

THE ORIGIN AND EVOLUTION OF MARKETING IN HEALTHCARE

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

The History of Marketing

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

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

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

The evolution of marketing took place in four stages.

Stage 1: The Rise of Product Differentiation and Consumerism

A wide variety of new products and services emerged during the postwar period, particularly in consumer goods industries. Newly empowered consumers demanded a growing array of goods and services. This development

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

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

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

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

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

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

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

Stage 2: The Shifting Role of Sales

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

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

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

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

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

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

sales

An approach to business that emphasizes transactions rather than promotions.

monopoly

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

oligopoly

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

audience

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

Stage 4: The Rise of the Electronic Age

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

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

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

The Introduction of Marketing in Healthcare

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

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

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

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

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

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

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

The Evolution of Healthcare Marketing

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

The 1950s

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

health plan
Public or private
medical insurance.

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

EXHIBIT 1.1
The Evolution
of Marketing in
Healthcare

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

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

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

The 1960s

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

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

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

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

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

not-for-profit

An organization granted tax-exempt status by the Internal Revenue Service.

electronic media

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

Medicare

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

Medicaid

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

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

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

The 1970s

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

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

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

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

The 1980s

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

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

Marketers had to begin looking at target audiences in an entirely different way. The importance of consumers was heightened by changes in insurance reimbursement patterns. Hospitals began to think of medical care in terms of product and 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**.

market share

The percentage of the total market captured by a company.

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 to import 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 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 (Berkowitz 2016). Once an enterprise of dubious respectability, advertising was now hailed as a marketing panacea for hospitals.

Advertising 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 relatively concrete: An organization could invest in them and reasonably expect to receive 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 proponents of healthcare marketing. After experiencing the initial rush of seeing their billboard advertisements 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 to cut costs wherever possible, 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 carried out under the umbrella of business development or strategic planning. 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 if a marketing revival occurred.

The 1990s

Healthcare became more market driven in the 1990s, and as a result, the marketing function grew in importance in the industry. 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 a wave of hospital mergers. The consolidation of healthcare organizations into ever-larger **healthcare systems** resulted in the creation of larger organizations that had more resources and more sophisticated management. Many executives entered the field from outside healthcare, bringing a more businesslike mind-set with them.

The consumer was rediscovered during this process, initiating a shift to **direct-to-consumer marketing**. 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 needs than consumers of the previous generation had been. The emergence of the internet as a source of health information contributed to the rise of **consumerism**. Consumers began to take 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, driven by a new generation of healthcare administrators who were more business oriented. A more qualified corps of marketing professionals brought ambitious but realistic expectations to the healthcare industry. Pharmaceutical companies began advertising directly to consumers, making everyone in the industry more aware of marketing's potential.

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. For example, patient satisfaction and consumer surveys were introduced, and database marketing techniques developed in other industries were adopted.

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. By the end of the decade, marketing was a more mature discipline, emphasizing marketing research and sensitivity to the needs of consumers. Healthcare had finally reached stage 3 in the evolution of the marketing function.

healthcare system
A multifacility healthcare organization; also may refer to the overall healthcare delivery system in the United States.

direct-to-consumer marketing
A marketing approach that targets the end user rather than referral agents or intermediaries.

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

With the repackaging and maturation of healthcare marketing in the 1990s, the field became more sophisticated. The market was more competitive in many ways, 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, which were inherently more marketing oriented.

The 2000s

By the end of the 1990s, a new cohort of healthcare administrators was more accepting of business practices, including marketing. The industry had witnessed massive turnover in hospital administrators as a result of retirements, mergers, and downsizing. Many among this new wave of administrators came from other, more profit-oriented industries, where marketing was considered a normal corporate function. These administrators instilled a marketing mind-set in healthcare, in keeping with the strategic orientation they brought to the industry.

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

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

The consumer was increasingly considered the key to success, and data management and customer relations techniques were put into place. *Consumer engagement* became a buzzword in healthcare, and efforts to secure the buy-in of healthcare consumers grew. This new healthcare environment demanded a different approach to marketing health services, including a **population health** component that focused on the health of the community rather than on that of individual patients. As healthcare providers were increasingly paid for performance rather than volume, a more thoughtful approach to marketing health services was required.

The emergence of social media during this decade played an important role in the marketing of health services. By the end of the twentieth century,

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

population health
An approach to community health improvement that focuses on the health status and health behavior of groups rather than individuals.

nearly all healthcare providers had established an internet presence; for many, the internet was not only a core component of their marketing initiatives but also a means of interacting with customers and prospective customers. Providers' electronic communication capacity expanded with the explosion of social media. Patients could now instantaneously communicate with each other and, increasingly, with health professionals. Prospective customers could interact with existing customers before using health services. The flooding of cyberspace with healthcare "chatter" required close monitoring by marketers.

The 2010s

The second decade of the twenty-first century witnessed continued realignment and restructuring of the US healthcare system. Trends that had begun in previous decades, such as the merger of healthcare organizations, increased vertical integration, and the acquisition of medical practices by hospitals and health systems, continued. From a marketing perspective, the emphasis on consumer engagement continued to grow, and the use of social media as a force for healthcare marketing gathered steam as healthcare consumers became increasingly internet savvy.

The most significant development in healthcare since 2010 has been the introduction of the ACA. The ACA made quality health insurance more accessible and affordable to tens of millions of Americans and put significant restrictions on the practices of health insurance companies. The establishment of a national health insurance exchange and the creation of levels of insurance coverage led to a surge in marketing activities. Traditional insurers now had access to millions of consumers who had once been beyond their reach. As a result, insurers needed to better understand the characteristics of a larger number of consumers, many of whom had not been previously insured, to price coverage appropriately and to determine the needs of new populations.

The ACA mandated that not-for-profit hospitals conduct community health needs assessments at least every three years. As part of this mandate, hospitals were required to assess the needs of the broader community (i.e., beyond their patient pool), identify community health needs, and develop ameliorative approaches to addressing health needs identified in the community. These functions were often relegated to the marketing department. An important related issue was the political and ideological controversy surrounding the introduction of the ACA—a fight that continues today.

Another development during this decade was the emergence of the *pay-for-performance* model of healthcare—a reimbursement arrangement with the potential to turn the healthcare system on its head. Providers historically were reimbursed on a fee-for-service basis for the treatment of individual

patients. The emerging pay-for-performance model, however, emphasized quality over quantity, outcomes over processes, and group health improvement over clinical care for individual patients. This emphasis often involved a shift to some form of *capitated* payment, whereby providers are paid a specified amount “per head” for the management of a defined group of patients, and their rewards are based on their ability to improve the overall health status of that group rather than their success with any individual patient. As with the ACA, the pay-for-performance movement has meant that providers need to know much more about their patients and prospective patients to effectively manage their care.

One approach developed to address the pay-for-performance environment was the establishment of *accountable care organizations* (ACOs). ACOs typically involve the joint efforts of providers and insurers, which together take responsibility for the management of a defined group of patients to more effectively control their health status and ensure the appropriate use of health services. The Centers for Medicare & Medicaid Services has sponsored a number of initiatives to encourage the establishment of ACOs. Under an ACO system, providers share any cost savings that are identified, but they also face the threat of financial penalties if there is no demonstrated improvement in group health. The ACO model is still in the early stages of development, and only time will tell whether ACOs will become a mainstay of the healthcare system. The movement toward ACOs will require both providers and insurers to develop a better understanding of the needs of patients and other healthcare consumers.

Another major development of the decade—and one that promises to overshadow the rest—is the growing influence of the population health model. This model represents the culmination of several decades of efforts to address dysfunction in the US healthcare system and reflects changes in the makeup of the patient population, the nature and causes of disease, and, most important, the failure of the healthcare system to effectively address twenty-first-century health problems. *Population health* refers to an approach to determining health status that focuses on a defined population as a whole rather than on individual patients or consumers, and it involves using innovative means to measure health status beyond traditional epidemiological metrics. Population health also refers to a method of advancing community health improvement that emphasizes upstream rather than downstream approaches—focusing on the social determinants of health status and deemphasizing the importance of clinical care for the improvement of health.

These developments have implications for healthcare marketing and reinforce the importance of marketing in the contemporary healthcare environment. There is a growing need to understand the characteristics of

patients and consumers (primarily nonclinical), the attributes of groups of patients (including their lifestyles and motivations), and the social determinants of health status and to use that information to predict future health problems and health services demand. Among health professionals, marketers are in the best position to perform these functions, and marketers may conceivably become as influential as clinicians in determining the future health status of target populations.

Exhibit 1.2 summarizes the development of healthcare marketing from the 1950s to the 2010s.

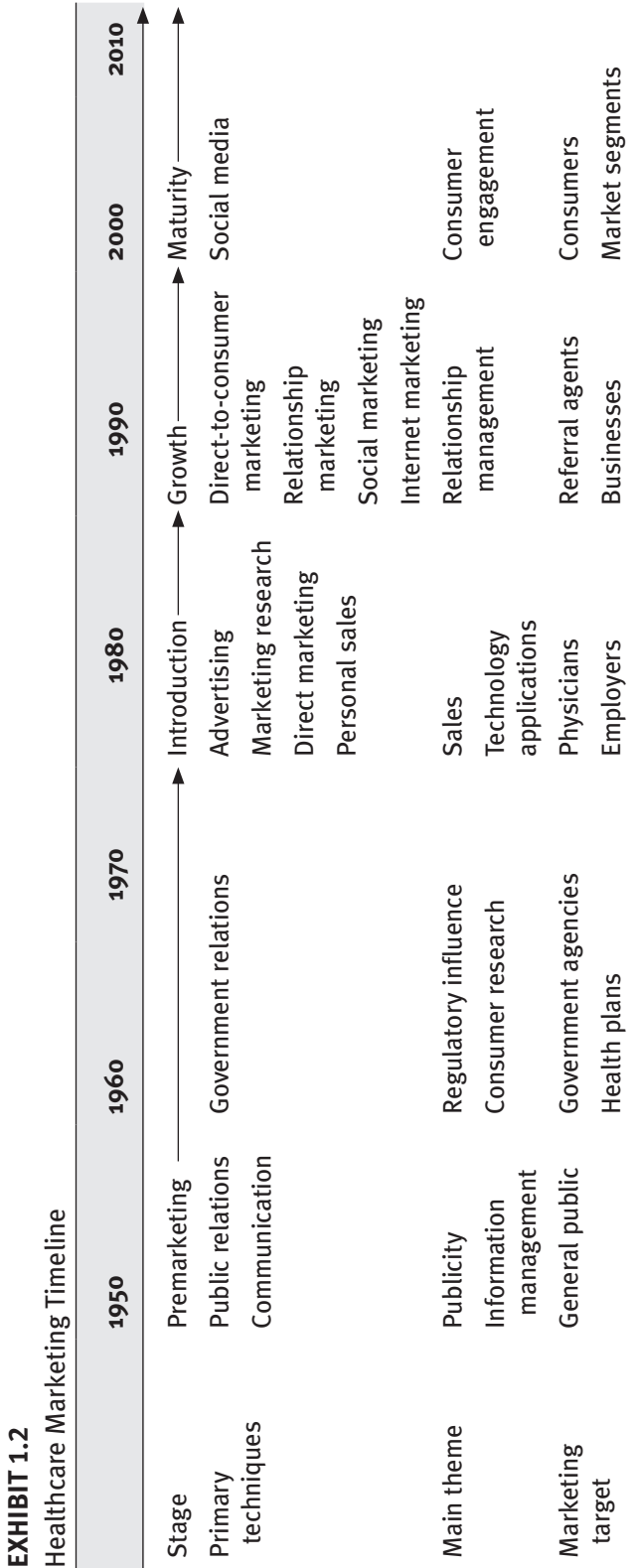
Why Healthcare Is Different from Other Industries

The healthcare industry is distinct from other sectors of the economy because of its specific characteristics. In particular, healthcare providers behave in a manner that is 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 that is 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 every other good or service. These differences are particularly apparent with regard to consumer decision-making (see chapter 5 for a discussion of the consumer decision-making process).

Characteristics of the Healthcare Industry

The development of a marketing culture in any industry is predicated on 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 and informed buyers, an orderly mechanism for carrying out transactions between sellers and buyers, and a straightforward process for transferring payments for products between buyers and sellers. The existence of a market is also predicated on the assumption that buyers are driven by economic motives and seek to maximize their benefits from the exchange.

In healthcare, however, a number of factors prevent the buyers and sellers of health services from interacting in the same way as buyers and sellers in other industries. Oligopolies of healthcare organizations commonly dominate particular markets, and providers often maintain monopolies over particular services. Thus, buyers of health services are often limited in their options. In view of the prerequisites for the existence of a market, one



This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

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.

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 they receive. Emergency departments cannot turn away patients needing care until they have at least been stabilized. Physician offices may require some payment up front from those who do not have insurance, but ethical considerations prohibit turning away a clearly symptomatic individual. Thus, the economic considerations that apply to other industries may be compromised by factors that are 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 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 is unusual for an elderly patient to have the costs of one hospital visit paid for by 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 those 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 the industry. The supply of health services is affected by the vagaries of training programs for health professionals, restrictions enforced by regulatory agencies, and even health fads. The level of demand—arguably, the most problematic of these three factors—is typically not

gatekeeper

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

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 of the level of sickness in the population. Exhibit 1.3 describes the emergence of healthcare as a major institution in US society.

EXHIBIT 1.3

The Emergence
of Healthcare as
an Institution
in the United
States

A healthcare system can be understood only within the context of the society and culture in which it exists, and no two healthcare delivery systems are exactly alike. Differences among healthcare systems around the world are primarily a function of differences in context. The 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. Industrialization and urbanization in 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 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 concerns.

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 (e.g., kinship, community, authority, primary relationships) were overshadowed by the values of modern industrialized societies (e.g., secularism, urbanism, self-actualization). Ultimately, the restructuring of American values was instrumental in the emergence of healthcare as an important institution.

(continued)

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

value

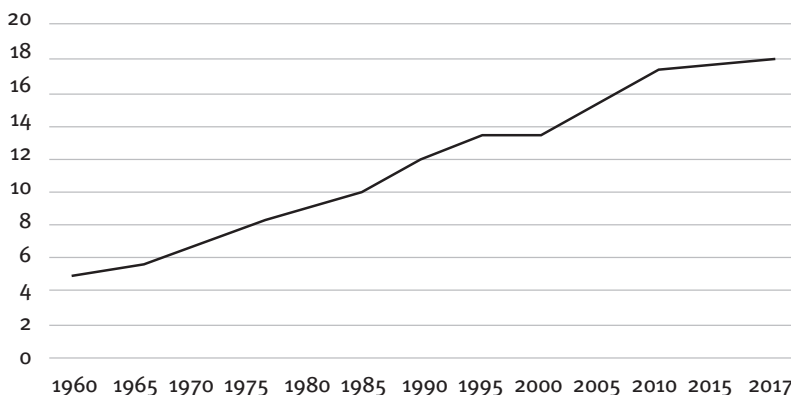
Anything—usually intangible—that a society considers important, such as freedom or economic prosperity.

The modern values that emerged after World War II supported the emergence of an institutional structure that would spawn the development of modern Western medicine. These values shifted the emphasis in American society to economic success, educational achievement, and scientific and technological advancement and supported the ascendancy of healthcare as a dominant institution. 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, though it was vaguely tied to other notions of well-being.

Public opinion polls before the war did not identify personal health as an issue for Americans, nor was healthcare delivery considered a societal concern. By the 1960s, however, public opinion polls showed that personal health had become a top concern, and the adequate provision of health services was an important issue in the minds of Americans (Thomas 2003b). 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. In public opinion polls, Americans frequently cite health as one of their most pressing personal concerns and healthcare as a leading national concern. The accompanying graph displays trends in healthcare costs as a proportion of gross domestic product (GDP).

US Healthcare Spending as a Percentage of GDP, 1960–2017



Source: Centers for Medicare & Medicaid Services (2019c).

EXHIBIT 1.3 The Emergence of Healthcare as an Institution in the United States (continued)

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

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 such as 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 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.

Healthcare providers generally seek to promote the services they offer, yet the nature of their services is difficult to describe. A physician might break down services by procedure code (e.g., Current Procedural Terminology codes), but few services stand alone. Services are often delivered in “bundles,” such as the group of services that make up a surgical procedure. Although clinicians (and their billing clerks) may see these services as discrete, the patient perceives them as a complex bundle 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 that healthcare organizations and health professionals think they provide (e.g., quality care, prolonged life, elimination of pathology) are hard to define and measure.

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

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

The difficulty of specifying the services provided becomes obvious when a marketer asks a hospital department head what services that 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 can 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. The situation in healthcare is complicated by the fact that clinicians and administrators may not share the same goals.

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 the 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.

ethics

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

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 enter the field because they want to be in a profession, not a business, and physicians and other clinicians often have distorted perceptions 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 sets the healthcare field apart from other industries most 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 to 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 disease prevention, fitness, and lifestyle management. Much of the social marketing that takes place in US society is geared to nonpatients.

Healthcare consumers are perhaps most distinguished from the 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 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 those services. Because **third-party payers**—and not necessarily the end users—usually pay for the services 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 are medically necessary, regardless of price. However, this situation creates at least two problematic consequences.

third-party payer

An entity—other than the provider and the patient—that pays 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—they have no incentive to consider the cost. Similarly, physicians and 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 encourage 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 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 different 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, 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 risk of complications. Today's well-informed consumers are aware of not only the severity of

medical errors that can occur during a hospital stay or procedure but also the rate of system-induced morbidity. Even if consumers remain stoic about their own care, they are likely to become emotional 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 the relative lack of marketing be explained in an industry that accounts for as much as 18 percent of GDP? 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 was often minimized through unwritten agreements among healthcare providers. If providers did not overtly collude 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 belief that marketing was not needed and overlooked such important marketing tasks as physician relationship development and health plan contract negotiation.

Resistance to Business Orientation

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 clinical concerns were subjugated to 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, many health professionals retain that narrow (and negative) perception of marketing. The concern over contaminating a helping profession with business principles led healthcare organizations to enact provisions against advertising.

Perceived 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 undertaking. While more commercial operations, such as pharmaceutical companies, saw marketing expenses as a normal cost of doing business, hospitals and physicians with no experience in this regard suffered sticker shock at the marketing price tag. This lack of experience with marketing also caused them to overlook many 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 in determining the use of services (e.g., referral patterns, consumer attitudes) that isolating the impact of marketing activities (or doing an **impact evaluation**) is hard. Even if marketing is cautiously accepted, there is widespread concern that marketing can do little to alter practice patterns, market shares, or other indicators 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 spending on expensive advertising. Even if the spending does not affect the patient's bill, highly visible marketing efforts could have a negative impact on the public image of many healthcare organizations.

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 recently 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 that pharmaceutical companies and companies that make other healthcare consumer products can provide. Legislation also has been enacted to limit the marketing activities of providers reimbursed under the Medicare and Medicaid programs. Exhibit 1.4 presents additional ethical issues in healthcare marketing.

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

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 a marketing effort.

EXHIBIT 1.4
Ethical Issues
in Healthcare
Marketing

Concerns over the marketing of medical remedies can be traced back 200 years—to 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 in 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. During the 1950s and 1960s, physicians commonly endorsed products in exchange for payment from the manufacturer. Physicians were paid to endorse 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 cigarette brands. Doctors were paid to attest that brand X was healthier for consumers to smoke than brand Y.

These experiences led the AMA to enforce a virtual prohibition on marketing by physicians. As early as 1947, the AMA forbade physicians to advertise 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 stepped back from its strong stance against physician advertising, and in the 1990s, many physicians initiated aggressive marketing campaigns. Even so, such physicians are often perceived negatively by their colleagues.

Although hospitals were not constrained to the same extent, many hospital administrators also had ethical qualms concerning marketing (or

(continued)

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

EXHIBIT 1.4
Ethical Issues
in Healthcare
Marketing
(continued)

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 a drug's efficacy. The marketing of prescription drugs directly to consumers is also 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 on 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 continuing education programs for physicians, and making sales calls to physician practices.

Pharmaceutical companies' long-standing practice of providing free samples of drugs to physicians eventually came under fire and is now 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. The US Congress eventually reacted to the perceived excesses of pharmaceutical companies attempting 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 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.

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

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 approach. The following summarizes the main ways in which healthcare marketing differs from marketing in other industries:

- **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. Current hospital admission rates suggest that only 10 percent of the US population is hospitalized each year, and even that number overstates hospital use because some patients may be admitted more than once during a year. Further, the onset of significant health episodes is hard to predict, and the conditions that require the most intensive resources typically arise unexpectedly.
- **The healthcare end user may not be the target for the marketing campaign.** 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, healthcare marketing is more difficult than marketing for typical consumer products, and price—a critical differentiating factor for most products—may not be relevant.
- **The healthcare product being marketed may be highly complex and may not lend itself to easy categorization.** With a few exceptions, healthcare products cannot easily be 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 medical procedure (e.g., a hip replacement) can be complex, 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

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

outcome

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

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 ones.

- **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" medical protocols, a number of factors can lead to a favorable or unfavorable **outcome** in a clinical episode. Although a provider may be perceived as providing high-quality care, one or two adverse outcomes can 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 effect of marketing. Referral patterns of clinicians and steering by insurance plans are just two examples of factors that can mitigate the perceived benefit of marketing.
- **The differences between healthcare organizations and their services are difficult to quantify.** Over time, 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 because cost data are hard to acquire and may be calculated in a variety of ways, = making comparison impossible. When all hospitals offer the same services, use the same equipment, and possibly even have overlapping medical staffs, it is challenging for the marketer to make the case for a superior (or even a different) organization.

Developments That Encouraged Healthcare Marketing

Despite the barriers to incorporating marketing into healthcare, significant progress was made toward establishing marketing as an integral function of healthcare organizations during the 1980s and 1990s. Marketing was finally accepted by many healthcare organizations as a legitimate corporate function as a result of a number of developments that reflected shifts in society, 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

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

- 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
- Enactment of the ACA

All of these developments occurred within the framework of a changing healthcare paradigm. Exhibit 1.5 traces the ongoing evolution from medical care to healthcare.

Since the 1970s, there has been a movement away from medical care toward healthcare. The growing awareness of the connection between lifestyle and health status 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 toward 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 non-medical dimension. **Healthcare**, on the other hand, consists of any function that might be directly or indirectly related to restoring, maintaining, or enhancing **health**. This concept includes not only formal activities (e.g., 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. Built on the germ theory, which was formulated in the late nineteenth century, the medical model provided an appropriate framework within which to address and respond to the acute health conditions that were prevalent well into the twentieth century. By the 1970s, however, enough anomalies had been identified to call this paradigm into question. Despite the ever-increasing sophistication of medical technology, the importance of the nonmedical aspects of care was increasingly recognized.

(continued)

EXHIBIT 1.5 From Medical Care to Healthcare

medical model

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

healthcare

Any formal or informal 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.

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

EXHIBIT 1.5From Medical
Care to
Healthcare
(continued)**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 in a population.

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 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 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 that baby boomers were bringing to the doctor's office. This population—more than any other group in US society—has been instrumental in placing the emphasis on 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 healthcare system have led 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 health and illness to the manner in which healthcare is delivered. **Health status** is now defined as a continuous process rather than a static condition. 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 family members are encouraged to participate in the treatment of cancer patients. Ultimately, this paradigm shift called for a significant change in the way healthcare organizations structure their marketing activities.

Why Healthcare Should Be Marketed

With marketing firmly established as a legitimate function in healthcare today, it may seem unnecessary to justify healthcare marketing efforts. However, some healthcare administrators and financial managers still question the need for and importance of marketing. The following arguments have been offered in defense of marketing throughout the years:

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com.

- **Building awareness.** With the introduction of new products and the emergence of informed consumers, 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 improve top-of-mind awareness among consumers and distinguish themselves from their competitors.
- **Improving market penetration.** In the face of growing competition, healthcare organizations needed to increase patient volumes, grow revenues, and gain market share. With few new patients in many markets, marketing was critical for retaining existing customers and attracting new ones away 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 had to offer.
- **Serving as an information resource.** As healthcare became more complex and the array of available services grew, healthcare 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 say in healthcare decision-making, the role of marketing in influencing this process was recognized. Whether it involved convincing consumers to select 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 needed to 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 encourages them to use marketing techniques that showcase how they address unmet health needs in their 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 better 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 directors and vice presidents of marketing are well established, and marketing is an accepted part of healthcare administration. Marketers are increasingly part of the corporate inner circle, reflecting the conversation of marketing from an external activity to a core function of progressive healthcare organizations.

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 seeking solutions for a wide range of problems. The fact that healthcare now accounts for as much as 18 percent of the GDP reflects, among other trends, the population's growing concern for their health.

Key Points

- Although US industry adopted marketing in the 1950s, a number of factors initially prevented the healthcare industry from accepting marketing.

- The pioneers in healthcare marketing can be traced to the 1970s, but marketing was not widely accepted as a legitimate function for healthcare organizations until later.
- Early on, healthcare lacked experienced marketers, and marketing experts had to be imported from other industries.
- Changes in healthcare over time (particularly increasing competition) resulted in a surge of interest in marketing—interest that has been fostered with each new development in the field.
- Once health professionals accepted marketing, the field underwent 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 considered marketing an essential function, and marketing resources were increasingly tied to strategic planning and development efforts.
- Since 2000, social media have heavily affected marketing in healthcare, as in other industries.
- By the second decade of the twenty-first century, healthcare increasingly emphasized a population health model that focused on the health of groups of consumers rather than that of individual patients, significantly affecting the orientation of marketers.

Discussion Questions

1. Why didn't healthcare professionals consider marketing to be important until the 1980s?
2. What factors slowed the acceptance of marketing in healthcare?
3. Why do health professionals view marketing in a different way than 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#

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 (4): 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.