid place frustrations and costs, and address symptoms and concerns online before appointments to improve quality and patient satisfaction. The “promotional mix” describes the combination of techniques used by the marketer to achieve promotional goals.

**Applying the Four Ps**

Many observers find applying the traditional four Ps of the marketing mix to healthcare problematic. Some believe these dimensions of marketing are inappropriate for a service-oriented organization like healthcare. The uncomfortable fit between the four Ps of marketing and healthcare has even led some to pronounce the death of the four Ps and suggest their replacement with some other, more appropriate model in healthcare. Indeed, in today’s competitive environment, some contend that additional Ps should be added to the list. Exhibit 3.4 presents an update of the four Ps for healthcare.
EXHIBIT 3.4
The 7 Ps of Marketing
By Brian Tracy

Once you’ve developed your marketing strategy, there is a “Seven P Formula” you should use to continually evaluate and reevaluate your business activities. These seven are: product, price, promotion, place, packaging, positioning and people. As products, markets, customers and needs change rapidly, you must continually revisit these seven Ps to make sure you’re on track and achieving the maximum results possible for you in today’s marketplace.

**Product**
To begin with, develop the habit of looking at your product as though you were an outside marketing consultant brought in to help your company decide whether or not it’s in the right business at this time. Ask critical questions such as, “Is your current product or service, or mix of products and services, appropriate and suitable for the market and the customers of today?”

Whenever you’re having difficulty selling as much of your products or services as you’d like, you need to develop the habit of assessing your business honestly and asking, “Are these the right products or services for our customers today?”

Is there any product or service you’re offering today that, knowing what you now know, you would not bring out again today? Compared to your competitors, is your product or service superior in some significant way to anything else available? If so, what is it? If not, could you develop an area of superiority? Should you be offering this product or service at all in the current marketplace?

**Price**
The second P in the formula is price. Develop the habit of continually examining and reexamining the prices of the products and services you sell to make sure they’re still appropriate to the realities of the current market. Sometimes you need to lower your prices. At other times, it may be appropriate to raise your prices. Many companies have found that the profitability of certain products or services doesn’t justify the amount of effort and resources that go into producing them. By raising their prices, they may lose a percentage of their customers, but the remaining percentage generates a profit on every sale. Could this be appropriate for you?

(continued)
Sometimes you need to change your terms and conditions of sale. Sometimes, by spreading your price over a series of months or years, you can sell far more than you are today, and the interest you can charge will more than make up for the delay in cash receipts. Sometimes you can combine products and services together with special offers and special promotions. Sometimes you can include free additional items that cost you very little to produce but make your prices appear far more attractive to your customers.

In business, as in nature, whenever you experience resistance or frustration in any part of your sales or marketing activities, be open to revisiting that area. Be open to the possibility that your current pricing structure is not ideal for the current market. Be open to the need to revise your prices, if necessary, to remain competitive, to survive and thrive in a fast-changing marketplace.

**Promotion**

The third habit in marketing and sales is to think in terms of promotion all the time. Promotion includes all the ways you tell your customers about your products or services and how you then market and sell to them. Small changes in the way you promote and sell your products can lead to dramatic changes in your results. Even small changes in your advertising can lead immediately to higher sales. Experienced copywriters can often increase the response rate from advertising by 500 percent by simply changing the headline on an advertisement.

Large and small companies in every industry continually experiment with different ways of advertising, promoting, and selling their products and services. And here is the rule: Whatever method of marketing and sales you’re using today will, sooner or later, stop working. Sometimes it will stop working for reasons you know, and sometimes it will be for reasons you don’t know. In either case, your methods of marketing and sales will eventually stop working, and you’ll have to develop new sales, marketing and advertising approaches, offerings, and strategies.

**Place**

The fourth P in the marketing mix is the place where your product or service is actually sold. Develop the habit of reviewing and reflecting upon the exact location where the customer meets the salesperson. Sometimes a change in place can lead to a rapid increase in sales.
You can sell your product in many different places. Some companies use direct selling, sending their salespeople out to personally meet and talk with the prospect. Some sell by telemarketing. Some sell through catalogs or mail order. Some sell at trade shows or in retail establishments. Some sell in joint ventures with other similar products or services. Some companies use manufacturers’ representatives or distributors. Many companies use a combination of one or more of these methods.

In each case, the entrepreneur must make the right choice about the very best location or place for the customer to receive essential buying information on the product or service needed to make a buying decision. What is yours? In what way should you change it? Where else could you offer your products or services?

Packaging
The fifth element in the marketing mix is the packaging. Develop the habit of standing back and looking at every visual element in the packaging of your product or service through the eyes of a critical prospect. Remember, people form their first impression about you within the first 30 seconds of seeing you or some element of your company. Small improvements in the packaging or external appearance of your product or service can often lead to completely different reactions from your customers.

Packaging refers to the way your product or service appears from the outside. Packaging also refers to your people and how they dress and groom. It refers to your offices, your waiting rooms, your brochures, your correspondence and every single visual element about your company. Everything counts. Everything helps or hurts. Everything affects your customer’s confidence about dealing with you.

Positioning
The next P is positioning. You should develop the habit of thinking continually about how you are positioned in the hearts and minds of your customers. How do people think and talk about you when you’re not present? How do people think and talk about your company? What positioning do you have in your market, in terms of the specific words people use when they describe you and your offerings to others?

In the famous book by Al Reis and Jack Trout, *Positioning*, the authors point out that how you are seen and thought about by your customers is the critical determinant of your success in a competitive market.
marketplace. Attribution theory says that most customers think of you in terms of a single attribute, either positive or negative. Sometimes it’s “service.” Sometimes it’s “excellence.” Sometimes it’s “quality engineering,” as with Mercedes Benz. Sometimes it’s “the ultimate driving machine,” as with BMW. In every case, how deeply entrenched that attribute is in the minds of your customers and prospective customers determines how readily they’ll buy your product or service and how much they’ll pay.

Develop the habit of thinking about how you could improve your positioning. Begin by determining the position you’d like to have. If you could create the ideal impression in the hearts and minds of your customers, what would it be? What would you have to do in every customer interaction to get your customers to think and talk about you in that specific way? What changes do you need to make in the way you interact with customers today in order to be seen as the very best choice for your customers of tomorrow?

People

The final P of the marketing mix is people. Develop the habit of thinking in terms of the people inside and outside of your business who are responsible for every element of your sales and marketing strategy and activities.

It’s amazing how many entrepreneurs and businesspeople will work extremely hard to think through every element of the marketing strategy and the marketing mix, and then pay little attention to the fact that every single decision and policy has to be carried out by a specific person in a specific way. Your ability to select, recruit, hire and retain the proper people, with the skills and abilities to do the job you need to have done, is more important than everything else put together.

In his best-selling book, *Good to Great*, Jim Collins discovered the most important factor applied by the best companies was that they first of all “got the right people on the bus, and the wrong people off the bus.” Once these companies had hired the right people, the second step was to “get the right people in the right seats on the bus.”

To be successful in business, you must develop the habit of thinking in terms of exactly who is going to carry out each task and responsibility. In many cases, it’s not possible to move forward until you can attract and put the right person into the right position. Many
Chapter 3: Basic Marketing Concepts

Other Marketing Processes

Following is an explanation of additional marketing concepts that will be useful to the reader. Each of the concepts will be addressed in greater detail later in the book.

Marketing Planning

Marketing planning may be defined as the development of a systematic process for promoting an organization, a service, or a product. This straightforward definition masks the wide variety of activities and potential complexity that characterize marketing planning. Marketing planning may be limited to a short-term promotional project or may be a component of a long-term strategic plan. It can focus alternatively on a product, a service, a program, or an organization. The marketing plan should summarize a company’s marketing strategy and serve as a guide for all those involved in the company’s marketing activities.

Of the various types of planning that could be carried out by a healthcare organization, marketing planning is most directly related to the customer. Marketing plans are, by definition, market driven, and they are single-minded in their focus on the customer. Whether the targeted customer is the patient, the referring physician, the employer, the health plan, or any number of other possibilities, the marketing plan is built around someone’s needs. Although a consideration of internal factors is often pertinent (and internal marketing may be a component of many marketing plans), the marketing plan focuses on the characteristics of the external market with the objective of changing one or more of these characteristics.

Marketing Management

Marketing management refers to the analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives. The steps involved in the marketing management process include

(1) analyzing marketing opportunities, (2) selecting target markets, (3) developing the marketing mix, and (4) managing the marketing effort.

Although marketing management is a well-defined function in most industries, it is still in its infancy in healthcare. The fragmented approach to much of the marketing that has taken place and the immature status of marketing in healthcare are reflected in the slow development of marketing management skills.

**Marketing Research**

*Marketing research* is the function that links the consumer, customer, and public to the marketer through information used to identify and define marketing opportunities and problems; to generate, refine, and evaluate marketing actions; to monitor marketing performance; and to improve understanding of the marketing process. Often used interchangeably with the term *market research*, marketing research also encompasses product research, pricing research, promotional research, and distribution research. The marketing research process serves to identify the nature of the product or service, the characteristics of consumers, the size of the potential market, the nature of competitors, and any number of other essential pieces to the marketing puzzle.

**Summary**

As the healthcare industry has come to accept marketing as a legitimate function, health professionals have been exposed to a new vocabulary—the language of the marketer. Because health professionals hold various misconceptions about marketing, it is important that all be on the same page when it comes to marketing terminology. Many marketing terms could be adopted by healthcare organizations unchanged, whereas others require modification based on the unique characteristics of healthcare.

Health professionals have many misperceptions about what marketing is and what its functions are. Marketing cannot be pigeonholed as advertising, direct mail, or any specific activity; it involves a whole range of activities, from conducting marketing research to evaluating a completed promotional campaign. Further, the functions of marketing are numerous and range from big-picture functions, such as determining the strategic direction of the health system, to highly focused functions, such as increasing participation in a patient education class.

The healthcare industry presents a challenge in the application of marketing techniques. The concept of “market” does not exist in healthcare like it does in other industries, health professionals do not think in terms of prod...
ucts, and the nature of the customer is highly complex. A change of mind-set on the part of health professionals is required for marketing to be effectively used within the healthcare arena.

The traditional four Ps of marketing—product, price, place, and promotion—have been adapted to healthcare, although not without some limitations. All four are somewhat problematic when applied to healthcare because of the peculiar characteristics of the industry. As a result, attempts have been made to modify these components of the marketing mix or replace them with concepts that are more suitable to the healthcare environment.

### Key Points

- The field of marketing has its own vocabulary with which health professionals must become familiar.
- The healthcare field can adopt many marketing concepts directly from other industries, but others must be modified to address the uniqueness of healthcare.
- Marketing should be viewed in the broadest possible light—not simply as a set of marketing tools, but as a contributor to organizational development.
- Marketing serves a number of functions in healthcare, and healthcare administrators should be sensitive to the implications marketing has for different levels of the organization.
- A wide range of marketing techniques are available to marketers, and their choice of technique depends on the circumstances.
- The traditional four Ps of the marketing mix—product, price, place, and promotion—can be applied to healthcare with modifications.
- The marketing function involves much more than promotions and must consider such processes as marketing research, marketing planning, and marketing management.

### Discussion Questions

- Why is it difficult to directly apply the marketing approaches used in other industries to healthcare?
- Why do many health professionals have a misconception concerning the nature of marketing, and what are these misconceptions?
- What is the distinction between goods and services, and what are the implications of these differences for healthcare?
• What is the role of marketing as it relates to the various levels of the healthcare organization (e.g., senior managers versus product line managers)?
• Which components of healthcare marketing have health professionals been comfortable with historically, and which techniques are gaining more acceptance today?
• What factors have contributed to the conversion of the patient into a consumer, customer, or client, and what are the implications of this conversion on marketing?
• What characteristics of healthcare make it difficult to apply the four Ps of marketing directly to the healthcare organization?

Additional Resources

American Marketing Association website: www.marketingpower.com
MarketingProfs website: www.marketingprofs.com
Different types of healthcare organizations accepted marketing as a corporate function at different times and at different rates. At any point in time, different healthcare organizations are at different stages in the marketing progression. The role of marketing for various organizations is reviewed in this chapter, along with healthcare organizations’ perspectives on marketing as a profession and as a component of the healthcare delivery system. This chapter also describes the evolving relationship between the marketing profession and the various types of healthcare organizations, and considers the challenge of integrating marketing with more traditional healthcare functions.

Factors Affecting the Adoption of Marketing

For-profit commercial businesses in consumer or industrial settings have historically led the way in terms of formal marketing activities. From the start of the marketing era, traditional businesses employed the full range of marketing techniques, including advertising. The same was true of traditional businesses in healthcare, such as consumer products companies and retail-oriented healthcare organizations. As early as the 1950s, numerous healthcare brands had become household names as a result of aggressive marketing.

Marketers of consumer health products typically used the same techniques as companies marketing other types of consumer products. However, some approaches unique to healthcare emerged. Insurance companies pioneered the concept of group sales, for example, and pharmaceutical companies developed physician-oriented sales approaches. In general, however, the primarily nonprofit nature of the industry mitigated against the widespread acceptance of marketing. Healthcare purists often equated marketing with advertising and considered it as incompatible with the principles of a charitable organization. These organizations were inherently conservative and generally