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## DRIVEN BY THE MARKET

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*Today's "consumer revolutionaries" require what focused factories have to offer, according to Regina Herzlinger.*

One of our medical practice clients is a father-son group. The father, in the height of his practice, customarily made patients wait for hours. During the 1960s, 70s, and even into the 80s, his patients crowded waiting rooms, sometimes sitting on the floor after the available chairs were filled. We found the son, in 1997, utilizing the same practice method. An outstanding physician in terms of clinical expertise and relationship-building with patients, the son nevertheless is unlikely to keep his current clientele and build his practice without eliminating the unspoken message: "Wait for me, because my time is more important than yours."

The younger doctor blamed the insurance companies for displacing the loyalty once felt for physicians. We, in turn, counseled him to see that while that may be partly true, the realities for consumers are changing and they bring the consumer advocacy skills they have acquired to their medical experiences.

The savvy, educated "consumer revolutionaries" of the 90s are a threat to the way medicine has been practiced and how patients are treated and cared for, says Regina Herzlinger in her already-classic book *Market-Driven Health Care: Who Wins, Who Loses in the Transformation of America's Largest Service Industry* (Addison-Wesley, 1997). Herzlinger, the Nancy R. McPherson Professor of Business Administration at the Harvard Business School, explores changes in society that affect the purchasers

of healthcare, and demonstrates through case examples how the industry must change its behavior in the management of customer relationships.

The bar for healthcare consumers has been raised by retail businesses that focused on service, Herzlinger contends. Consumers judge us not by each other, but by organizations like Disney and Nordstrom. While retail industries generally have moved toward offering customers what they want, healthcare entities have not all caught the wave. Issues that drove her to write the book are the contradictions she sees in the healthcare system: scarcity amid plenty; insensitivity in the midst of compassion; paying for therapy, but not preventions; and the need for balance between the science and the art of medicine.

"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." Speaking to "people who care about the American healthcare system - the providers, users, and payers who would like to reconcile these paradoxical characteristics" - Herzlinger sees a market-driven healthcare system in the future; one replete with many kinds of focused factories (see box below).

### Strategic Relationships, Now Ownership

Organizations can claim a niche through development of focused factories based on their particular expertise, urges Herzlinger. As products that can be more efficiently provided by others are outsourced, a systems perspective is used to "create integration through strategic relationships, rather than ownership."

There are vast opportunities in healthcare to establish focused factories, says Herzlinger. 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." A variety of models exist.

### EVERYTHING THEY WANT, WHEN THEY WANT IT

Healthcare is still organized around providers rather than customers, Regina Herzlinger maintains. But consumers, used to buying according to their own needs, no longer accept inconvenient, difficult-to-access, disjointed services. In the introduction to *Market-Driven Health Care*, she envisions that;

"Focused factories will provide overworked Americans with convenient healthcare, available before and after working hours, in easy-to-reach locations like work sites, shopping malls, homes, and schools. They will offer all the resources required to treat a particular problem—including specialist physicians, primary care doctors, nurses, technicians, pharmaceuticals, supplies, appliances, diagnostic facilities, and easy, integrated access to hospital or home-based care, if it is needed. All of this will be organized not by medical specialty but for the total needs of the patient with a particular disease or problem."

HealthSouth, in Birmingham, AL, developed a for-profit rehabilitation program that provides "one-stop shopping" that is also tied to sports fitness, cardiac rehabilitation, occupational health, and workers' compensation rehabilitation. HealthSouth now manages referrals and physician and patient relationships through this focused factory. In another example, Sentara Health System in Norfolk, VA developed customer-focused teams to manage customer relationships throughout the care continuum. Their teams consist of members responsible for planning, marketing, public relations, sales, clinical care, and the call center. With this approach they generated \$8 million in the first year in new revenues and volumes.

### **From Other Industries to Healthcare**

Focused factories are occurring in many other industries, including advertising. The 1990s have seen clients with an internal department utilizing external "boutiques" that provide one line of service, such as public relations, graphic design or media planning. In discussing the concept, 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 keys:

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.

Herzlinger cites benchmarking models that are non-healthcare oriented, but are customer-driven and applicable to our industry. Changes made at John Deere and Company in Moline, IL provide an example. This \$10 billion farm and industrial equipment manufacturer went through a transformation that resulted in bolstered profits and increased wages, while holding the line on prices. They retooled the company around focused factory organizational units – with teams held accountable for outcomes – and emphasized investments in technology, information, and people. Also, they analyzed which products were more efficient to produce internally and which could be outsourced. Deere chose niches and focused sharply on things they did well. Small teams buttressed with technology, information, and education – accomplished those things. The transformation took the company from a \$20,000 loss per employee in 1987 to a profit of \$15,000 in 1994 – while maintaining mission, focus, and people. The two lessons important to those in healthcare, says Herzlinger, are that "big is not always beautiful and vertical integration is not always the answer."

### **Problems with the Concept**

There are barriers to the focused factory's success, among them the issues of comorbidities and turnover.

Herzlinger describes the Control Diabetes Centers, which 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.

The problems inherent in the focused factory concept, and strategies for ameliorating them, reveal themselves in individual models cropping up in various markets.

Healthcare is just beginning to understand these issues and think about: who purchases healthcare, to whom those purchasers listen, and how they make their decisions. But, warns 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."

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