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Lessons for competitive healthcare strategy

What executives need to know in the 21st century

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As healthcare has slowly transitioned from a relatively undeveloped part of American business to a significant and growing sector of the U.S. economy, business practices such as competitive strategy development have become more relevant and significant.

Size and scale make competitive strategy more pertinent. But the increasing deregulation of healthcare delivery, as demonstrated by abandoned or weakened certificate-of-need requirements and the end of rate regulations in all states but Maryland, has brought competition to the forefront of healthcare executives' agendas. And an excess supply of providers, cost escalation and the emergence of price as a factor in buyer decisions, technological advances, the Net, and managed care firms exerting their market power to decrease utilization and extract price concessions have all contributed to an unstable and highly competitive healthcare marketplace.



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10 healthcare competitive strategy lessons

Voluminous amounts of research and literature are available on competitive strategy outside of the healthcare industry, and some notable publications by Zajac, Shortell, Ginn, Cleverly, Harvey, Langabeer,

Duncan, Ginter, Swayne, and others illustrate how competitive strategy is beginning to be applied by healthcare organizations.

Competitive strategy is a highly complex topic that is not easily reduced to sound bytes. However, there are 10 lessons that can serve as a framework for healthcare organizations seeking to move their current competitive strategy to more contemporary and advanced levels.

Lesson 1: Commit to competing

Some executives would like to ignore or deny that healthcare organizations are operating in a fiercely competitive market. The harsh fact is that every service or product healthcare organizations offer operates in a competitive market.

Geographic barriers no longer provide substantial protection in this era of high-tech communication. The real or imagined safe harbor for nonprofit healthcare providers is long gone. Healthcare organizations must commit to being serious competitors, and competitive strategy must be embraced as a fundamental element of the organization's identity. Critically evaluating the organization and its products or services, tracking current and future competitors, monitoring the changes in service areas—these activities must become valued and respected initiatives that could well determine whether or not an organization survives the battle for market share.

Lesson 2: Avoid copycat strategies

Diversification in the 1980s and integrated delivery systems in the 1990s have provided compelling evidence that the herd mentality is alive and thriving in healthcare. But research to date illustrates that no one strategy is a silver bullet for every organization in every situation.

Some frameworks have demonstrated notable success, but they depend heavily on market conditions and the organization's capacity to implement strategies effectively. Copycat strategies should be viewed with substantial skepticism. It's necessary to define your competitor's specific strategy, but usually the value of this understanding is that it provides a sound basis for devising an appropriate counterstrategy.

Lesson 3: Realize success cannot be found in a cookbook

A competitive strategy cookbook with well-tested, guaranteed successful recipes has yet to be written, although it would be a best seller. For much of the past 20 years, relatively simple competitive strategies could lead to moderate or even great success among healthcare providers. In the past few years, few organizations have been left unscathed by a significant economic pressures in the healthcare industry. Reimbursement cutbacks have undoubtedly contributed to providers' woes, but poorly conceived competitive strategy, often in the form of copycat or cookbook approaches, are to blame as well. Competitive strategy that is employed with rigor and foresight, and sustained with creativity and good old-fashioned hard work is the best path to success in the coming decades.

Lesson 4: Build good strategy with good intelligence

Competitor and market intelligence form the foundation for successful competitive strategy. Unfortunately, most healthcare organizations are plagued by weak or nonexistent systems for gathering intelligence. For far too long, hospitals and systems have claimed that a lack of meaningful data rendered thoughtful and thorough planning impossible.

Organizations that have broken this cycle of making excuses and remaining inwardly focused have been rewarded with a wealth of useful information on competitors and the market. Much of this information is available in the public domain (such as federal filings, state reports, annual reports, and Web sites), but targeted primary research can fill knowledge gaps.

Lesson 5: Build strong strategy with analysis

In-depth and comprehensive intelligence should lead to rigorous analysis that reveals valuable information and insights. Historically this analysis has been directed at evaluating the operations and activities of competitors.

More effort is now needed to assess potential opportunities in the market that may give rise to future competitors, and to evaluate market conditions and dynamics. These activities all need to focus on past and present conditions, but must also project into the future to look at potential scenarios that could occur, and the subsequent competitive responses that may be needed.

Lesson 6: Envision the future

History shows us how unpredictable the future can be. Look at what happened in the wake of widespread speculation that managed care would sweep the country by 2000. Despite its inherently elusive nature, envisioning the future is a key element of competitive strategy. Multiple scenarios of future characteristics and conditions must be examined. And importantly, strategies or plans must include contingency plans for responding to potential market fluctuations or deviations. Competitive strategy will be employed in the future. Thus the time you spend envisioning the future will help ensure that your strategies are appropriate for a projected future state and ultimately have a chance for success.

Lesson 7: Develop a vision

Although the "vision thing" has been the subject of some derision in recent years, having a vision is an essential component of effective competitive strategy. If leaders do not know where they want the organization to go, it is impossible to design a competitive strategy for getting them there. The vision can serve as the beacon on the horizon, while competitive strategy provides the navigational tools. The most effective vision statements present a desired future state that is achievable, but also a stretch from the current position.

Lesson 8: Address the accelerating pace of change

At the heart of the need to develop a new generation of more rigorous and creative competitive strategies is acknowledgment of the accelerating pace of change in a much more dynamic and global business environment.

While the healthcare industry lags behind the general business community due to a number of factors, including greater regulation, the pace of change in healthcare continues to accelerate monthly.

Frameworks established as recently as the late 1980s and early 1990s are far too static and basic to be very relevant in the early 21st century. Competitive strategy must recognize the inevitability of rapid change, and be monitored to ensure that it continues to meet the needs of a shifting marketplace.

Lesson 9: Apply advanced competitive strategy

Sustainability, continuity, dynamism, and reinvention characterize competitive strategy approaches presented in general business literature. Achieving competitive advantage is of little or no value unless it is sustained. How is competitive advantage sustained? Creating formidable barriers to imitation and implementing strategies that are truly different from competitor initiatives will enable organizations to sustain competitive advantage over the long haul.

What is "competitive strategy" ?

A single, mutually agreed-upon definition of competitive strategy has not emerged to date, but Michael Porter (1985), one of the most prominent authorities on the topic writes:

"Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is a search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition."

Luke and Begun (1993) build upon Porter's definition: *"[Competitive] strategy is an integrating set of ideas and concepts that guide an organization in its attempts to achieve competitive advantage over its rivals."*

Porter (1996) later refines his ideas on the essence of competitive strategy:

"[C]ompetitive strategy is about being different. It is choosing a different set of activities to deliver a unique mix of value."

But even advantages that are sustained can only be nurtured for so long before they are eroded or markets change substantially. Thus, competitive strategy is an ongoing process that cannot rest on past success.

Lesson 10: Apply the new competitive strategy

Healthcare providers will most likely continue to lag behind other U.S. business sectors in applying new models of competitive strategy. But these frameworks will eventually appear on the radar screens of healthcare executives. Three factors will be featured prominently in the next generation of competitive strategy: the Internet, e-commerce, and genomics.

The Internet will feature an unimaginable amount of public information that will influence consumer awareness and choice. E-commerce has the potential to redefine and redraw healthcare markets. Genomics could eliminate many common diagnosis and treatment methods, and usher in new forms of disease management and care.

The only certainty about the future is its uncertainty. Healthcare organizations that intend to thrive in the coming years must be willing to place competitive strategy at the top of their agendas and dedicate the resources and attention it deserves as the make or break issue for healthcare providers.

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