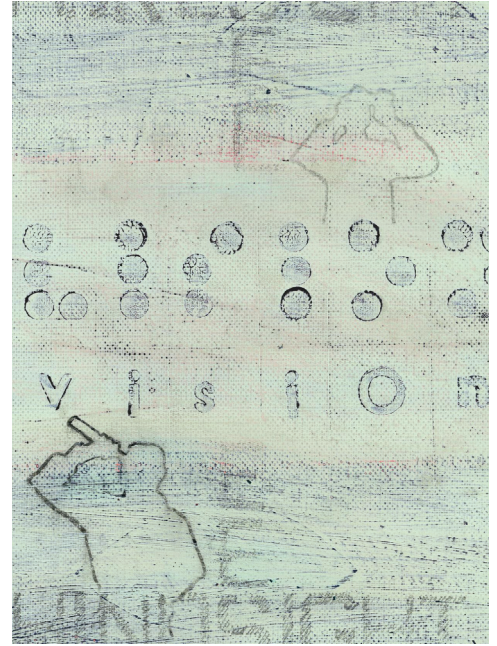


FEATURE STORY

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taking a good look at the competition

A focused analysis of your competition can make all the difference between simply reacting to a competitive marketplace and thoughtfully shaping a successful future.

Don't underestimate the competition! Healthcare executives know this, but organizations sometimes fail to incorporate an effective market analysis of their competitors into their planning activities because information on competitors can seem incomplete, inconclusive, or inaccurate. Don't let this stop you. Pinpointing organizational vulnerabilities and strengths will enrich your decision making and offer clues on how best to engage competitors.

1. Be Ready to Slice and Dice Market Share, but Use a Precision Cut.

Market share analysis is arguably the most important element in understanding the competition and your place in the market. But many organizations mistakenly assume that more data are better, somehow hoping that their next strategic move will become readily apparent once they just weed through those 20 color-coded 3-D graphs and 6-point-font data tables. Focused analyses that plainly connect the dots are best at informing strategic decisions. The exhibit on page II is one way to distill reams of inpatient market share data into one presentation table that highlights in which service lines the organization is strongest and weakest, how the organization's market share

position has strengthened or eroded over time, and which of its competitors have gained or lost share.

Market share analysis, however, can't explain causality; it only discloses the biggest areas of concern. Unearthing why a particular service line is underperforming requires further digging, starting with physician-level utilization. Perhaps the decline in share is the result of one physician group shifting a large amount of its business to a competitor that has offered economic incentives or acquired the latest technology. Declines in more than one service line may signal more systemic internal problems, such as facility constraints, patient experience issues, or lack of geographic access for services; or it may illustrate that a competitor is successfully executing a

strategy of physician alignment, geographic extension, or consumer positioning.

2. Assess Your Market Clout and Understand Who Your Competition Really Is.

If your organization has market share of 40 percent in your primary service area, do you have market clout? What if you expressed the reciprocal value by saying that 60 percent of the patients in your core service area leave to go to hospitals outside the market? Simply flipping the market share statistic of 40 percent to its reciprocal value hits home much more strongly. Knowing what portion of patients leave your market, for what services, and to which competitors is vital to looking "beyond your navel" and seeing the environment with a different lens. Are the patients that go elsewhere for services disbursed across many

AT A GLANCE

Among the steps to take in conducting a focused analysis of your competitors:

- > Assess your market clout and understand who your competition is
- > Determine how important your core service area is to your competitors
- > Tap intelligence networks within your own organization

MARKET SHARE TRENDS IN PRIMARY SERVICE AREA BY SERVICE LINE AND COMPETITOR

| Major Service Line | Our Hospital CY07 Market Share % | Point Change CY04-07 | Market Size CY07 | CY07 Competitor Market Share (%) | | | |
|---|----------------------------------|----------------------|------------------|----------------------------------|--------------|--------------|--------------|
| | | | | A | B | C | Other |
| Cardiac | 39.1 | -3.1 | 5,120 | 18.9 | 8.6 | 12.2 | 21.2 |
| Respiratory | 34.7 | -2.9 | 2,542 | 22.5 | 13.6 | 15.3 | 13.9 |
| Endocrinology | 34.3 | -2.8 | 842 | 20.2 | 12.6 | 11.3 | 21.6 |
| Neurology | 33.6 | -0.3 | 2,673 | 16.9 | 15.8 | 10.7 | 23.0 |
| Gastroenterology | 33.5 | -25.8 | 3,261 | 23.7 | 18.3 | 11.6 | 12.9 |
| Nephrology | 32.6 | -1.4 | 1,002 | 19.7 | 13.8 | 12.1 | 21.8 |
| General medicine | 32.5 | 2.0 | 1,253 | 23.6 | 17.2 | 11.8 | 14.9 |
| General surgery | 25.3 | -0.8 | 2,628 | 28.9 | 16.4 | 13.6 | 15.8 |
| Ear, nose, throat | 20.3 | -1.2 | 364 | 18.3 | 15.6 | 7.3 | 38.5 |
| Orthopedics | 18.8 | -15.3 | 2,378 | 12.4 | 19.3 | 16.8 | 32.7 |
| Neurosurgery | 12.2 | 0.1 | 806 | 17.0 | 19.8 | 6.4 | 44.6 |
| Oncology | 8.3 | -2.8 | 1,524 | 25.0 | 12.7 | 4.8 | 49.2 |
| Overall | 30.0% | -3.1% | 24,393 | 20.5% | 14.3% | 12.0% | 23.2% |
| <div style="display: flex; align-items: center;"> <div style="border: 1px solid blue; width: 20px; height: 10px; margin-right: 5px;"></div> Gained Most <div style="margin-left: 20px; display: flex; align-items: center;"> <div style="border: 1px solid red; width: 20px; height: 10px; margin-right: 5px;"></div> Lost Most </div> </div> | | | | Overall Pt Change: CY04-07 | | | |
| | | | | +1.3 | +1.1 | +1.2 | -0.5 |

Although Our Hospital is currently the overall market leader in the primary service area with 30 percent inpatient market share, multiple red flags point to serious vulnerabilities. Our Hospital is less strong in the surgical and tertiary service lines. Our Hospital's market share has eroded over the past three years, while three of its major competitors have each strengthened their market positions in our service area. Our Hospital's market share declined more than any other provider in five service lines (shown in cells outlined in red), some of which were the hospital's strongest services historically. Competitor hospitals have strengthened their market share in all service lines other than general medicine (shown in cells outlined in blue), indicating potentially systemic problems at Our Hospital.

different organizations? Or are they concentrated at only one or two competitors? The concentration of the competitive landscape will drive different strategic choices for your organization.

Most organizations can quickly identify their major competition—those “usual suspects” that keep showing up on hospital market share and out-migration analyses. But increasingly, the competition is going to be large physician groups, drugstore clinics, or even international players luring pioneering consumers into medical travel. In today’s world, no competitive analysis would be complete without acknowledging the potential impact of these hidden competitors. Even without hard data on these competitors, reasonable assumptions or scenarios can be derived to test their impact.

As a full-service provider to its local community, Our Hospital has relatively high market share for all levels of care to patients in its primary service area (areas of strength shown in yellow highlighting). In the secondary service area, Our Hospital has relatively strong market share in level 2 and level 3/4 services (shown by green highlighting), but has ceded control for the lowest-acuity level 1 services to other providers. As a regional referral center for patients in the tertiary service area, Our Hospital garners relatively high market share only for the highest-acuity services (shown in blue highlighting). Aggressively competing for lower-acuity services beyond the primary service area may be a futile exercise for Our Hospital, compromising both local patient access and its higher-acuity referrals.

academic or tertiary providers on the one hand, and for providers of less complex services on the other. Academic providers often rely on their highest-acuity business to support their unique missions, but they should not lose sight of the lower-acuity business that builds overall market clout. By analyzing market share data by levels of care, as shown in the exhibit below, it becomes more apparent how to engage multifaceted competition that competes in different arenas. Aggressively competing for the lowest-acuity, level 1 care in secondary or tertiary markets, for example, may offer limited value (and even risk pipelines for higher levels of care).

4. Determine How Important Your Core Service Area Is to Your Competitors.

While market share data show how important a given provider is to a particular geographic market, patient origin data show how important a given market (e.g., yours) is to your competition.

3. Drill Down to Levels of Care.

Looking at overall market share, even by service line, may mask important market nuances for

| OUR HOSPITAL INPATIENT MARKET SHARE BY LEVEL OF CARE | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------------------|
| | Level 1 | | Level 2 | | Level 3/4 | | Overall Share (Med/Surg) |
| | Med | Surg | Med | Surg | Med | Surg | |
| <i>Primary service area</i> | | | | | | | |
| Core | ● | ● | ● | ● | ● | ● | 75. |
| East | ● | ⊙ | ⊙ | ⊙ | ● | ● | 62.3 |
| West | ● | ⊙ | ⊙ | ⊙ | ● | ● | 56.1 |
| South | ⊙ | ⊙ | ⊙ | ⊙ | ⊙ | ● | 46.6 |
| Total PSA | 52.1% | 39.6% | 43.4% | 52.1% | 66.6% | 67.2% | 56.2% |
| <i>Secondary service area</i> | | | | | | | |
| Secondary North | ⊙ | ⊙ | ⊙ | ⊙ | ● | ● | 50.0 |
| Secondary South | ⊙ | ⊙ | ⊙ | ⊙ | ⊙ | ⊙ | 14.6 |
| Total SSA | 17.4% | 13.8% | 19.7% | 37.7% | 38.0% | 53.9% | 31.5% |
| <i>Tertiary service area</i> | | | | | | | |
| Tertiary Central | ⊙ | ⊙ | ⊙ | ⊙ | ● | ● | 20.3 |
| Tertiary West | ⊙ | ⊙ | ⊙ | ⊙ | ⊙ | ⊙ | 11.3 |
| Tertiary East | ○ | ○ | ○ | ○ | ⊙ | ⊙ | 6.5 |
| Total TSA | 1.3% | 2.5% | 3.7% | 13.5% | 19.5% | 32.1% | 11.6% |
| Total service area | 18.9% | 16.0% | 19.0% | 32.1% | 38.7% | 50.1% | 30.1% |
| ●=60%+ ⊙=30-59% ⊙=10-29% ⊙=1-9% ○=<1% | | | | | | | |

One way to understand where your competitors may be focusing their attention is to map where they draw the majority of their patients and how much their service areas intersect with yours, as shown in the exhibit below. Competitor intersection can be further defined by showing their draw from your service area by clinical service line as shown in the exhibit on page V.

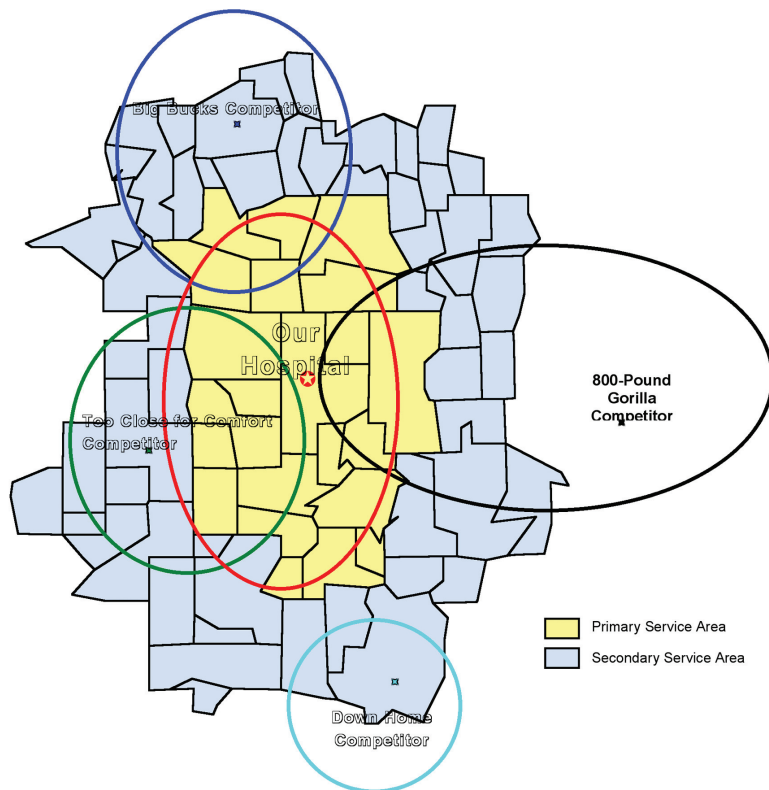
5. Understand How Aligned Physicians Are with You or Your Competitors.

What often makes hospital competitor encroachment possible is the placement and loyalty of primary care physicians in a market. Loyal primary care physicians who serve as reliable feeders for inpatient and specialist services are the Holy Grail for hospitals. By plotting the loyalty of primary care physicians by competitor as shown in the exhibit on page VI, a hospital can understand where there might be vulnerabilities in its own

backyard and where there are opportunities to penetrate other markets through “in play” physicians. Some states have databases that identify hospital utilization patterns of individual physicians. In the event that your state does not have such publicly available data, tapping into the knowledge of your own physician liaison staff may yield valuable information.

Knowing how much of a physician’s business is sent to your hospital is certainly the most concrete measure of physician loyalty. However, physician utilization is driven by a host of more qualitative alignment factors, including degree of communication and trust, involvement in decision making, support of physician practice growth, alignment of economic interests, availability of infrastructure to improve efficiency, and so on. Knowing how your competition stacks up on those other areas of alignment will provide leading indicators for securing and maintaining physician loyalty.

COMPETITOR SERVICE AREA INTERSECTION



The circles show where each hospital draws 75 percent of its inpatients and the extent to which competitor hospitals’ service areas extend into Our Hospital’s service area.

6. Get the Most Out of Competitors’ and Public Web Sites.

Discerning a competitor’s market stance or general disposition toward certain strategic moves can be as easy as reading the signposts peppered throughout public domains. In today’s electronic world of advertising and transparency, simply mining a competitor’s web site can uncover centers of excellence, customer service orientation, geographic focus, level of technology adoption, approach to physician alignment, and price positioning. For example, lists of awards, profiles of renowned practitioners, virtual tours of facilities, or promotion of a new technology are how hospitals endeavor to push a center of excellence and set themselves apart from the competition.

Luckily for information seekers, transparency is all the rage in health care today. Public web sites abound with information on your competitors, from quality of care to pricing position. Some hospitals are beginning to embrace the transparency challenge, making data not only available to the public, but also understandable!

If you find yourself saying “We need to do this because competitor A is doing it,” be sure to critically assess a strategy’s applicability for your organization.

If providers aren’t communicating their own value proposition, other public domains are. Health care’s biggest payer, Medicare, is forging ahead with transparency by reporting hospital performance for processes of care that promote positive medical outcomes, actual medical outcomes of care for certain conditions, and most recently, patient satisfaction. With Medicare’s user-friendly Hospital Compare web site (www.hospitalcompare.hhs.gov), one can see how hospitals rank against national or state experience and how much spread there is among competing providers. With such information, an organization touting quality superiority may not be able to substantiate such claims if everyone falls pretty much at the same level of performance.

Well before Medicare posted its ratings web site, a group of large employers formed the Leapfrog Group with the radical idea of mobilizing employer purchasing power to reward and recognize hospitals for big leaps in healthcare safety, quality, and customer value. Meeting Leapfrog’s high bar for operational improvements, such as adoption of computerized physician order entry systems, can really set competition apart.

Likewise, a new rating system published by Consumer Reports (www.consumerreports.org/health/home) that ranks hospitals based on how aggressively they treat patients in the final two years of life offers a new frontier for competitive positioning. The data, from the Dartmouth Atlas of Health Care, are based on research showing that aggressive care (more specialist visits, longer hospital stays, or more days spent in the intensive care unit) does not necessarily lead to better outcomes but, in fact, may lead to more hospital-acquired infections or medical errors arising from uncoordinated care. This new frontier may have some interesting fallout as hospitals seek to deliver just the right amount of care while avoiding being perceived as rationing services.

7. Tap Intelligence Networks Within One’s Own Organization.

As largely benevolent organizations, healthcare providers have been slow to adopt intelligence techniques common in other industries. In undertaking a competitive analysis, organizations often overlook the wealth of knowledge their own staff may have about competitor strengths, marketing tactics, or potential strategic moves.

- = Very high
>40% of patient origin
- = High
30%-39% of patient origin
- ⊙ = Medium
20%-29% of patient origin
- ⊙ = Low
10%-19% of patient origin
- = Negligible
<10% of patient origin

| COMPETITOR PENETRATION BY SERVICE LINE INTO OUR HOSPITAL'S SERVICE AREA | | | | |
|---|------------|----|----------|-------------|
| Competitor | Cardiology | OB | Oncology | Orthopedics |
| Too Close for Comfort | ● | ● | ● | ● |
| Big Bucks | ⊙ | ⊙ | ⊙ | ⊙ |
| Down Home | ○ | ○ | ○ | ○ |
| 800-Pound Gorilla | ⊙ | ○ | ● | ⊙ |

Service lines represented by red symbols are those where competing hospitals garner at least 20 percent of their patients from Our Hospital’s service area. While the competitor hospital Too Close for Comfort is able to penetrate Our Hospital’s service area for each of the service lines because of its close proximity, Big Bucks Hospital penetrates the market for only the higher-profit services of cardiology and orthopedic services.

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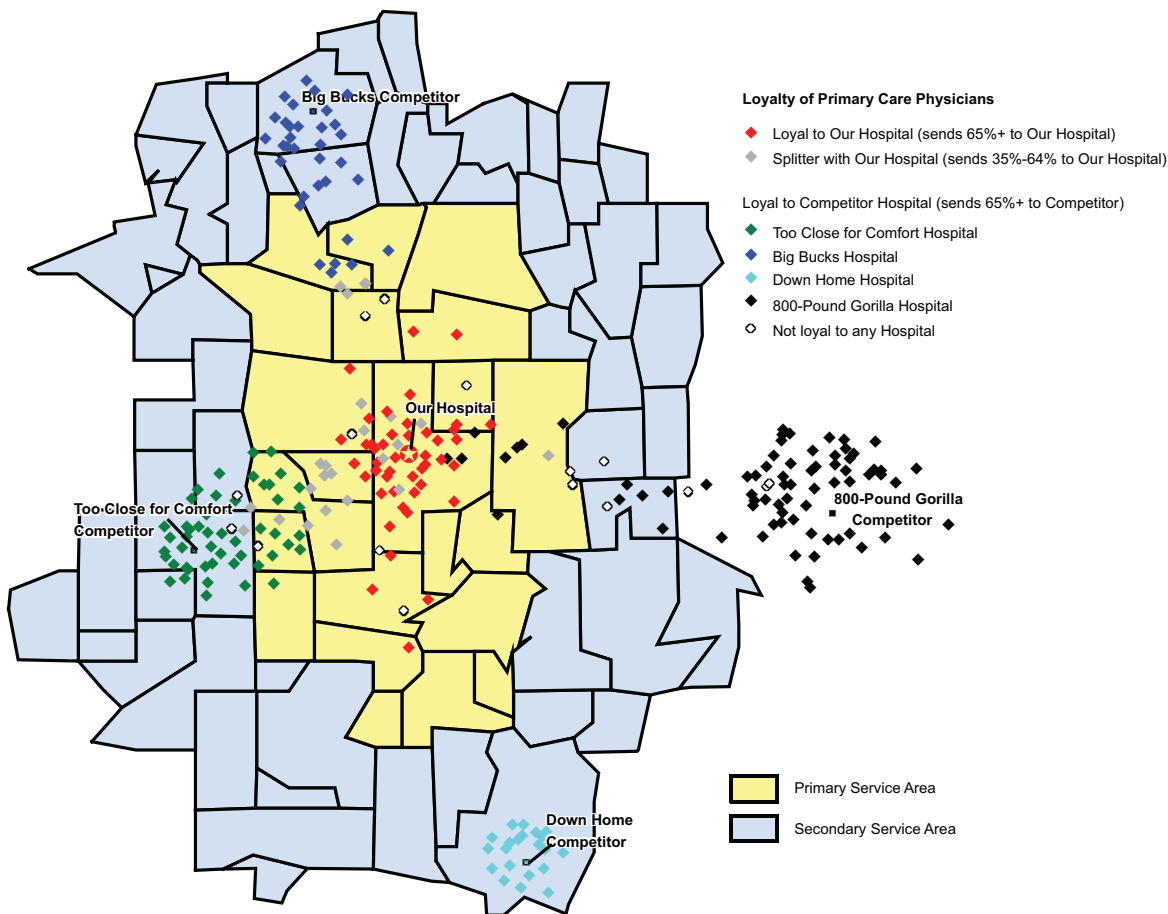
Hospitals forget that their employees, board members, and physicians live or work outside their four walls and are targets of marketing campaigns, fundraising drives, networking events, or recruitment pushes all the time. Offering forums for constituents to share and discuss the effectiveness of tactics targeted at them promotes healthy competition in everyone's best interest. Being systematic about collecting and synthesizing competitor knowledge produces more actionable information.

8. Avoid the Benchmarking Trap.

Hospitals can fall into a "benchmarking" trap, when strategy is devised primarily by looking at

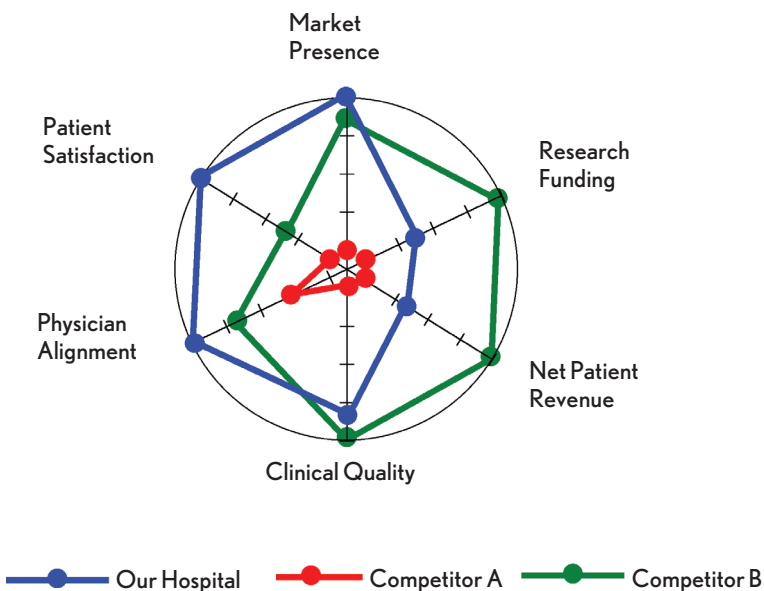
what competitors are doing and mirroring their activities. No organization should assume that a strategy is good for them just because others are pursuing it. Competitor activities and positioning should be understood and assessed because competitor behavior shapes your hospital's environment. However, your strategy should be driven by what you want to accomplish and your assessment of the best means of achieving that goal. Yes, at times, a good idea for one organization also works elsewhere. But if you find yourself saying "We need to do this because competitor A is doing it," be sure to critically assess a strategy's applicability for your organization and adapt it to your own unique characteristics.

LOYALTY OF PRIMARY CARE PHYSICIANS



The colored symbols indicate where the primary care physicians in Our Hospital's service areas send most of their patients. Many physicians located near a hospital are loyal to that hospital. However, some physicians split their activity, representing opportunities for competing hospitals to lure that business.

COMPETITIVE POSITIONING



The outer circle represents a stronger position. In this diagram, Our Hospital is stronger in market presence, patient satisfaction, and physician alignment, but lags Competitor B in research funding, net patient revenue, and quality. Both hospitals are stronger in all areas than Competitor A.

9. Place Yourself in Someone Else's Shoes.

If you can articulate the motivations of your competition as if they were your own, you can more easily identify rational strategic moves stemming from those motivations. A formal technique for understanding motivations that can be done quickly in many settings and for a variety of issues is role playing. Role playing can stimulate individuals to see beyond their own interests and recognize how competition, customers, or payers would act to secure their own success.

Suppose a fundamental strategic question is whether a hospital should open a freestanding ambulatory care center in an outlying market. To assess market perspectives, one might assign a physician to the role of Our Hospital's administrator, a hospital administrator to the role of a private-practice primary care physician, a board member to the role of an administrator of a competing hospital, and additional individuals to the roles of patients or payers. The exercise should

elicit the needs, fears, and expectations of each party, resulting in meaningful and constructive insights. Role playing also alleviates some of the groupthink that can occur when too little debate takes place.

10. Bring It All Together.

A picture paints a thousand words and is a great way to synthesize a competitive analysis across many different dimensions. The exhibit at left shows the ranking of Our Hospital and two of its competitors against six dimensions of competitive positioning. The strong visual impact of this framework makes the gap between Our Hospital's performance and the relative strengths of the competition clear.

Getting the Whole Picture

An effective competitor analysis can be built from quantitative market data, promotional or public service web sites, and qualitative internal intelligence. Organizations should recognize that building an understanding of competitor position requires synthesis of all of these information sources into a coherent picture of competitor strengths, weaknesses, and activities. ●

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