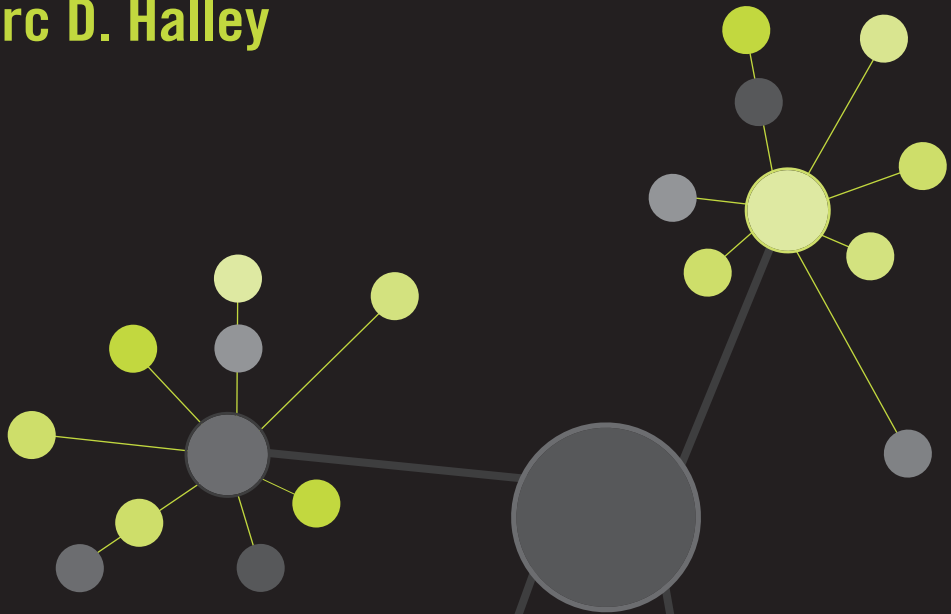


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THE PRIMARY CARE—MARKET SHARE CONNECTION

HOW HOSPITALS ACHIEVE COMPETITIVE ADVANTAGE



Introduction

Some of the ideas and perspectives presented in this book, particularly ideas about market share and competitive strategy, run contrary to the prevailing view of the hospital as the center of the healthcare marketing universe. As I emphasize throughout the book, if the success of a business is based on capturing and retaining market share, hospitals and invasive specialty physicians¹ are poorly positioned to do so.

Traditional measures of market share, which revolve around hospital admissions and discharges, are merely measures of throughput. While invasive specialties put huge dollars on the hospital revenue line, they do so on the basis of cases (again, throughput) rather than market share. Both hospitals and specialists are critical to healthcare in the communities they serve, yet both are highly dependent on referrals and are therefore potentially vulnerable to an astute competitor who understands that primary care providers attract, retain, and direct most patients or customers. The true measure of market share is the number of primary care providers (each of whom retains somewhere between 2,000 and 5,000 patients in a practice) who prefer a hospital and its affiliated specialty physicians and will refer patients to both, as the occasion requires. In short, *primary care = market share*, and the success and affiliation of primary care providers should be the concern of hospital strategists, group practice executives, and specialty physicians alike.

The concept of primary care providers (both physicians and others) as the holders of market share dramatically affects my view of sustainable competitive advantage. Despite the trend toward developing more sophisticated service lines, despite brand identity, despite community image, and despite the trend toward employing specialty physicians, referrals from primary care physicians drive the success of most specialty practices and most hospitals. (Yes, I know all about emergency department volumes and the resulting admissions, but those numbers will not be enough to sustain most acute care facilities.) Very few “Mayos” and “Cleveland Clinics” exist in the United States that can claim even regional name recognition. Most providers operate in an environment where achieving true sustainable differentiation in the minds of consumers in a single community is difficult at best. Consequently, a sustainable competitive advantage must begin with a primary care strategy—what I call “retail strategy”—that is integrated with specialists, service lines, and hospitals. The resulting continuum of services captures and retains patients and their money (or insurance) in the system before competitors can do the same. (Just owning a few—or several—primary care practices does not qualify as a retail strategy.)

At this point, some readers may think that the concepts in this book are just more of the same “integration stuff” we tried and failed to achieve in the 1980s and 1990s. My career has spanned both decades, and I am firmly convinced that nothing was wrong with the integration model. We (myself included) fouled up the implementation because we treated everything as a department of the hospital rather than as a unique business with different rules for success. We are seeing this same blunder committed by some hospital executives today, as they build or acquire primary care and specialty practices and employ physicians.

Hospital and health system executives who are looking to increase or protect direct referrals from primary care providers, or indirect referrals from primary care providers through affiliated specialists, will find the concepts presented in this book essential to their success. Based on my consulting experience in multiple markets, both large and small,

I am convinced that those who stick with the standard “build it and they will come” mentality and who ignore the need to attract primary care market share will ultimately succumb to more astute competitors. Sole community hospitals are also at risk from limited-services providers (e.g., ambulatory surgery centers, diagnostic imaging centers), some of which operate below the radar, even in certificate-of-need states. My colleagues and I have occasionally been called on to work with hospitals that are attempting to catch up with competitors that have already captured market share in their numerous affiliated primary care practices. The challenge of coming from behind, especially in markets with slower population growth, is almost overwhelming—politically, strategically, and financially.

This book presents a different perspective on the concept of integrated medical services. Here, I offer a competitive model based on the needs, wants, and priorities of various customers (including referring physicians) and the roles of physicians and hospitals in meeting those needs, wants, and priorities to achieve a sustainable competitive advantage. Hospital executives, whether they are managing single service lines or entire regional systems, will clearly understand the importance of placing affiliated primary care providers throughout their primary and secondary markets to capture and retain market share—one small community or neighborhood at a time. They will also clearly see the critical role of relationship management in connecting their affiliated specialists to this captured market share and in attracting referrals to the hospital and its various services. Readers will understand the vital role of the hospital chief executive officer in managing what has been termed a “demand chain” (Blackwell 1997).

This book is for those who provide medical services rather than products or financing. I apologize to readers who are seeking a discussion about the critical interrelationships among services, products, and payers. My decision to focus largely on service providers is not intended to discount those relationships or the essential role of each component of this complex industry we call healthcare. Instead, this book is an attempt to clarify, to simplify, and to focus on a particular aspect of properly integrated medical services.

Hospitals and health systems continue to focus the majority of their capital dollars on bricks and mortar, new equipment, new service lines, patient satisfaction programs, and now the employment of specialty physicians. All this investment, some of which is absolutely necessary, presumes that patients will come if we have the facilities, equipment, and services available and if we promote them effectively. What this presumption ignores is the reality that as consumers we do not worry much about those services (most of which we cannot even pronounce) until we need them. Then, unprepared to make decisions about complex medical issues, most of us are totally dependent on our “regular doctor” to guide us through the maze of healthcare alternatives and risks. That regular doctor is likely to be a primary care provider whose preferences and affiliations will dominate his or her referral decisions. I contend that hospital executives and strategists should spend as much energy and capital on capturing their market share in primary care practices (owned or affiliated) as they do on preparing to meet complex clinical needs. Rather than concentrating on the back end of the food chain, we must look at the front or opposite end, where “Mrs. Smith” makes the majority of healthcare purchasing decisions for her family and where primary care providers deliver the majority of the services she selects.

NOTE

1. For our purposes, invasive specialties include all the surgical specialties and others whose practices are procedure oriented (e.g., invasive cardiologists). Patients generally do not self-refer to invasive specialists. Noninvasive specialties include those who provide largely cognitive services.

REFERENCE

Blackwell, R. D. 1997. *From Mind to Market—Reinventing the Retail Supply Chain*. New York: HarperCollins.