Strategy and Strategic Planning in Healthcare: Are They Dead or Alive?

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A business strategy is a set of guiding principles which, when communicated and adopted within the organization, generate a desired pattern of decision-making. A strategy, therefore, relates to how people throughout the organization are to make decisions and allocate resources, in order to accomplish key objectives. A good strategy provides a clear roadmap, consisting of guiding principles or rules that define the actions people within the business should (or should not) take, and the things they should (or should not) prioritize, so as to achieve the desired goals.[1]

'Strategy' is a word with which many healthcare leaders will be familiar; few, however, might perhaps truly understand it, and many may struggle when it comes to detailed planning, or execution, when required to lead their organizations. Healthcare is one of the most complex non-linear systems, because of its many moving parts, which consist of people, processes, sub-processes, macro-cultures, micro-cultures, and regulations, as well as internal and external administrative and political pressures. In addition, there is no way to adequately prepare in advance for certain events, which may suddenly evolve, such as management of workforce shortages, or the disruption of supply chains related to a unique event, such as a pandemic.

For industries in general, even today, focus remains on operational efficiency, with the goal of lowering costs and generating higher productivity. This, however, can lead to a lack of innovation, homogeneity, and stagnation. Market positioning and competitive advantage are missing, and there exists no clear understanding of customer segmentation.[2] This applies, too, to healthcare systems, primarily to acute care hospitals and their associated ambulatory care services, and this is because most healthcare systems offer multiple services to every patient. Between Medicare, Medicaid, and the various forms of commercial insurance, reimbursement rates have little variability: everyone is paid roughly the same, based on geographical location. Performance benchmarks for quality and patient experience are more or less the same, because the majority of them are set by CMS. Healthcare systems thus strive for the same goals, resorting to operational effectiveness by attempting to 'do more with less'. This puts a considerable number of people under considerable stress, with no clear winners emerging.

Although the healthcare industry is volatile and complex, this does not mean that strategy is inapplicable, or should not be considered for fear of it being too difficult to formulate and execute.

This article briefly touches on some key types of strategy that the authors of this article believe all healthcare leaders should become familiar with. It is crucial that leaders understand the components of strategic planning, and what tools and frameworks are available for meaningful analyses.

So, what precisely is 'strategy'? Typing the word into a search engine results in some 1.9 billion hits, and a multitude of definitions. A degree of clarity and simplicity is provided by the Oxford English Dictionary, where strategy is defined as "a plan of action or policy designed to achieve a major or overall aim." There is however, considerably more nuance at play when it comes to strategy than this would suggest.

Michael Porter's Competitive Advantage

It is impossible to mention strategy without considering the contributions of academic and theorist Michael Porter. Porter's theoretical framework has laid the foundations for organizations to achieve success.[2] The healthcare market is sufficiently competitive; in order to offer and maintain competitive advantage, a healthcare organization must understand how it operates within its industry, and how the organization is affected by its services, offerings, products, and competitors.

Porter's Three Strategies

Understanding Porter's 'three generic strategies' – namely, cost leadership, differentiation, and market focus (niche) – is important, in order to outperform competitors. These strategies are not mutually exclusive; more than one can be used by an organization contemporaneously.[3]

Cost Leadership Strategy

This type of strategy is intended for an organization whose goal is to reach the overall lowest cost structure, appealing to customers who are price-sensitive. It is a strategy which can be applied within highly competitive environments. In such rival-saturated instances, the strategy is suitable for standardized services readily available from other providers in the industry; however, if there is little differentiation between the services offered, customers tend to be more sensitive to price. A major challenge for this strategy is retaining service relevance, since the main focus of cost leadership strategy is price reduction, rather than service quality.[3] Examples of price-sensitive low-cost leaders in healthcare would be HMOs, whose business models are built on cost containment, and keeping insurance premium prices low. Non-urgent clinics provide another example: Walmart Health, for instance, can provide basic services at low prices.[3]

Differentiation Strategy

Differentiation strategy works well for organizations that strive to provide a unique customer experience. This strategy is based on an organizational ability to innovate, and can help achieve competitive advantage over rivals. Organizations that implement this strategy should focus on better features and quality, and value, as perceived by their customers when compared to market competitors. However, such features typically come at a higher cost, which may drive some customers to seek lower-priced products elsewhere. This strategy's success relies on the quality of data gathered around sources of differentiation for an organization's customers. If an organization trails behind rapid market changes, this strategy will not prove viable.[3]

Focus Strategy (Niche)

Market focus strategy concentrates its efforts on specific segments of the market, and can successfully achieve its objective by becoming the niche leader. For example, organizations can narrow their customer segment, becoming highly specialized within that category. By utilizing this strategy, organizations can become more efficient and effective through specialization, possibly reducing the cost of services offered. This works well in a market with little competition, considering that most multi-segment competitors would struggle to meet the specialized needs of the market niche. On the other hand, by implementing this strategy organizations restrict themselves from serving a wider market segment. Examples of such organizations would be specialty hospitals, such as Roth Orthopedic Surgeries Hospital in New York.[3]

Porter's Five Forces

As well as the three 'generic strategies' outlined above, Porter identifies five 'forces', which govern competition within an industry. These forces are competitive rivalry, barriers to entry, threat of substitutes, buyer power, and supplier power. The strategies above can be implemented to protect against competitive forces.

Competitive Rivalry

'Competitive rivalry' is a measure of the competition among existing organizations. It can lead to competitors engaging in price-cutting, increasing marketing expenses, improving services, and/or launching new products. Under such competitive market conditions, organizations may consider utilizing a cost leadership strategy, focusing on meeting the expectations of price-sensitive customers.

Barriers to Entry

A 'barrier to entry' is a fixed cost incurred by a new entrant, which prevents new competitors from easily entering an industry. Differentiation strategy can be applied here, since it caters to customers' specific needs, creating a loyal customer base. Additionally, market focus strategy can be used, as companies develop an understanding of their customers' preferences through research.

Threat of Substitutes

The 'threat of substitutes' is created when competitors offer more attractive and/or lower cost products. This is a major concern for established organizations, as novel substitute services or products may displace their own. Differentiation and market focus strategies may prove to be most effective when dealing with the threat of substitutes, as organizations can provide services specific to customers' needs/wants.

Buyer Power

Buyers have the power to influence the price and quality of the services offered by organizations. This creates challenges when implementing differentiation and market focus strategies, as buyers have fewer alternatives available to them. Organizations may opt to utilize cost leadership strategy, which offers lower price options, in order to attract powerful buyers.

Supplier Power

'Supplier power' refers to the pressure suppliers can exert on organizations by raising prices, lowering quality, or reducing the availability of their products. This places significant pressure on organizations that cannot offer substitutes for specific services or products. This model would prove challenging for organizations implementing differentiation and market focus strategies, since they increase supplier power. In the case of cost leadership strategy, however, organizations are shielded from powerful suppliers.

Porter's Value Chain

Porter’s ‘value chain’ endeavors to explain how value is created within organizations by focusing on customers. A value chain consists of processes that, if enacted by an organization, create value for its customers, resulting in competitive advantage. Value chains focus on systems within organizations that define linked, niche categories of activities. These activities are divided into two categories: primary and support. The primary activities of the value chain model include inbound logistics, operations, outbound logistics, marketing and sales, and service. Secondary activities comprise company infrastructure, human resource management, research and development (R&D), and procurement. These activities support the foundational primary activities of most organizations. A successful competitive advantage can be achieved so long as organizations examine their internal processes. If a process in a value chain creates a value that exceeds the cost of creating that value, the organization will remain viable.

W. Chan Kim and Renée Mauborgne’s Blue Ocean Strategy

‘Blue Ocean’ is part of a metaphor developed by two professors, W. Chan Kim and Renée Mauborgne, and is defined as an unknown market space occupied by little competition, and demanding creativity, whilst offering the opportunity for highly profitable growth. The concept of ‘Blue Ocean’ finds its counterpart in the metaphor with ‘Red Ocean’: a known and densely populated market space, where organizations try to outperform their rivals so as to wrest a greater share of an already saturated milieu. In blue oceans, competition is rarely a threat, since these metaphorical waters are largely uncharted. Organizations may respond to several factors as driving forces, to create blue oceans. For example, niche markets and monopolies continue to disappear as information about services, products and prices becomes instantly and globally available. Accelerated technological advances allow for competing organizations to connect customers to an unprecedented array of services and products.

Michael Treacy and Fred Wiersema’s Value Strategies

The ‘Value Disciplines Model’ is one developed by authors Michael Treacy and Fred Wiersema; they suggest that in order to be viable a business must be successful in three key areas: operational excellence, product leadership, and customer intimacy.

Operational Excellence

‘Operational excellence’ consists of providing customers (or in the medical sector, patients) with reliable products and quality service at competitive prices, with minimal difficulty or inconvenience. Following this strategy, an organization’s objective would be to become a leader in price and convenience.[4] Its cornerstones are a strong value chain of services, a focus on lowering expenses and cost, and reasonable quality for an affordable price.

Product/Service Leadership

'Product/service leadership' entails leaders of organizations continually scanning for new services and products that can be brought to consumers; this is not merely a matter of new products and services, however, but also about ways in which to deliver them to the market, so as to quickly capture the market share. In order to launch new products and services, organizations must have a flexible system, with processes and systems designed for rapid development and implementation. Appropriate infrastructure and management structures must be in place to support these new ventures.

Customer Intimacy

'Customer intimacy' involves precisely segmenting and targeting markets (or, in medical terms, patient populations) and then tailoring products and services to meet the needs and demands of those markets/patients. Organizations that focus on customer intimacy (or patient experience) combine detailed knowledge of their customers/patients with a well-developed operational flexibility, so as to quickly meet the needs and demands of their customer base.[4] The keystones of this line of approach are patient-centered care, and an understanding of what patients want, combined with a focus on quality rather than cost, and the quality (rather than volume) of the service developed. It aims to move beyond surveys such as the Consumer Assessment of Healthcare Providers and Systems (CAHPS) and the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS), by means of a ten-point scale to establish targets for each category.

It is important to note that Treacy and Wiersema's strategy model requires organizations to select one discipline and master this discipline, before engaging with another. Today, however, healthcare systems would appear to wish to master all three disciplines simultaneously. The business model, with its strategic fit of activities and systems, does not support this, and thus these attempts can often end in futility or mediocrity at best.

Igor Ansoff's Growth Strategies

This matrix was developed by applied mathematician and business manager H. Igor Ansoff, and has helped many marketers and executives better understand the risks inherent in growing their businesses.

This strategy is important to understand if the focus is on growth and expansion.[5] Ansoff's four growth strategies are outlined below.

Market Penetration

'Market penetration' focuses on increasing sales of existing products or services to an existing market. In a market penetration strategy, the firm uses its products or services within the existing market; in other words, it aims to increase its market share. The market penetration strategy can be executed in a number of ways: prices can be lowered, so as to attract new customers; promotion and distribution efforts can be increased; a competitor in the same marketplace can be acquired. This would apply in the example of the expansion of urgent care or primary care clinics by a larger hospital-based system.[5]

Product Development

'Product development' focuses on the introduction of novel and/or innovative products or services to an existing market. In a product development strategy, the firm develops a new product to cater to the existing market. The move typically involves extensive research and development, and the expansion of the company's product range. The product development strategy is employed when firms have a strong understanding of their current market, and are able to provide innovative solutions to meet the needs of that existing market.[5]

Market Development

'Market development' focuses on entering a new market using existing products and services. In a market development strategy, the organization enters a new market with its existing products and services. In this context, expanding into new markets may mean expanding into new geographical regions or customer segments. The market development strategy is most successful in several situations: for instance, if the firm owns proprietary technology or services that it can leverage into new markets, if potential consumers in the new market are profitable (i.e., they possess disposable income), or if consumer behavior in the new markets does not deviate too far from that of consumers in the existing markets. The market development strategy may involve catering to a different customer segment, entering into a new domestic or regional market, or entering into a foreign market by expanding internationally. [5]

Diversification

'Diversification' focuses on entering a new market with the introduction of new products. In a diversification strategy, the firm enters a new market with a new product. Although such a strategy brings with it the highest risks – since both market and product development are required – that risk can be mitigated somewhat through related diversification. The diversification strategy may offer the greatest potential for increased revenues, since it opens an entirely new revenue stream for the company, accessing consumer spending power in a market to which the company did not previously have access.[5]

Combination of Ansoff's Strategies

Although each of the above strategies has a distinct path, most successful and high-performing organizations will pursue multiple strategies. For example, an organization could increase its market penetration effort, whilst also adding new services in existing markets, or taking its existing services into new markets. Unlike with Treacy and Wiersema's concept above, pursuit of several strategies simultaneously here might be a form of survival in a highly competitive environment.[5]

Strategic Planning and Execution Frameworks

Step 1: Perform Situation Analysis

This is the point from which organizations would begin, so as to perform an assessment allowing them to understand where they presently stand and operate. The following areas would need to be clearly defined and understood as a starting point:

- Mission
- Vision
- History of the company
- Organizational structure
- Current goals/objectives
- Current business model, strategies, and strategy implementation frameworks used.
- Current business definition (i.e., what the business does, and how it generates value for its customers)

Step 2: Use Abell's Business Model

This model, developed by academic and author Derek F. Abell, is designed to help companies precisely define their business. It may be useful in making clear how a business operates today, which in turn helps to inform future strategic planning. To establish the fundamental aspects of a business, it asks three primary questions, adapted here for the medical sector:

- In order to understand the market by examining patient populations and sub-populations, who receives the types of services that the company (and its competitors) provide?
- What type of services are those patients in need of?
- How are the needs of these patient populations and sub-populations fulfilled at the current moment?

Step 3: Perform External Analysis

A 'macro-analysis' is necessary to understand the threats and opportunities available, especially those that could be exploited. This is part of what is termed a 'SWOT analysis', the acronym standing for 'strengths, weaknesses, opportunities, and threats'. To effectively perform the macro-analysis it is important to use a further analysis tool, the 'PESTEL framework'. This acronym stands for the 'political, environmental, social, technology, economic, and legal factors' – both threats and opportunities – that could impact the industry or market, and, therefore, the organization.

A 'meso-analysis' is also necessary to study the market; within this analysis, organizations should focus on performing distribution analysis, competitive analysis, and patient analysis.

At this juncture too, an analysis of Porter's 'five forces' above is vital, so as to understand the strengths of the organization within its competitive environment.

Step 4: Perform Internal Analysis

This combines several elements – some of them outlined above, and some newly introduced here.

- Use the 'McKinsey 7s Framework'. This is a management model developed by business consultants Robert H. Waterman Jr. and Tom Peters. It involves performing a comprehensive assessment to ascertain if there is a good fit between the organization's superordinate goal, and its strategy, structure, systems, skills, style of leadership, and staff.
- Use Porter's 'value chain' to measure systems and activities, to see if a value proposition exists.
- Undertake a financial analysis, reviewing financial statements and ratios to measure financial health.
- Undertake the 'SWOT analysis' outlined above, using the opportunities and threats from the aforementioned 'PESTEL framework' to complete the analysis.

- Undertake a portfolio analysis, measuring all service lines to see if the value proposition is clearly defined, and the service lines are generating monetary and/or non-monetary value.

Step 5: Effective Use of Strategy in Healthcare

Upon completion of the previous four steps, it should be possible to identify key issues and uncertainties that need to be resolved and mitigated; the principal obstacles and structural challenges that need to be addressed should also be defined by this. The use of a 'scenario planning matrix' is important at this point: this is a tool used to construct and describe scenarios in unpredictable situations, building and visualizing scenarios based on key uncertainties. The top two key uncertainties and issues should be taken and discussed with the strategic planning team, with 'what if?' questions being developed as provocations.

After identifying the key issues the organization wishes to focus on, and what it wants to plan for, selecting the right strategy or combination of strategies is of the utmost importance for healthcare leaders; this is where difficulties are often encountered. The process of outlining options and selecting from one (or a combination) of several of strategies can be initiated by using a 'sustainability feasibility acceptability (SFA) matrix' or a 'segmentation targeting positioning (STP) matrix' two commonly used frameworks to better understand customers and markets.

After the compilation of strategy options and the clear identification of market segmentation, target patient population, and the positioning of the organization (in terms of where the organization wishes to do business), it is then important to select the strategy execution framework. The authors recommend the use of a framework or model where responsibilities and accountabilities are clearly outlined for teams and individuals, in terms of who will oversee projects tied to the strategic goals and objectives. In addition, each project must have meaningful metrics to measure if the strategy is working. Metrics gauging financial and non-financial value must be clear, and measure the value proposition. In order to ensure that all systems and processes are interconnected, and that each one is supporting the overall strategic goals, Porter's 'activity systems map' can be developed; this tool will allow a visualization of how the organization's set of core competencies, in tandem with specific management and policies, developed to support these competencies, can combine to create a favorable strategic positioning.

With this toolbox readily available to those who would use it, whether the art and science of strategy is dead or alive within the field of healthcare today is largely dependent on the leaders in the field, and how they choose to use (or not to use) the tools at their disposal.

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