

# The Role of Marketing in Determining the Technology of a Hospital

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## BACKGROUND

Amongst the more difficult decisions a hospital administrator has to grapple with is that of defining the investment strategy that the hospital should pursue. Once entered upon, it is not easy to change emphasis or direction without significant financial penalty.

This decision is in large part decided by defining the type and level of clinical services that a hospital elects to offer to the community that it is servicing. For example, if oncology services were to be offered then once the primary decision has been made the investment strategy becomes self determining. A basic technology configuration would be two linear accelerators plus a simulator, radiotherapy unit, cobalt unit and ancillary chemotherapy facilities. The investment requirement though high at set-up stage has a low recurrent capital requirement in terms of upgrade demands allied to long life expectancy of the equipment. A life expectancy that is measured in terms of ten years or better. The strategy involving say cardiac diagnostic services are equally potentially capital intensive but the working life of the equipment is much shorter and the requirement for upgrades more frequent. Cardiac equipment normally has a working life of some six to eight years in total before replacement, not upgrade, necessary.

A consequence of the investment strategy adopted is that it will define the type of clinician that the hospital attracts, and retains, and the level of specialisation that it pursues.

## MARKETING AND ITS ROLE IN DEFINING THE INVESTMENT STRATEGY

In marketing terms there are basically three strategies that are followed by hospitals, namely :

- Undifferentiated
- Niche
- Market leader

These three strategies can be expressed in graphical form relative to return on investment. Clearly the best financial returns are to be achieved by adopting either a market leader approach or in filling a niche opportunity with a particular clinical service or suite of services.

Earlier this year I surveyed thirteen private hospitals here in Jakarta and found that in fact virtually all were pursuing an undifferentiated strategy. Where investment in specialised technology had been made, it was upon the request of a particular doctor rather than in terms of a clearly thought through strategy linking clinical service development with market needs. The consequence was a very high level of under utilisation of equipment and subsequent lack of return on investment. Lithotripsy units servicing two or three patients a week, cardiac catheterisation laboratories performing twenty angiograms a month, these levels of utilisation are not only not commercially viable they reflect a poor understanding of the cost of capital and the notion of opportunity cost of capital. Money invested in these capital intensive, low utilisation technologies offer no payback to the

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investors and deny access to this money to other potentially viable projects that would yield a return on investment.

In discussing with hospital administrators how these investment decisions were made it was clear that market demand and payback analyses were not performed with any discipline but rather the decisions tended to be made based on intuition and blind faith.

Marketing frameworks encourage consideration of two major aspects that should underpin any investment considerations. They are those of target market demand e.g.

- Is there a market for the service under consideration?
- If so, is the demand of sufficient level to be economic?
- If the answer appears yes, is that demand sustainable?

Affirmative answer to these questions still should not lead to an investment in the proposed technology yet though. The second situation analysis needs to also be undertaken, that of consideration of competitor positioning. It is a truism that if you can see an opportunity in the marketplace so can a competitor. This being the case :

- What are the responses of a competitor likely to be?
- Are they also investing in similar technologies, or contemplating doing so?
- If so, is the market big enough for two or more players, or, can your facility gain a sustainable competitive advantage relative to the proposed technology?
- Apart from market, demand considerations are there any other issues such as restriction of the number of clinicians or technicians associated with operating the technology? Is this a limiting resource?
- What are the lead times involved for a competitor follow you into the market?
- If your hospital entered the market with the proposed service would it make it nonviable for a competitor to set up in competition?

These sorts of considerations need to be individually answered. They are built around the concept of a core competence, that is to say those things that a hospital does that gives it a sustainable competitive advantage over a competitor. Those one, two, or three areas of clinical service that your hospital is able to offer at a level of excellence that is not readily imitated by a competitor.

A core competence should :

- Be difficult for competitors to imitate, especially if it is based on a combination of corporate culture and technologies
- Be focussed on meeting a perceived need by the hospital's customers namely the doctors, patients, visitors and staff

- Be a basis for potential, or actual, business acquisition  
To assist in these sorts of analyses a number of different frameworks are useful.

To formulate considerations about whether or not a potential investment in a new service is likely to be attractive Porter's Industry Attractiveness Model is very useful to guide analysis. This is a very comprehensive framework and leads to wide ranging considerations about the potential marketplace and its structure.

The model has as its core the need to predict the degree of rivalry a business could be predicted to experience. In order to assess the threat of rivalry issues that impact on the attractiveness of an opportunity are considered such as threat of entry into the marketplace, threat of substitution of the service or product and consideration of the relative roles of suppliers and customers in impacting on the business.

Once an investment strategy has been defined and embarked upon marketing concepts also help to define how a hospital should position itself relative to competitors.

Ansoff's product/market grip offers a useful framework from which to consider existing products and markets and potential new ones. By using this model it helps focus a hospital's marketing efforts and place them in a context that investors and staff can understand.

A third model that is of particular value in terms of developing responses to market opportunities considers the attractiveness of that market relative to its strategic value to the hospital. By performing this type of strategic value analysis it helps a hospital administrator to determine their marketing initiatives.

## SUMMARY

The intention of each hospital should be to develop two or three distinctive clinical competencies that give it a sustainable competitive advantage over other facilities and from which it can therefore achieve economies of scale for those clinical services. It is through economies of scale that technology becomes viable and thus allows a hospital to build profitability.

Marketing concepts allow a clear framework to be applied to the decision making process in an objective and rational manner in determining which technologies a hospital should invest in.

Once investment has occurred, marketing models help define how to position and develop a hospital's clinical products and how to respond to changes in competitor behaviour. Indeed, systematically applied these frameworks offer considerable predictive capabilities for the astute administrator.