

THE ORIGIN AND EVOLUTION OF MARKETING IN HEALTHCARE

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

The History of Marketing

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

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

Production

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

Stage 1: The Rise of Product Differentiation and Consumerism

A wide variety of new products and services emerged during the postwar period, particularly in consumer goods industries. Newly empowered consumers demanded a growing array of goods and services. This development contributed to the emergence of marketing for three primary reasons. First,

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

As a result of these developments, the seller's market was transformed into a buyer's market. Once the consumer market began to be tapped, the highly elastic demand for many types of goods became evident. The prewar mentality had emphasized meeting consumer needs and assumed that a population could purchase only a finite amount of goods and services. With the increase in discretionary income and the introduction of consumer credit after World War II, consumers began to satisfy wants. Fledgling marketers discovered that not only could they influence consumers' decision-making processes but they also could create demand for certain goods and services.

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

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

Underlying these developments was the growing emphasis on change itself. As society continued to undergo major transformations, change had not only become accepted as inevitable but also began to take on a positive connotation. Newly empowered consumers demanded an ever-growing array of goods and services. The future orientation emerging within society further underscored the importance of change in forging a path to a better future. People began changing jobs, residences, and even spouses at a rate

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

unheard of to their forebears. The social and economic advancement of each generation, improving over the previous one, became a maxim—a part of the American dream.

Stage 2: The Shifting Role of Sales

The second stage of marketing evolution focused on **sales**. Many US producers had enjoyed regional monopolies (or at least oligopolies) since the dawn of the Industrial Age. Under these conditions, sales representatives took orders from what were essentially captive **audiences**. Marketing would have been considered an unnecessary expense under this scenario. However, as competition increased in most industries after World War II, these regional monopolies began to weaken.

The emphasis on sales that characterized the economy during the last third of the twentieth century continued to reflect the production orientation of society. Sales representatives eventually served as a bridge between the production economy and the service economy as they developed and maintained relationships. Their roles progressed from being “order takers” to being “consultants” to their clients, sending information from customers back to producers and facilitating the emergence of a market orientation in American business. Even so, the emphasis on sales continued to overshadow the nascent emphasis on services.

Sales

An approach to business that emphasizes transactions rather than promotions

Audience

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

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

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

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

approaches to the marketing of services had to be developed as the United States became a service-oriented economy.

Stage 4: The Rise of the Electronic Age

As the twenty-first century dawned, healthcare marketing like marketing in other sectors of the economy experienced an electronic revolution. Electronically empowered consumers could now research, compare, and buy health-related products on the World Wide Web and, with the advent of social media, instantaneously share their healthcare experiences and opinions on the services they received. In addition, consumers could consult websites for information on medical conditions, healthcare providers, and healthcare facilities. Healthcare organizations, too, began to increasingly incorporate electronic health records and other secure data systems into their operations. Healthcare organizations also started to offer a growing number of options for interacting with their patients online—through websites, blogs, and social networks, among others.

Social networking sites like Facebook—through profiles “owned” by an organization, a provider, or an individual consumer—have become forums for consumers to discuss the quality of care at a facility, a doctor’s characteristics or expertise, general information about a provider or a group, disease symptoms and diagnoses, treatment options, pricing or cost of services, and healthcare industry news. For example, when the **Patient Protection and Affordable Care Act (ACA)** was enacted in 2010, social networks were abuzz with information (and misinformation) on the healthcare reform’s provisions and implementation. (This edition devotes Chapter 11 to social media, reflecting this topic’s ascendancy in American society.)

Patient Protection and Affordable Care Act (ACA)
2010 legislation that aims to expand health insurance coverage and improve healthcare delivery and quality

The Introduction of Marketing in Healthcare

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

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

Most large provider organizations also had communications functions (often under the auspices of the public relations department). Communications staff would develop materials to disseminate to the public and to the employees of the organization, such as internal—and, later, patient-oriented—newsletters and patient-education materials.

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

Healthcare organizations of all types were involved in informal promotional activities to an extent. Hospitals sponsored health education seminars, held open houses at new facilities, or supported community events. Hospitals marketed themselves by making their facilities available to the community for public meetings and otherwise attempting to be good corporate citizens. Physicians marketed themselves through such activities as networking with colleagues at the country club, sending letters of appreciation to referring physicians, and providing services to high school athletic teams. See Exhibit 1.1 for a discussion of some of the key developments in the history of healthcare marketing.

Although the 1970s marked the formal emergence of marketing in the health services industry, few healthcare organizations—as organizations—had yet bought into marketing. For-profit hospital chains like Columbia and HCA may have had more of a marketing orientation, while Evanston (Indiana) Hospital had a vice president of marketing in 1976. However, many observers of the field would cite the publication of Philip Kotler's (1975) *Marketing for Non-Profit Organizations* as the event that legitimized marketing within the **not-for-profit** healthcare sector.

The emergence of marketing in healthcare was driven by a handful of assertive and creative people who took the initiative and, often against great odds, established marketing programs. True, a few healthcare organizations developed permanent marketing programs early on, but the inroads marketing made in the 1970s and 1980s were a result of the tenacity of a handful of true believers.

The field was given impetus by the pioneering activities of Scott MacStravic and popularized through his 1977 book *Marketing Health Care*. MacStravic served as an officer in various professional organizations for healthcare marketers and strategists and helped establish
(continued)

EXHIBIT 1.1 A Brief History of Healthcare Marketing

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

healthcare marketing as a separate profession. In the academic arena, Eric Berkowitz, a marketing professor at the University of Massachusetts, built on Kotler's early work and helped establish healthcare marketing as a legitimate component of academic marketing through numerous books and articles on the topic. Other academics who contributed to the establishment of healthcare marketing were Steven W. Brown, who contributed numerous publications in the 1980s, and Roberta Clark, who collaborated with Kotler in applying marketing principles to healthcare.

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 to 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.

By the 2000s, the marketing activities of hospitals were beginning to look more like those of their counterparts in the for-profit sector (e.g., pharmaceutical companies, medical device companies). The typical hospital marketing department included a staff of five or more with budgets in the millions of dollars. Marketing executives were increasingly at the vice president level, earning salaries comparable with those of other healthcare executives.

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 publications as well (such as in *Advertising Age*). Numerous newsletters are devoted to healthcare marketing or some component of it, such as health communications or public relations.

Associations for healthcare marketers have been established, such as the **Society for Healthcare Strategy & Market Development** of the American Hospital Association. The **American Marketing Association** has an active healthcare marketing division, and one of its eight special interest groups is devoted to healthcare.

Society for Healthcare Strategy & Market Development

A division of the American Hospital Association that serves marketing and planning professionals in healthcare

American Marketing Association

The primary organization devoted to the marketing field

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

All of 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 are discussed throughout this book.

Periods of Growth for Healthcare Marketing

The periods through which marketing has evolved in the healthcare setting are outlined in this section. Exhibit 1.2 summarizes the implications of this evolution for the hospital industry.

The 1950s

Although the 1950s are often viewed as the “age of marketing,” marketing did not appear on healthcare’s radar screen until much later. The emerging pharmaceutical industry, however, was beginning to market to physicians, and the fledgling insurance industry was beginning to market health plans to consumers. In the healthcare trenches, providers were light-years away from formal marketing activities. Hospitals and physicians, for the most part, considered marketing (read: advertising) to be inappropriate and even unethical. This stance, however, did not preclude hospitals from offering free educational programs or implementing public relations campaigns, nor did it prevent physicians from cozying up to potential referring physicians and networking with colleagues at the country club. At the time, these activities were not thought of as marketing.

Business Orientation	Manufacturer	Hospital
Production	Produce quality product	Deliver quality care
Sales	Generate volume	Fill hospital beds
Marketing	Satisfy consumer needs/wants	Satisfy consumer needs/wants

EXHIBIT 1.2
The Evolution
of Marketing in
Healthcare

Monopoly

One organization controls the total market for a good or service

Oligopoly

A few organizations dominate a market or an industry

Electronic media

Media that transmit content electronically, such as radio, TV, and the Internet

As the hospital industry came of age and many new facilities were established, the industry continued to reflect a production orientation, which was by then waning throughout the rest of the economy. The demand for physician and hospital services was considered inelastic, and little attention was paid to the characteristics of either current patients or prospective customers. The emphasis was on providing quality care, and most providers held **monopolies** or **oligopolies** that shielded them from competition within their markets.

The 1960s

As the health services sector expanded during the 1960s, the role of public relations was enhanced. Although the developments that would force hospitals and other healthcare organizations to embrace marketing were at least a decade away, the public relations field was flourishing. This relatively basic marketing function was the healthcare organization's primary means of keeping in touch with its various stakeholders.

The stakeholders of this period were primarily the physicians who admitted or referred patients to healthcare facilities and the donors who made charitable contributions to the organization. Consumers were not considered an important constituency because they did not directly choose hospitals but were referred by their physicians. The use of media to advance strategic marketing objectives had not evolved, and media relations in this era often consisted of answering reporters' questions about patients' conditions.

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

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

The 1970s

During the 1970s, urgency began to grow among hospitals with regard to promoting their services within the community. The desire for greater market presence was reinforced by the growing conviction that, in the future, healthcare organizations were going to have to be able to attract customers. Many organizations expanded their public relations functions to include a broader

marketing mandate. These types of activities appeared to be particularly common in parts of the country where health maintenance organizations were emerging.

The for-profit hospital sector also grew in importance during the 1970s. With few limits on reimbursement, both not-for-profit and for-profit hospitals expanded their services. Continued high demand for health services and the stable payment system created by Medicare made the industry attractive to investor-owned companies. Numerous national for-profit hospital and nursing home chains emerged during this period.

Some early attempts at **advertising** health services were made, and interest in marketing research was beginning to emerge. These activities by the healthcare establishment were “officially” recognized—and given legitimacy—at a conference on marketing sponsored by the American Hospital Association during the mid-1970s. The marketing movement in healthcare was given further impetus by rulings that relaxed the restrictions on advertising, imposed early on by various regulatory agencies, for healthcare providers.

For hospitals, the sales era began in the mid-1970s with the changes that occurred in reimbursement. Under cost-based reimbursement (e.g., Medicare), competition with other hospitals had not been a major concern. Hospitals had ample patients, and occupancy rates were high. The top priority was to attract as many customers as possible by enticing physicians to admit their patients. To this end, hospitals developed physician relations programs and offered other enticements to encourage physician loyalty (Berkowitz 2010).

When hospitals recognized that patients might play a role in the hospital selection decision, a second strategy for selling to the public emerged. In the mid-1970s, some hospitals adopted mass advertising strategies to promote their programs, including billboard displays and television and radio commercials that tout a particular service. The goal of the marketer was to convince prospective patients to use his hospital when presented with a choice between competing hospitals (Berkowitz 2010). Communication efforts were beginning to be targeted toward patients, and patient satisfaction research grew in importance. Even so, marketing in the sense of managing the flow of services between an organization and its customers was still not a recognized function of most healthcare organizations. See Exhibit 1.3 for a chronology of the development of healthcare marketing.

The 1980s

If healthcare marketing was born in the 1970s, it came of age in the 1980s. The healthcare industry had evolved from a seller’s market to a buyer’s market, a change that was to have a profound effect on the marketing of health services. Employers and consumers had become purchasers of healthcare, and

Advertising

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

EXHIBIT 1.3 Healthcare Marketing Timeline

	1950	1960	1970	1980	1990	2000	2010
Stage:	Premarketing			Introduction	Growth		Maturity
Primary techniques:	Public relations Communication	Government relations	Advertising Marketing research	Direct marketing Personal sales	Direct-to-consumer Relationship marketing Social marketing Internet marketing		Social media
Main theme:	Publicity Information management	Regulatory influence Consumer research	Sales Technology applications		Relationship management	Consumer engagement	
Marketing target:*	General public	Government agencies Health plans	Physicians Employers		Referral agents Businesses	Consumers Market segments	

*Patient care organizations

the physician's role in referring patients for hospital services was beginning to diminish. The hospital industry continued to grow during the 1980s, as centrally managed health systems (both for-profit and not-for-profit) expanded and national chains of hospitals, nursing homes, and home health agencies were established.

Marketers had to begin looking at target audiences in an entirely different way, and the importance of consumers was heightened by changes in insurance reimbursement patterns. Hospitals began to think of medical care in terms of product or service lines, a development that had major consequences for the marketing of health services. Hospitals realized that marketing directly to consumers for such services as obstetrics, cosmetic surgery, and outpatient care could generate revenue and enhance **market share**.

Although marketing was beginning to be accepted in healthcare, the industry suffered from a lack of professional marketing personnel. Few marketers had experience with healthcare, and attempts at importing marketing techniques from other industries were generally unsuccessful. Many healthcare administrators still saw marketing as an expensive gimmick and considered marketers to be outsiders with no place in healthcare.

The rise of service-line marketing launched the great hospital advertising wars of the 1980s. Barely a blip on the healthcare marketing radar screen a decade earlier, advertising grew dramatically during this decade. In 1983, hospitals spent \$50 million on advertising; by 1986, that figure had risen to \$500 million, a tenfold increase in three years. Once an enterprise of dubious respectability, advertising was now hailed as a marketing panacea for hospitals (Berkowitz 2010).

A growing number of **health professionals** who suddenly found themselves in competition for patients came to see marketing as a key to competitive success. This perception brought about a surge in advertising activity by large healthcare organizations. Unfortunately, much of the advertising of the mid- to late 1980s was ineffectual at best and disastrous at worst. Many campaigns were poorly conceived and wasted an enormous amount of money. Ad copy tended to be institutionally focused, and healthcare marketing initiatives lacked the impact of the advertising produced in other industries—in large part because of the conservative, risk-averse culture of hospitals.

Advertising came to be the activity that epitomized marketing for many in healthcare during this period. Marketers themselves perpetuated this notion, and even today, many healthcare executives equate marketing with advertising. Ultimately, the surge in advertising was both a blessing and a curse. On the one hand, advertising campaigns were something relatively concrete; an organization could invest in them and reasonably expect to incur some benefit as a result. On the other hand, the ineffectiveness of much of this advertising and the negative fallout it often generated were setbacks for

Market share

The percentage of the total market captured by a company

Health professional

A trained individual who performs a clinical, an allied health, an administrative or a managerial, or a technical duty

the proponents of healthcare marketing. After experiencing the initial rush of seeing their billboards and television commercials, hospital administrators began to question the expense and, more important, the effectiveness of the marketing initiatives they were funding.

During the 1980s, healthcare organizations faced serious financial retrenchment. Hospitals were looking for cuts wherever they could find them, and marketing expenditures were easy targets. Budgets were cut and marketing staff were laid off. Although the marketing function was not entirely eliminated, it was often incorporated under the umbrella of business development or strategic planning. In many organizations, marketing was squeezed out of the budget and kept alive by just a few dedicated marketing professionals. In some healthcare organizations, marketing disappeared as a corporate function and was never reinstated. On the positive side, this retrenchment allowed healthcare marketers to reassess the field and concentrate on developing baseline data that could be used when a marketing revival occurred.

Despite these setbacks, consumer research in healthcare came into its own during this decade. Most hospitals had conducted patient satisfaction research for some time, but consumer research was virtually unknown until the 1970s. By the mid-1980s, a majority of hospitals were conducting physician and consumer research. The latter was crucial in developing advertising messages and monitoring the success of marketing programs.

The 1990s

Healthcare became more market driven in the 1990s, and the marketing function grew in importance in healthcare organizations. The institutional perspective that had long driven decision making gave way to market-driven decision making. Every hospital was trying to win the hearts and minds of healthcare consumers.

Advertising by healthcare organizations resurged during the mid-1990s, spurred by the massive wave of hospital mergers. The consolidation of healthcare organizations into ever-larger **healthcare systems** resulted in the creation of larger organizations with expanded resources and more sophisticated management. Many executives entered the field from outside of healthcare, bringing a more businesslike mind-set with them.

The consumer was rediscovered during this process, and the **direct-to-consumer** movement was initiated. The popularity of guest relations programs during the 1990s solidified the transformation of patients into customers. As consumers gained influence, marketing became increasingly integrated into the operations of healthcare organizations. The consumers of the 1990s were better educated and more assertive about their healthcare

Health/healthcare system

A multifacility healthcare organization

Direct to consumer

A marketing approach that targets the end user rather than referral agents or intermediaries

needs than were consumers of the previous generation. The emergence of the Internet as a source of health information further contributed to the rise of **consumerism**. Newly empowered consumers were taking on an increasingly influential (if informal) role in reshaping the US healthcare system.

During the 1990s, health professionals developed a new perspective on the role of marketing, aided by a new generation of healthcare administrators who were more business oriented. A more qualified corps of marketing professionals emerged that brought ambitious but realistic expectations to the industry. Pharmaceutical companies began advertising directly to consumers, which made everyone in the industry more aware of marketing's potential. In addition, everyone in healthcare was becoming more consumer sensitive, and new data gave health professionals a better understanding of the healthcare customer.

Marketing research grew in importance during this decade. The need for information on consumers, customers, competitors, and the market demanded an expanded research function. Patient and consumer research was augmented, and newly developed technologies brought the research capabilities of other industries to healthcare.

Business practices in general came to be more accepted in healthcare during this period, and marketing was an inevitable beneficiary. Marketing was repackaged in a more professional guise, and the shift away from advertising was noticeable. Marketing ended the decade as a more mature discipline, emphasizing market research and sensitivity to the needs of the consumer. Healthcare had finally reached stage 3 in the evolution of the marketing function.

By the end of the twentieth century, healthcare marketing had changed substantially. In the 1990s, the emphasis shifted from sick people to well people in response to the emergence of **managed care** and capitated payments. There was a new focus on patient satisfaction and increased efforts at generating consumer data. The baby boomers who were coming to dominate the healthcare landscape viewed marketing as a source of valuable information rather than hucksterism and were disinclined to use an organization that did not cater to their interests.

Image advertising was deemphasized in favor of targeted promotions for specific services, making for more content and less fluff. Techniques from other industries, like customer relationship marketing, began to be explored. The new generation of healthcare administrators seemed to be more comfortable with marketing and considered this function an inherent aspect of healthcare operations.

With the repackaging and maturation of marketing in the 1990s, the field became more sophisticated overall. The market was in many ways more

Consumerism

A movement in which consumers participate in defining their healthcare needs and how those needs are met

Managed care

Health insurance plans that contract with providers and healthcare organizations to provide care for members at negotiated rates

Image advertising

A promotional focus on the overall attributes (rather than specific services) of an organization

competitive, and even the managed care environment held opportunities for promotional activities. In addition, mergers not only created more potential marketing clout but also often involved for-profit healthcare organizations that were inherently more marketing oriented.

The 2000s to the Present

By the end of the 1990s, a new cohort of healthcare administrators was in place and began exhibiting a greater acceptance of business practices, including marketing. The industry had witnessed a massive turnover in hospital administrators through retirement, mergers, and downsizing. Many of the new wave of administrators came from other, often more profit-oriented industries where marketing was considered a normal corporate function. These administrators instilled a marketing mind-set in keeping with the more strategic orientation they brought to the industry.

Although some still focus on advertising and sales, twenty-first century marketing executives have expanded their toolboxes to address the full range of activities to support the marketing function. Market segmentation and target marketing techniques have been adapted from other industries. Reliable and effective public, media, and community relations; customer service; and reputation and relationship management are making a comeback, demonstrating the effectiveness of carefully designed low-cost methods for reaching audiences and swaying public opinion.

The consumer is increasingly considered the key to success, and various data-management and customer-relations techniques have been put into place. *Consumer engagement* is a current buzzword in healthcare, and efforts aimed at getting healthcare consumers to buy in are growing. The new healthcare environment—influenced in part by the ACA—demands a new approach that includes a population component that generates measurable community benefit. As healthcare providers are increasingly paid for performance rather than volume, a more thoughtful approach to marketing will be required.

Considered by some as the major development of the twenty-first century, social media are playing a growing role in the marketing of health services. By the end of the twentieth century, virtually all healthcare providers had established an Internet presence; for many, this was not only a core component of their marketing initiative but also a means of interacting with customers and prospective customers. This electronic communication capacity has been expanded with the explosion of social media. Patients are able to instantaneously communicate with each other and, increasingly, with health professionals. Prospective customers can interact with existing customers before using health services. The flooding of cyberspace with healthcare “chatter” requires close monitoring by marketers.

Why Healthcare Is Different from Other Industries

Healthcare as an industry is set apart from the other sectors of the economy because of its specific characteristics. In particular, healthcare providers behave in a manner often inconsistent with that of organizations in other industries. Health professionals, especially clinicians, fall into a special category, and the fact that clinicians—not administrators or businesspeople—make most of the decisions regarding patient care creates a dynamic unique to healthcare. The nature of healthcare goods and services sets them apart from the goods and services offered in other industries. Further, significant differences exist between healthcare consumers and the consumers of virtually any other goods or service. These differences are particularly apparent with regard to the consumer's decision making (see Chapter 5 for more discussion on the decision-making process).

Characteristics of the Healthcare Industry

The development of a marketing culture in any industry is predicated on certain assumptions about that industry and the marketing enterprise, including the existence of a rational market for the goods and services proffered by the organizations in that industry. The market is presumed to involve organized groups of sellers, informed buyers, an orderly mechanism for carrying out transactions between sellers and buyers, and a straightforward process for transferring payment for products between buyers and sellers.

The existence of a market is also predicated on the assumption that buyers are driven primarily by economic motives and seek to maximize their benefits from the exchange. In healthcare, however, a number of factors operate to prevent the buyers and sellers of health services from interacting in the same manner as buyers and sellers in other industries.

The existence of a market also presumes that there are sellers competing for the consumer's resources and that this competition determines the price of goods and services. In healthcare, however, healthcare providers often maintain monopolies over particular services in particular markets—or, more commonly, oligopolies of healthcare organizations may dominate particular markets. Thus, buyers of health services are often limited in their options. In view of these prerequisites for the existence of a market, one could argue that, to the extent that any type of market for health services exists, it is not “rational” in the way that the markets for other goods and services are.

As an industry, healthcare also differs from other sectors of the economy in that its key organizations have diverse goals. In other industries, the intent is to sell as many units as possible while extracting the maximum profit from the transactions. Anything other than making a profit is secondary to the single-minded goal of selling consumer products. Most healthcare

organizations, on the other hand, are obligated to accept clients whether or not they can pay for the services. Emergency departments cannot turn away anyone needing emergency care until that person has at least been stabilized. Physician offices may require some payment up front from those who do not have insurance, but there are ethical considerations associated with turning a clearly symptomatic individual away. Thus, the economic considerations that apply to other industries may be compromised as a result of factors unique to healthcare.

Unlike other industries, healthcare lacks a straightforward means of financing the purchase of goods and services, particularly patient care services. Customers in other industries typically pay directly—either out of pocket or through some form of credit—for the goods and services they consume. While healthcare consumers may pay some small portion of the cost out of pocket, most fees are paid by a third party, whether a private insurance plan or a government-sponsored plan such as **Medicare** or **Medicaid**. The seller may have to deal with thousands of different insurance plans, and the cost of health services is reimbursed using a combination of different payment mechanisms. Thus, it would not be unusual for an elderly patient to have the costs of one hospital visit paid for with Medicare reimbursement, supplementary private insurance reimbursement, and out-of-pocket payments. This arrangement is not found in any other industry and creates a much more complicated financial picture for healthcare.

Finally, healthcare is different from other industries in that the normal rules of supply and demand seldom apply. An increase in the supply of health services, for example, does not necessarily result in a decrease in price, nor does increased demand invariably drive up prices. For one thing, the availability (supply) of services dictates, to a certain extent, the demand for these services. Pent-up demand for health services often surfaces when more facilities become available. As a result, neither the increased supply of beds nor the increase in demand has a significant impact on prices.

The factors that govern supply, demand, and price in healthcare are complex and unique to this industry. The supply of health services is affected by the vagaries of health professional training programs, restrictions enforced by regulatory agencies, and even fads. The level of demand—arguably the most problematic of the three—is typically not controlled by the end user. Except for elective procedures for which the consumer pays out of pocket, most decisions that affect the demand for health services are made by **gatekeepers**, such as physicians and **health plans**. Thus, the level of demand is more often a function of such factors as insurance plan provisions, the availability of resources, and physician practice patterns than a function of the level of sickness in the population. Exhibit 1.4 describes the emergence of healthcare as a major institution within US society.

Medicare

The federal health insurance program for Americans aged 65 or older

Medicaid

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

Gatekeeper

An individual or organization that makes decisions on behalf of an end user or otherwise controls the purchase of goods and services

Health plan

Public or private medical insurance

Characteristics of Healthcare Organizations

Healthcare organizations tend to be multipurpose organizations. Although some purveyors of healthcare goods or services are single-minded in their intent, large healthcare organizations like hospitals are likely to pursue a number of goals simultaneously. Indeed, the main goal of an academic medical center may not be to provide patient care at all. It may be education, research, or community service, with direct patient care as a secondary concern. Even large specialty practices are likely to be involved in teaching and research, and although they are not likely to neglect their core activity, they often have a more diffuse orientation than do organizations in other industries.

Further, a large proportion of healthcare organizations—most notably hospitals—are chartered as not-for-profit organizations. Although physician groups are usually incorporated as for-profit professional corporations, many community-based clinics, faith-based clinics, and government-supported programs operate on a not-for-profit basis. This “charitable” orientation creates an environment that is much different from that of other industries. The governmental financial support provided to some health facilities and programs also creates a different dynamic. For some organizations, the unpredictability of government subsidy is an unsettling factor. For others, the assurance of government support means they may not be as vulnerable to the vagaries of the market.

Characteristics of Healthcare Products

The goods and services that constitute healthcare products are also unique. Although many health-related goods (e.g., adhesive bandages, fitness equipment, over-the-counter drugs) may be marketed like any other products, most **consumer health products** do not fall into this category. Even the most common consumer health product—pharmaceuticals—must often be prescribed by an intermediary before it can be acquired and consumed.

Consumer health products
Healthcare goods distributed through retail outlets and directly purchased by the customer

Several developments in US 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.

(continued)

EXHIBIT 1.4

The Emergence of Healthcare as an Institution in the United States

A healthcare system can be understood only within the sociocultural context of the society in which it exists, and no two healthcare delivery systems are exactly alike. Differences between healthcare systems are primarily a function of differences in 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.

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. Our great-grandparents 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.

The restructuring of 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 after World War II supported the emergence of an institutional structure, which would subsequently spawn the development of modern Western medicine. These values shifted the emphasis in American society to economic success,

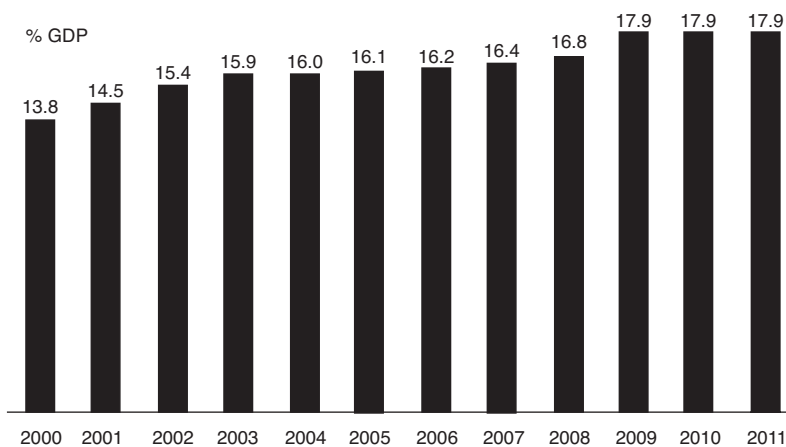
Value

Anything—usually intangible—a society considers important, such as freedom and economic prosperity

educational achievement, and scientific and technological advancement and supported the ascendancy of healthcare as a dominant institution. The conceptualization of health as a distinct value in 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 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 2003a). By the last quarter of the twentieth century, Americans had become obsessed with health as a value and with the importance of institutional solutions to health problems.

By any measure, healthcare could be considered a dominant institution in contemporary American society. Other institutions—such as politics, 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. The following graph (the most recent issued at the time of this writing) prepared by the Centers for Medicare & Medicaid Services displays trends in healthcare as a proportion of the gross national product:

US Healthcare Costs as a Percentage of GDP



Healthcare providers are generally concerned with promoting a service, yet the nature of their services is difficult to describe. A physician might break down services by procedure code (e.g., CPT [current procedural terminology] codes), but few services stand alone. Services come in bundles, such as the group of services that surrounds a surgical procedure. Although clinicians (and their billing clerks) may see them as discrete services, the patient perceives them as a complex mix of services related to a heart attack, diabetes management, or cancer treatment.

As discussed in Chapter 6, the products generated by a healthcare organization are difficult to conceptualize. The things healthcare organizations and health professionals think they provide (e.g., quality care, prolonged life, elimination of pathology) are often hard to define or measure. The difficulty in specifying the services provided becomes obvious when a marketer asks a hospital department head what services the department provides.

Healthcare services are also characterized by their inability to be substituted or replaced by other goods or services. For example, although one form of transportation might be substituted for another, a surgical procedure can seldom be substituted for another. Unlike other industries, healthcare often provides only one solution to a particular challenge.

Characteristics of Health Professionals

Historically, the healthcare industry has been dominated by professionals rather than by administrators. Clinical personnel (usually physicians, but other clinicians as well) define much of the demand for health services and are directly or indirectly responsible for most healthcare expenditures. This setup is comparable to the systems in other industries, in which technicians rather than administrators run the organization. The situation in healthcare is complicated by the fact that clinicians and administrators may not share the same goals.

Ethics

A code of behavior that specifies a moral stance, particularly in professional dealings

The medical **ethics** that drive the behavior of health professionals exist independently of system operations. Clinicians are bound by oath to do what is medically appropriate, whether or not it is cost-effective or contributes to the organization's efficiency. Decisions made in the best interests of the patient may not reflect the best interests of the organization. Although health professionals have had to become more realistic regarding indiscriminate use of resources, clinical interests continue to outweigh financial considerations in most cases. Conflict between the goals of clinicians and administrators is inherent in healthcare organizations, and no comparable situation can be found in any other industry.

The conflict between the clinical and business sides of the healthcare operation is exacerbated by the antibusiness orientation of many health professionals. Most healthcare workers entered the field because they wanted to

be in a profession not a business, and physicians and other clinicians often have a distorted perception of the business world. If health professionals cannot appreciate the business side of the operation, they are not likely to appreciate the importance of marketing. Even among nonclinicians, many common business practices may be considered inappropriate for the not-for-profit healthcare world.

Characteristics of Healthcare Consumers

What probably most sets the healthcare field apart from other industries is the nature of its consumers. In healthcare, the term *consumer* refers to any person with the potential to consume a good or service. Everyone is likely to use healthcare goods or services and, thus, be involved in the healthcare system at some time or another. Despite this unique attribute, healthcare organizations historically failed to perceive their consumers in this manner. Until recently, the assumption was that a person was not a prospect for health services until he or she became sick. Thus, healthcare providers made no attempt to develop relationships with nonpatients. Today, however, numerous parties cater to nonpatients. Major industries have developed around prevention, fitness, and lifestyle management. Much of the social marketing that takes place in US society is geared toward nonpatients.

Healthcare consumers are perhaps most distinguished from consumers of other goods and services by their insulation from the price of the products they buy. Because of healthcare's unusual financing arrangements and lack of access to pricing information, healthcare consumers seldom know the price of the services until after they have received those services. In typical cases, the physician or clinician providing the service is also not likely to know the price of that service. Because **third-party payers**—and not the end users—usually pay for the service performed, healthcare consumers may not even notice how much their care costs. As a result, clinicians are likely to provide or recommend the services they believe to be medically necessary, regardless of price. However, this situation presents at least two problematic consequences.

Third-party payer
An entity—other than the provider and patient—that pays for the cost of goods or services

First, consumers are not likely to willingly limit their resource utilization. If they do not know the amount of the fees being charged—and, further, do not have to pay them anyway—they have no incentive to consider the cost. Similarly, physicians or clinicians have no incentive to provide services efficiently if cost is not a consideration. In fact, under traditional fee-for-service arrangements, the incentives available to physicians have encouraged greater use of resources because physicians receive an additional fee for each additional service they perform. Second, few healthcare providers are able to use price as a means of competition or as a basis for marketing. With the exception of organizations that provide elective services or that serve a

retail market, providers cannot compete on the basis of price. Few healthcare organizations make their fee schedules public, and even when they do, they are likely to employ varying mechanisms for determining the price of a service. For example, the per diem rates for a hospital room may be determined on the basis of different factors by two competing hospitals, thereby making comparisons meaningless.

Another factor setting healthcare consumers apart from other consumers is the personal nature of the services involved. Most healthcare encounters involve an emotional component that is absent in other consumer transactions. Every diagnostic test is fraught with the possibility of a “positive” finding, and every surgery—no matter how minor—carries the potential for complications. Today’s well-informed consumers are aware of not only the severity of medical errors that occur during a hospital stay or procedure but also the rate of system-induced morbidity. Even if consumers can remain stoic about their own care, they are likely to exhibit emotions when the care concerns a parent, a child, or some other loved one.

Initial Barriers to Healthcare Marketing

Given the pervasiveness of marketing in the United States, how can one explain the relative lack of marketing in an industry that accounts for as much as 18 percent of the gross national product? This section discusses some of the barriers that have slowed the acceptance of marketing in the healthcare arena.

No (Real or Perceived) Need

Until the 1980s, most healthcare organizations thought they had no competitors. They had plenty of patients, and revenues were essentially guaranteed by third-party payers. Competition had often been minimized through unwritten agreements among various healthcare providers. If providers did not overtly collude among themselves to carve up the patient market, they respected informal boundaries that were set to reduce competition. They often maintained monopolies or oligopolies in their market areas.

These factors contributed to the perception (and, in many cases, the reality) that marketing was an unnecessary activity for healthcare organizations. From the perspective of mainstream providers, physicians referred their patients to the hospital and insurance plans steered their enrollees to the facility. Why market to end users who were not going to make the decision anyway? This mind-set perpetuated the impression that marketing was not needed and overlooked such important marketing tasks as physician relationship development and health plan contract negotiation.

Resistance to Business Aspects of Healthcare

Much of health professionals' resistance to marketing reflected their misconceptions about the nature of business and marketing. For health professionals, business practices carried an unfavorable connotation—that is, clinical concerns were subjugated by business priorities. A similar misperception existed regarding the nature of marketing. “Marketing equals advertising” was the dominant perception early in the history of healthcare marketing, and even today (as mentioned earlier), many health professionals retain that narrow (and negative) perception of marketing. The concern over contaminating a helping profession with business principles led to healthcare organizations enacting various provisions against advertising.

Concerns Over Marketing Costs

Concerns related to the cost of marketing also played a role in healthcare organizations' slow acceptance of marketing practices. Marketing (again, primarily advertising) was seen as an expensive proposition. While more commercial operations, like pharmaceutical companies, saw marketing expenses as a normal cost of doing business, hospitals and physicians with no previous experience in this regard suffered sticker shock at the marketing price tag. This lack of experience with marketing also caused them to overlook numerous aspects of marketing that involved little or no expense.

Even today, healthcare organizations are seldom able to measure the cost of providing a service, making **cost–benefit analyses** difficult to perform. Further, so many factors come into play (e.g., referral patterns, consumer attitudes) in determining the use of services that isolating the impact of marketing activities (or doing an **impact evaluation**) is hard. Even if grudgingly accepted, there is widespread concern that marketing can do little to alter practice patterns, market shares, or any other indicator of importance to the provider. Thus, given a chronic shortage of resources, many health professionals question the appropriateness of expending scarce resources on an activity perceived to have limited benefit. These concerns have been reinforced by disgruntled patients who have linked their high hospital bills to excessive spending on expensive advertising. Even if the spending does not affect the patient's bill, the negative fallout from highly visible marketing efforts could affect the public image of many healthcare organizations.

Cost–benefit analysis

An evaluation technique that compares the cost of a project with its anticipated benefits

Impact evaluation

An assessment of the changes brought about by the marketing effort

Ethical and Legal Constraints

Ethical and legal constraints have also posed a major barrier to the incorporation of marketing into healthcare. The nature of health-related goods and services has made them the target of restrictions not found in other industries. As stated earlier, until recent years, it was considered unethical for physicians and many other clinicians to advertise. Although other types of marketing

were generally accepted, overt advertising initiatives were discouraged if not prohibited. Physicians were restrained by professional considerations, and hospitals often imposed internal constraints on their marketing activities.

In some cases, legal restraints have been put in place to prohibit advertising and other overt forms of marketing. The Federal Trade Commission, for example, limits the types of advertising and the advertising content pharmaceutical companies and other healthcare consumer products companies can provide. Congressional legislation also has been enacted to limit the marketing activities of providers reimbursed under the Medicare and Medicaid programs. Exhibit 1.5 presents additional ethical issues in healthcare marketing.

EXHIBIT 1.5
Ethical Issues
in Healthcare
Marketing

Concerns over the marketing practices for various medical remedies can be traced to 200 years ago—the days when patent medicines were sold on street corners, at carnivals, and by traveling salesmen. The claims made for such potions were often exaggerated or clearly false. Eventually, government regulations were put into place to control the claims of purveyors of such products; with the support of the American Medical Association (AMA), the first medicine labeling laws were passed in 1938. Today, in the United States, the federal Food and Drug Administration and the Federal Trade Commission serve as watchdogs over health-related products and medical devices.

Since the advent of the marketing era in the United States after World War II, ethical issues have nagged the healthcare industry. In the post–World War II period, physicians commonly endorsed various products in exchange for payment from the manufacturer. Physicians were paid to endorse various pharmaceutical products, for example, by indicating that one drug was superior to its competitors. During this period, physicians sometimes strayed from their areas of expertise and endorsed other products as well. The most controversial of these actions involved physicians who endorsed various cigarette brands. Doctors were paid to attest that Brand X was healthier for consumers to smoke than Brand Y. The influence of the AMA and other forces was eventually brought to bear, and such practices were discontinued.

These experiences led the AMA to enforce a virtual prohibition of marketing by physicians. In 1947, the AMA forbade physicians from advertising for self-promotion. This prohibition continued through 1957, when it was modified to only restrict physicians from soliciting patients. These restrictions did not affect such traditional marketing activities as networking and entertaining would-be referrers, and it was even customary at that time for doctors to provide kickbacks (called “fee splitting”) to referring physicians.

By the 1960s, the strict injunction against advertising had been eased somewhat and physicians were allowed to cite their name, address, and specialty in telephone directories and similar publications as a means of demonstrating their professionalism and distinguishing themselves from other health professionals. The AMA eventually back-pedaled from its strong stance against physician advertising, and in the 1990s many physicians initiated aggressive marketing campaigns. Even so, such physicians are often perceived in a bad light by their colleagues.

Although hospitals were not constrained to the same extent, many hospital administrators also had ethical qualms concerning marketing (or at least advertising). These qualms did not restrict marketing activities such as public relations, educational activities, and communication strategies, but they did discourage many hospitals from overt media advertising. Ultimately, the combined effect of increasing competition, reduced revenues, and more demanding consumers overcame any lingering reluctance of hospitals and health systems to engage in marketing.

Much of the controversy surrounding marketing in healthcare has involved the pharmaceutical industry. The marketing of over-the-counter drugs, of course, is covered by federal regulations that control the claims that can be made regarding the drugs' efficacy. The marketing of prescription drugs directly to consumers is tightly controlled by federal regulation, and until the end of the twentieth century, pharmaceutical companies were prohibited from marketing directly to consumers. Even with relaxed rules concerning pharmaceutical marketing, there are still strict limits on the claims that can be made in drug advertisements.

Drug manufacturers have stirred up the most controversy by focusing their marketing activities almost exclusively on the physicians who prescribe drugs to their patients. Pharmaceutical companies spend up to 25 percent of their budgets on marketing and sales activities, and the bulk of this sum has historically been allocated to advertising in medical journals, supporting educational programs for potential subscribers, and making sales calls to physicians.

The pharmaceutical companies' long-standing practice of providing free samples of drugs to physicians eventually came under fire and is facing restrictions. More controversial, however, have been the blatant attempts to "buy" physician support by providing gifts, free trips, and other incentives designed to encourage physicians to endorse a particular drug through their prescribing practices. Congress eventually reacted to the perceived excesses by pharmaceutical companies in an

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attempt to influence the decision making of physicians, and legislation was enacted that severely limited the ability of drug companies to provide incentives to physicians.

Although the marketing activities of health professionals will continue to be guided by self-imposed ethical standards, regulations governing the marketing of health-related products are not likely to disappear. Because of the nature of healthcare products and services, continued oversight by various regulatory agencies can be expected. As marketing activities expand in healthcare, they will continue to be affected by a combination of ethical restraints and legal regulations.

Why Healthcare Marketing Requires a Unique Approach

Because marketing philosophies and techniques cannot be readily transferred from other industries to healthcare, healthcare marketing requires its own unique approach and takes on characteristics unlike those of marketing in other industries. While some of these issues are addressed in later chapters, the following summarize the main reasons:

- *Health services are more of a challenge to market than goods.* Most of the products marketed in healthcare are services rather than goods. Health services are extremely difficult to segregate, and most episodes of care involve the consumption of both goods and services.
- *The demand for many health services is relatively rare and highly unpredictable.* Except for patients who suffer from chronic conditions and require ongoing care, significant health episodes are infrequent occurrences. The current hospital admission rates suggest that only 10 percent of the US population are hospitalized in a year's time, and even that number overstates hospital use because some patients are admitted more than once during a year. Further, the onset of significant health episodes is hard to predict, with the conditions that require the most intensive resources typically arising unexpectedly.
- *The healthcare end user may not be the target for the marketing campaign.* The situation in healthcare is unique in that the end user may not be the decision maker regarding the consumption of services and goods. Further, the consumer may not be the party responsible for paying for the services and goods consumed. For these reasons, the marketing challenge is more difficult than for typical consumer products, and price—a critical differentiating factor for most products—may not be relevant to healthcare marketing.

- *The healthcare product being marketed may be highly complex and may not lend itself to easy categorization.* With a few exceptions, healthcare products cannot be easily separated from other goods and services involved in an episode of care. For reimbursement purposes, costs are divided between professional fees and facilities fees, and a procedure for which marketing is desired (e.g., a hip replacement) is a complex procedure involving many parties and cost centers. Pricing is particularly a challenge when so many overlapping aspects of care exist.
- *Not all prospective customers for a health service are considered desirable.* While most healthcare providers have a moral, if not a legal, responsibility to care for all patients, the fact is that not all patients are considered desirable from a business perspective. Given the complexity of reimbursement for services, the availability of insurance coverage and the type of coverage may determine the desirability of a patient from a financial perspective. The marketer's challenge is made even greater in that the organization cannot appear to be "skimming" the most profitable patients and neglecting the less profitable.
- *The outcome of health services is difficult to measure.* Promoting a service on the basis of superior outcomes represents a challenge for healthcare marketers. Although there is a growing movement toward "standardizing" the medical episode, the fact is a number of factors could contribute to a favorable or unfavorable **outcome** of a clinical episode. While the provider may be perceived as providing high-quality care, one or two adverse episodes could distort this perception and increase the challenge for the marketer.
- *The impact or outcome of healthcare marketing efforts is difficult to measure.* Perhaps the greatest difference in healthcare marketing is its inability to definitively demonstrate that it is responsible for any observed change in organizational outcome (e.g., increased patient volume, higher revenues). Many different factors contribute to the flow of new patients to health services providers, so it is difficult to parse out the role of marketing. Referral patterns of clinicians and steering by insurance plans are just two examples of these factors that could mitigate any perceived marketing benefit.
- *The differences between healthcare organizations and their services are difficult to quantify.* Over time, various providers have become increasingly similar in the services they offer and the resources they bring to bear. Even differences in pricing may not be distinguishing factors in that cost data are hard to acquire and, even if acquired, may be calculated in a variety of ways, thereby making comparison impossible. When all hospitals, for example, offer the same services, have the same equipment, and possibly have overlapping medical staffs,

Outcome

In healthcare, the consequences of a clinical episode; in marketing, the results of a promotional campaign

the marketer is challenged in making the case for a superior or even a different organization.

Developments That Encouraged Healthcare Marketing

Despite the barriers to incorporating marketing into healthcare, during the 1980s and 1990s significant progress was made toward establishing marketing as an integral function of healthcare organizations. Marketing was finally accepted by various healthcare organizations as a legitimate corporate function—because of a number of developments that reflected changes in society overall, trends in the healthcare industry, and changes in the nature of consumers. These key developments, many of which are discussed in later chapters, included the following:

- Introduction of competition
- Overcapacity in the hospital industry
- Rise of the consumer
- Introduction of new services
- Growth of elective procedures
- Introduction of a retail component
- Entry of entrepreneurs
- Mergers and acquisitions
- Need for social marketing
- Consumer engagement movement
- Affordable Care Act

All of these developments occurred within the framework of a changing healthcare paradigm. Exhibit 1.6 describes the ongoing evolution from medical care to healthcare.

EXHIBIT 1.6

From Medical Care to Healthcare

Medical model

The traditional paradigm of Western medicine that is based on germ theory and emphasizes a biomedical approach

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 as the formal services provided by the healthcare system 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**, on the other hand, consists of any function that might be directly or indirectly related to preserving, maintaining, and/or enhancing **health**. This concept includes not only formal activities (such as visiting a health professional) but also informal activities such 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 US 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 the medical care model to the **healthcare model** has affected every aspect of care—from the standard definitions of
(continued)

Healthcare

Any informal or formal activity intended to restore, maintain, or enhance the health status of individuals or populations

Health

Traditionally, a state reflecting the absence of biological pathology; today, a state of overall physical, social, and psychological well-being

Epidemiologic transition

A change in a population's epidemiologic profile—from acute to chronic health problems—as a result of aging and changing demographic characteristics

Healthcare model

A holistic view of health and illness that includes biological, social, and psychological dimensions

Health status

The degree to which an individual or a population is characterized by health problems; the level of ill health within a population

health and illness to the manner in which healthcare is delivered. **Health status** is now defined as a continuous process rather than as a specific episode of care. Causes of ill health are now sought in the environment, and the patient's social context is now often 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.

Why Healthcare Should Be Marketed

Today—with marketing firmly established as a legitimate function within healthcare—it may seem unnecessary to justify healthcare marketing efforts. However, there are still reluctant healthcare administrators and financial managers who question the need for and importance of marketing. In response, the following arguments have been offered in defense of marketing throughout the years:

- *Building awareness.* With the introduction of new products and the emergence of an informed consumer, healthcare organizations needed to build an awareness of their services and expose target audiences to their capabilities.
- *Enhancing visibility or image.* With the increasing standardization of healthcare services and a growing appreciation of reputation, healthcare organizations needed to initiate marketing campaigns that would improve top-of-mind awareness and distinguish their organizations from their competitors.
- *Improving market penetration.* Healthcare organizations were faced with growing competition, and marketing was a means for increasing patient volumes, growing revenues, and gaining market share. With few new patients in many markets, marketing was critical for retaining existing customers and attracting customers from competitors.
- *Increasing prestige.* Many healthcare organizations, especially hospitals, believed success hinged on being able to surpass competitors' 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 offered. Whether through press releases or recorded telephone announcements, the pressure to get the word out was growing.
- *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 was 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.
- *Demonstrating community involvement.* Not-for-profit healthcare organizations should demonstrate their contribution to improving the health of their communities, especially in light of the ACA's focus on population health management. Increasing scrutiny of tax-exempt institutions should encourage them to use marketing techniques that would showcase how they address unmet health needs in their respective service areas.

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 their more traditional public relations and communication marketing techniques.

Today, a new generation of health professionals more oriented to business principles is in place, positions for marketing directors and vice presidents are well established, and marketing is an accepted part of healthcare administration. Marketers are increasingly part of the corporate inner circle, converting marketing from an external activity to a core function of the progressive healthcare organization.

Healthcare, like any other infrastructure for meeting US society's needs, has evolved to address the needs and wants of a population that is increasingly turning to it as the solution for a wide range of problems. The fact that healthcare now accounts for as much as 18 percent of the gross national product reflects, among other trends, the population's growing concern for their health.

Key Points

- Although US 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 over time (particularly the increase in competition) resulted in a surge of interest in marketing; this interest has been fostered with each new development in the field.
- Once health professionals accepted marketing, the field underwent various periods of growth and contraction in response to market developments.
- Initially, healthcare marketing was often equated with advertising, and healthcare 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 healthcare administrators and healthcare marketers was on board.

- By the turn of the twenty-first century, healthcare organizations had come to consider marketing as an essential function, and marketing resources were increasingly wed to strategic planning and development efforts.
- Since 2000, social media has heavily affected marketing in healthcare and all other industries.

Discussion Questions

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

Additional Resources

American Marketing Association: www.ama.org

Health Marketing Quarterly: www.tandfonline.com/toc/whmq20/current#.UzhLE1so7IU

Marketing Health Services: www.ama.org/publications/MarketingHealthServices

Omran, A. R. 1971. "The Epidemiologic Transition: A Theory of the Epidemiology of Population Change." *Milbank Memorial Fund Quarterly* 49: 509–38.

Society for Healthcare Strategy & Market Development: www.shsmd.org

Thomas, R. K. 2003. *Society and Health: Sociology for Health Professionals*. New York: Springer.