THE TRADITIONAL HOSPITAL: IDENTIFYING STRATEGIES FOR SURVIVAL IN A CHANGING ENVIRONMENT

Susan M. Halfhill, California State University, Fresno
David S. Halfhill, California State University, Fresno

Abstract

This paper opens by stating the obvious: traditional hospitals must learn to deal with sudden, often erratic surprises and changes in the outside world that can threaten their survival. Forecasting future change has never been an easy task; in the present turbulent environment, it has become a "nightmare." Marketing perspectives, principles as well as strategic marketing concepts provide hospital administration with an effective approach from which to cope with the forces in their environment. Hospital management must be alert to new ideas, both in terms of process and content, so that they can recharge the capabilities of their institutions to deal successfully with change. Indeed, the future promises to be exciting and challenging to those who are willing to meet it on its own terms.

Introduction

As an industry, the traditional hospital is in its market decline stage. There will be 15 percent fewer hospitals in 1990 than exist today (Forbush, 1983). Many hospital facilities will soon be out of date. It is estimated that 85 percent of the nation's hospital capacity will reach the end of its useful life in the 1980's (Hauser, 1983). Replacement of these facilities is expected to cost $130 billion nationwide with an anticipated shortfall of $56 billion.

However, health care as an industry is in a growth stage. By 1989 there will be an 18 percent increase in individuals 65 and older, accounting for 90 percent of the projected increase for health care. The country's birth rate will peak at four million in 1986, just short of the 1957 record high. Overall expenditures for health services in the United States has doubled since 1975, and has increased seven times since 1965 (Hauser, 1983). Growth rates for the Sunbelt areas will be five times greater than the Northwest and North Central states (Hauser, 1983).

Competition is increasing significantly among health care providers. During 1982-1983, 48 new Health Maintenance Organizations (HMO's) opened in the United States. By the end of the decade there will be an estimated 70,000 surplus physicians nationwide (Hauser, 1983).

Technological advancements create tremendous capital planning problems. Equipment costs continue to increase at an increasing rate. Some equipment is obsolete before it is completely installed (Evans and Galles, 1982).

Consumerism is playing a greater role in the selection of health care providers. Nationwide studies show individuals choosing hospitals over family physicians in from 20 percent to 38 percent of the cases (Saucier, 1981).

The environment in which hospitals operate is continually changing. The rate of change in the environment in which hospitals have to operate is increasing. Can hospitals and health care organizations survive these changes in the environment or must they somehow redesign their present strategies in order to cope with these environmental dynamics?

Recent trends would indicate that health care organizations must adapt their organizations to the environment. Gregory and Klegon (1983) observe that marketing, more than any other discipline, is best suited for the systematic generation and analysis of information on the environment and environmental trends which will affect the hospital organization.

Many traditional hospitals must develop survival strategies. This paper strongly advocates that hospital administrators must utilize not only basic marketing principles, but also strategic marketing concepts if they expect to remain viable in the future. Strategic marketing offers the proper perspective from which to analyze the hospital organization, its environment—both internal and external, its competition, and its portfolio of services to be offered and markets to be served.

The balance of this paper will be focused upon a discussion of how strategic marketing management can be utilized by hospitals to identify survival strategies for the future.

Strategic Marketing Management For Hospitals

Strategic marketing management is defined as the systematic approach to positioning and relating a firm to its environment in a way which will assure its continued success and guard it against environmental surprises. This systematic approach includes a multistep process as depicted in Figure 1.

The process begins with identification of the organization's current strategy. Strategy can be thought of as a framework that guides the choices concerning how an organization will interact with its environment. Every organization has some sort of strategy, although it may be quite vague. For example, it may exist only in the mind of one person or in the shared experiences of long-time employees and managers. It may, in fact, be difficult for anyone in an organization to articulate its strategy, yet it can be deduced by the organization's past activities. For most traditional in-patient hospitals this is the case. They have come from a long tradition of humanitarian concerns with the primary purpose of ministering to the needs of the sick and injured who have come to their doors. The need for their services has been so clear-cut that they have not considered their ability to adapt to the recent changes in their complex and increasingly dynamic external environment. Thus, their strategies have not changed much over time.

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This leads to the second step in the strategic process, namely assessment of the external environment. In this step it is clear that marketing is best suited to identify, evaluate, forecast and monitor various events and trends outside the organization which may impact current or future strategy. One of the most important areas for assessment is the nature of competition.

What are the driving forces of competition for the traditional hospital? Just as for organizations in most industries, the principal driving competitive force consists of the interplay of the strategic moves and countermeasures of rival firms. But in addition there are four other important sources of competitive pressure: (1) substitute products or services from firms other than direct rivals, (2) the potential entry of new competitors (i.e., new rivals), (3) the economic power of suppliers, and (4) the economic power of customers. An excellent conceptual model depicting this competitive forces was developed by Porter (1979). This model is presented in Figure 2. The relative strength of influence of these five forces and the pattern of interaction among them largely determine the nature and intensity of competition for the circle of rival organizations.

For the traditional in-patient hospital the circle of rival competition is comprised of other hospitals in the same service area. A variety of tactics may be used by the hospitals as they compete for scarce personnel and doctors. Beyond salary and fringe benefits hospitals offer low interest rate mortgages to subsidize housing costs, temporary living expenses both before and after relocation, furniture allowances to compensate for furniture which will not "fit" in the new residence, etc. Some hospitals offer to purchase new medical equipment desired by the personnel being courted.

Doctors occupy the unique role of being both a supplier and a customer and as such hold considerable power over the hospital. They influence prices and the quality and scope of available services. Doctors influence almost everything a hospital does; as customers they often have the sole power to admit patients and to order various diagnostic and treatment services, as suppliers, they provide these services. Another group of purchasers, health insurance companies and governmental agencies collectively account for over 90 percent of the hospital's operating revenues. These institutions place demands upon the hospital in virtually every department. These demands directly impact the operating costs of the hospital as well as the services it must provide. These additional constraints definitely affect the flexibility of the hospital and these effects must be considered in any long range plan. Some of these constraints definitely serve to reduce the competitiveness of the hospital.

Perhaps even more important than the threat of new rivals entering the market is the threat of substitute or new products and service offered by specialized health care organizations. Many traditional hospitals are feeling the results of declining revenues as would-be patients are instead using birthing centers, out-patient surgery centers, emergency centers, etc., rather than the services of the traditional hospital.

The third step of the strategic process is the assessment of the internal environment. In this step of the process it becomes apparent that marketing must help, if not essentially direct, the

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**FIGURE 1**

**PRIMARY FACTORS WHICH SHAPE STRATEGY**

**FIGURE 2**

**THE FORCES OF COMPETITION**