



Market-Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry

by Regina Herzlinger,
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One of Corporate Health Group's (CHG's) client medical practices is a father-son group. The father in the height of his practice made patients wait hours. Patients filled waiting rooms, sometimes sitting on the floor with many ahead of them. In 1997, his son was utilizing the same practice method. While the son was an outstanding physicians in terms of relationship building with a patient and in his medical expertise, few if any patients will return to have that experience again due to the exasperating wait. While they may have waited for his father in the 1960s and 70s and maybe even into the 80s, consumers today believe their time is as important as that of their physician. This physician blamed the insurance companies for displacing the loyalty once felt for physicians. We in turn counseled him to see that while a piece of that may be true, the realities for consumers are changing and they bring the consumer advocacy skills they have acquired to their medical experiences. Today's patient finds it difficult to be patient with the conflicting message, "I value you and can educate you" vs. "wait for me, because my time is more important than yours."

The consumer of the 90s is savvy, educated, and a "threat" to the way medicine has been practiced and how patients are treated and cared for. Regina Herzlinger in her recent book, *Market-Driven Health Care*, calls them consumer revolutionaries. Herzlinger's book captures changes in our society and heightens the focus on the purchasers of healthcare through case studies and applies changes in healthcare demonstrates how healthcare needs to change its behavior and the management and delivery of customer relationships.

The bar has been raised by retail businesses that have focused on service. Consumers judge us not by each other, but by organizations like Disney and Nordstrom. Because the bar has been set by standards driven by non-healthcare entities and a more sophisticated consumer, healthcare needs to respond by changing proactively how it does business. It is no longer acceptable to say that "healthcare is different." As well, healthcare needs to discontinue a manner in which it's "always done this way" but instead learn from other industries.

Issues that brought Herzlinger to write the book are the contradictions she sees in the healthcare system:

- Scarcity amid plenty,
- insensitivity in the midst of compassion,
- pay for therapy, but not prevention, and
- the need for balance between the science of medicine and the art of medicine.

Herzlinger defines her book as one “for people who care about the American healthcare system - the providers, users, and payers who would like to reconcile these paradoxical characteristics.” She is telling the story of activist consumers, entrepreneurial managers, and innovative technologies altering the system and mapping out a market-driven health care system for the future.

The consumers of today are puzzled by contradictions within our industry, “You can buy just about any product over the phone at midnight, but you have to lose half a day of work just to see a doctor for a minor illness . . . An HMO turned down a dying woman’s request for therapy that might have saved her life, yet that year gave one top manager \$18 million in a final compensation package when he left.” While retail industries have moved toward offering the customer what they would like to have, some health care entities have caught the wave, while others are caught in the surge. It is essential that health care providers remember that consumers “vote with their dollars, choosing the retailers, cars, and information services that best meet their needs for convenience and mastery,” says Herzlinger.

In her book, Herzlinger cites Bread and Circus, a Whole Foods supermarket, as an organization whose purpose is to help the health-conscious achieve mastery. They utilize a Bagging Olympics as one of the many techniques to train and motivate employees to serve a challenging customer. They understand their customers and make sure that employees receive the message of who the customer is. In their Team Member General Information Guidebook, they note: “In directing customers to something on the shelf, we should walk with them . . . We should also talk to them as we walk if we can. When we get there, it is best to remain there until we are sure the customer is satisfied.” They are also warned not to “preach” to customers: “people come . . . looking for high quality food, not dogma . . . On the other hand, always try to supply as much product information as any customer may require. If you don’t know the answer . . . this is why we have an Information Team.”

Bread and Circus understands that they must listen and respond to customers. They are:

- Customer-focused and driven,
- value the customer,
- see it as their goal to involve, educate, inform and train, and
- provide employees with ownership and accountability over results.

Integration through strategic relationships.

How does a health care entity engage in the expectations set by all of its audiences -- physicians, payers and ultimately the end user? Consumers want quality and lower costs, physicians want high profitability and the ability to practice as they wish, payers want employees to be happy but they’re interested in low costs - can everybody have what they want? Healthcare needs to identify the core needs and desires of customers and build process in which these are addressed. If processes are built strategically, they can proactively manage multiple cost relationships. If Disney can address diversity and multiple customer relationships, surely healthcare can also. Herzlinger focuses on expertise and claiming a niche.

Herzlinger’s premise for success is demonstrated in numerous case studies -- some within the medical profession and some outside. The majority of her discussion is in that of a focused factory, defined as “the vertebrate or large, vertically integrated firms were cleaved, and products that could be more efficiently provided by outsiders were

‘outsourced.’ A systems perspective created integration through strategic relationships, rather than ownership.” Herzlinger positions a focused factory as a solution; “this newly formed landscape will be better health for all of us.”

There are vast opportunities in health care today to establish these focused factories. Herzlinger's examples range from "those that perform only one procedure, like cataract surgery, to those that provide the full panoply of care for a disease like cancer." Carve-outs are a strike at that, but usually allow payers to make the call and it is generally not driven by the healthcare provider. Or carve-outs are plopped into a vertical organizational structure and budget and set up for failure. One example Herzlinger gives is that of Humana, "it entered a number of new businesses: primary care offices, physician networks, and health insurance. Managing any one of these businesses would represent a large challenge . . . Humana not only entered many new businesses, it simultaneously attempted to integrate them with its existing one. Not even David Jones and his crack management team could lean and integrate all of these businesses, all at the same time."

Sentara Health System in Norfolk, VA, utilized a customer-focused approach developing models for physician and consumer channels. They packaged their services within each model and developed customer-focused teams to address and manage customer relationships throughout the continuum. Their teams consisted of members responsible for planning, marketing, public relations, sales, clinical, delivery, call center and services. With the physician approach they generated \$8 million in the first year in new revenues and volumes.

In Birmingham, AL, Health South developed a for-profit rehabilitation program. They provided "one-stop shopping" for rehabilitation and then tied those to sports fitness, cardiac rehabilitation, occupational health, and workers compensations rehabilitation. Health South now manages referrals, physician and patient relationships through this focused factory, and has experienced large growth simply by focusing on a niche.

Further discussion of a focused factory is that of service organizations "gaining importance and pioneering ways to provide services that would 'delight' customers." Many of us today see the strengths of "delighting" customers. Stores such as Sharper Image that intrigues its customers with gadgets for every walk of your daily life, to Nordstrom where the piano plays in the background of all your purchases, to a stroll down any Disney theme park's Main Street. Herzlinger cites "The Focused Factory," by Wickham Skinner, professor of production and operations management at the Harvard Business School, which appeared in a 1974 issue of *Harvard Business Review*. Skinner offers three remedies:

- Learning to focus each plant on a limited, concise, manageable set of products, technologies, volumes, and markets.
- Learning to structure basic manufacturing policies and supporting services so that they focus on one explicit manufacturing [objective] instead of many inconsistent, conflicting, implicit [objectives].
- Seeing the problem as encompassing the efficiency of the entire manufacturing organization, not only the efficiency of the direct labor and work force.

Focused factories make sense and we see it occurring in many other industries, advertising for example. The 1990s have seen clients with an internal department utilizing external "boutiques" which provide one line of service, i.e. public relations or graphic design or media planning. There are barriers to the focused factory's success. Herzlinger describes the Control Diabetes Centers. It reported that it has contracts with 15 health plans to provide educational clinics for diabetics. The Wilkerson Group, a consulting firm, speculates "that managed care organizations will not invest in a focused factory program that offers intensive management of diabetes because their large membership turnover makes such programs a poor investment. Many

managed care organizations have a 20 to 25% turnover in membership, causing them to cast a dubious eye on programs that require intensive efforts in the present to avoid massive future costs,” notes Herzlinger.

Healthcare entities must be encouraged to develop end-user strategies and tactics with deliverables focused on the true purchaser or user of services. How can a healthcare entity have an ongoing relationship with that purchaser? In the financial industry, banks for many years have been looking at the profitability of a household:

- Who lives in that household?
- What are their needs for the present and the future?
- How are we going to provide those services to them today?
- How are we going to provide those services to them tomorrow?
- How are we going to talk with them so they know that we provide those services?

Healthcare is just beginning to understand these issues and thinking about who purchases healthcare -- to whom does that purchaser listen? How do they make their decisions? Health care is just beginning to understand the value of speaking with employers and serving their needs.

The high cost of waiting

One of the lessons Herzlinger discusses is that patients aren't going to remain patient. Herzlinger tabulates the cost of waiting, “If each of the 704 million physician visits in 1990 required a wait of ‘only’ 30 minutes, then the loss to our economy equaled 176,000 *years* of productive work. At a conservative value of \$20,000 per year lost, doctors’ waiting rooms constitute \$3.5 billion in annual lost productivity.”

Consumers are concerned with value. They spend a great deal for health care but “have steadily rated hospitals, doctors, and insurance as the lowest values for the money among the many goods and services they commonly purchase. They bemoan the system’s inconvenience, which robs them of their good health and limited free time, almost as much as they bemoan its inefficiency,” says Herzlinger. On the other side, they have rejected government interference in “fixing” the system.

Health care organizations need to build models to manage the customer’s expectations of us and to address the barriers to change. There are four key categories to address:

- Strategy and Marketing -- really understanding their business, niches filled and the end users of their products, opportunities
- Service Line Development -- assessing packaging, pricing and fulfill the promise
- Technology, Info and Access
- Measurement of Results

Says Herzlinger, “An earthquake is transforming our healthcare system. As it rumbles a new landscape is emerging. If you can’t sense it, wake up -- this quake is for real. It is caused by primal forces -- powerful changes in sociodemographic characteristics, medical technology, and organization structures.” She sets out reality checks that are transforming health care.

The last third of Herzlinger’s book is the most captivating, full of case stories and the tactics used in the changing parameters in how healthcare will deliver “breakthrough customer service.” The best and most workable option is that of utilizing benchmarking models that are non-healthcare oriented, but are customer-driven and can be applied to the healthcare industry.

Changes made at the John Deere and Company in Moline, IL, are illuminated in one of the final chapters. This \$10 billion farm and industrial equipment manufacturer went through a transformation that resulted in bolstering profits and increasing wages, while holding the line on prices and maintaining their “soul.” They retooled their company to focused factory organizational units that used outcomes with people in teams held accountable for results. They focused as a company on investments in technology, information, and people. As well, they analyzed which products were more efficient to produce internally and which made sense to be produced by external vendors. The two lessons important to those in healthcare are that, “big is not always beautiful and vertical integration is not always the answer,” says Herzlinger. Deere chose niches and focused sharply on things they did well. Small teams accomplished those things -- leveraging teams with technology, information, and education. Deere gave employees empowerment, accountability, and responsibilities. This transformation took it from a \$20,000 loss per employee in 1987 to a profit of \$15,000 in 1994 -- all while maintaining mission, focus, and people.

Consumers, says Herzlinger, are currently are driving change, and they understand issues of value, convenience, quality, and mastery. Healthcare providers must come to those same perceptual definitions with products that match those perceptions understanding the issues of cost, quality, and technology.

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As three-quarters of America's health-care dollars are currently spent on these conditions, the potential for savings may be large, so long as the doctors who make the initial diagnosis do an accurate job. The entrepreneur who does for disease management what Ray Kroc, McDonald's founder, did for fast food will find plenty of customers who want better service for lower prices. * "Market Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry". Addison-Wesley, 1997. \$25. What happens when the demanding consumers who nearly brought the U.S. automobile industry to its knees focus the same kinds of pressure on the industry that represents one-seventh of the U.S. economy--health care? The health organizations that combine quality, convenience, information, choices, and lower costs will be the winners in this revolution. Regina Herzlinger, chaired professor at the Harvard Business School, distills the facts from the noise surrounding the one industry whose measures of success are life and death. In a thoroughly readable, anecdotal style, she pinpoints the drivers o

AbeBooks.com: Market-driven Health Care: Who Wins, Who Loses In The Transformation Of America's Largest Service Industry 1st (first) Edition by Herzlinger, Regina [1999]: Ships with Tracking Number! INTERNATIONAL WORLDWIDE Shipping available. May not contain Access Codes or Supplements. May be ex-library. Shipping & Handling by region. Buy with confidence, excellent customer service! Buy with confidence, excellent customer service!. Bookseller Inventory # XH0BUFKQI0. Ask Seller a Question. Bibliographic Details. Title: Market-driven Health Care: Who Wins, Who Publisher: Basic Books. Publication Date: 2003. Herzlinger, a professor at Harvard University Business School, contends that managed care, a system of payment that now involves some 70 million Americans, was a response to so called indemnity coverage, under which insurers simply forked out money for whatever tests and procedures were ordered. Costs were escalating annually in double digit percentages, overuse was rampant, and employers, footing a bill of some \$4000 a year per employee. Market Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry BMJ 1997; 314 :1424. You are going to email the following Market Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry. Your Personal Message.