**MHSA 8863 -- Healthcare Strategic Marketing and Planning**
**Developing Strategic Alternatives**

## I. Strategy Formulation and Decision Logic

** Strategy formulation/identification is essentially a decision-making process. (Exhibit 6-2 for the decision logic)

** There are four types of strategies (each with several sub types) that make up the strategy formulation process. Strategy is developed in an iterative fashion under the following strategy sub-headings:

- ** Directional strategies – mission, vision, values, and goals
- ** Adaptive strategies – expansion, contraction, maintenance of scope strategies for implementing directional strategies
- ** Market entry strategies – purchase, cooperation, and development-type strategies for implementing adaptive strategies
- ** Competitive strategies – strategic posture and positioning strategies for implementing market entry strategies.

** Decisions concerning these strategies must be made sequentially, with each subsequent decision more specifically defining the activities of the organization vis-à-vis the implementation of defined strategies.

** Exhibit 6-4 provides a conceptual map of the organizational strategy development process. This conceptualization demonstrates the strategic decision making logic (broadest decisions to more specific decisions) and the various alternatives under each strategy type.

## II. Directional Strategy Development

** The directional strategies are mission, vision, values, and goals. They set the broadest direction for the organization.

** Directional strategies, as discussed in chapter five, are a part of both the situational analysis and strategy formulation/development processes. In situational analysis they describe the current state of the organization and codify its basic beliefs and philosophy. They are a part of strategy formulation because they set the broadest direction for the organization.

## III. Adaptive Strategy Development

** The adaptive strategies are divided into expansion, contraction, and maintenance of scope and represent the first decision that is made after determining directional strategy. Such strategies serve as the means by which directional ends are achieved.

** Expansion of Scope Strategies: appropriate strategy alternatives where market signals and directional strategies dictate that growth is in order.

** These adaptive strategies represent alternative approaches to accomplishing the organization's directional strategies. In terms of adaptive strategy, they allow the organization to effectively plan for expansion, contraction, or maintenance of current product/service lines. It is helpful to note that corporate-level strategies add or subtract businesses (SBUs/SSUs) and division-level strategies expand, contract, or maintain current businesses.

1. *Diversification* -- (a) related or concentric diversification — an organization chooses to enter a market that is similar or related to its present operations; (b) unrelated or conglomerate diversification - an organization enters a market that is unlike its present operations.

2. *Vertical integration* — often confused with diversification. Indeed, the health care literature often uses the terms interchangeably especially when discussing alliances, networks, and health care systems. The intent of each strategy is key to distinguishing between the two because the intent of the strategy will place different demands on the organization. If the intent is to control patient flow (provide feeder units), it is vertical integration. If the intent is to expand into new markets, the strategy is diversification. Control of patient flow will rely on the rationales and demands of vertical integration; growth in new markets will rely on the rationales and demands of diversification.

   a. **Forward integration (downstream)** -- integration of distribution channel components closer to the ultimate consumer of the organization's output.

   b. **Backward integration (upstream)** -- integration of distribution channel components farther away from the ultimate consumer of the organization's output.

3. *Market development* — strategy consistent with entering new markets with existing products or services. Categories of market development strategy include:

   a. New geographic market (city or area)
   b. New market segment (new customer group)
   c. Market driven or focused factory

4. *Product development* — the introduction of new products to existing/established markets, whether defined by geography, market segment, etc.

    a. **Product line expansion** (new products/services)
    b. **Product/service enhancements** (changes to existing products/services)

5. *Market Penetration* — an attempt to better serve current markets with current products or services by utilizing/manipulating one or more of the following "marketing mix" variables:

    a. New/innovative promotion/advertisement methods
    b. New channels/means of distribution
    c. New/innovative pricing methods

** Contraction of Scope Strategies: appropriate strategy alternatives where market signals and directional strategies suggest that contraction strategy may be necessary/important for strategic viability.

1. *Divestiture* – a strategy in which an operating unit is sold off as a result of a decision to permanently and completely leave the market. Divestiture as a contraction of scope strategy may be total (complete market withdrawal) or partial (reduction of scope of products/services in a given market).

2. *Liquidation* – selling the operations/assets of an organization, most commonly for the purpose of raising cash to satisfy creditor claims against the organization and/or its subsidiaries.

3. *Harvesting* – an attempt to reap maximum short-term benefits before a product or service is eliminated or is experiencing long-term decline. This strategy may vary depending on the established organizational timetable for product/service phase-out over the short vs. long term.

4. *Retrenchment* -- definition of the target market, selective cost elimination, and/or asset reduction, usually as a direct result of reduced market profitability due to higher costs of production, reductions in market price, etc. Retrenchment strategies may involve personnel, specific markets, products, and/or assets.

** Maintenance of scope strategies: appropriate strategy alternatives where market signals and directional strategies suggest that current performance is adequate and should be maintained over the long term.

1. *Enhancement* -- improving upon what the organization already does in terms of any/all of the following characteristics: quality, efficiency, innovation, speed, and/or flexibility.

2. *Status quo* – strictly a maintenance strategy whereby an organization attempts to "do more of the same" by undertaking necessary activities/initiatives to do so.

## IV. Market Entry Strategy Development

** Market entry strategies are divided into purchase, cooperation, and development strategy. Such strategies address the following question as it applies to a specific adaptive strategy: "Should we buy our way into the market, cooperate with others, or develop the product/service ourselves?"

** Market entry strategies must be developed for each expansion and maintenance of scope adaptive strategy that is formulated.

** Market Entry Purchase Strategies

1. *Acquisition* -- also known as the "buy" strategy, involves the purchase of needed capacity to accomplish specific growth or maintenance adaptive strategies. Consideration of costs and benefits associated with "buy" strategies should obviously be considered prior to acquisition.

2. *Licensing* -- also known as the "lease/rent" strategy, involves the renting/leasing (as opposed to the purchase) of needed capacity to accomplish specific growth or maintenance strategies. Organizations that license needed capacity in the form of technology, infrastructure, etc. generally do not "own" the technology or infrastructure. Start-up and maintenance costs typically less and organizational risk less as well compared to direct acquisition.

3. *Venture capital investment* -- also known as "partial purchase" strategy, involves situations where the organization, typically, invests a minority stake in the development of additional capacity, with the majority of the stake held by a venture capital (or other external) source, who maintains majority ownership over the added organizational capacity.

** <u>Market Entry Cooperation Strategies</u>

1. *Mergers* – combination of similar organizations, typically through mutual agreement, into one larger, combined, organization. A common operational mechanism for accomplishing various forms of integration strategies such as horizontal and vertical. Primarily used for market entry in highly competitive markets where there are theoretical advantages to increased scale. Many HSO mergers have not been successful due to difficulties with integration of distinct cultural and corporate entities.

2. *Alliances* – loosely coupled arrangements among distinct organizations designed to achieve some larger strategic purpose on behalf of each member organization. Usually operationalized via contractual agreement. Lower cost alternative market entry strategy than mergers, though it is associated with many of the same difficulties/problems dealing with transaction costs associated with imperfect cooperation.

3. *Joint ventures* -- legally enforceable mechanism for combining the resources (assets, intellectual property) of two or more separate organizations for the purpose of accomplishing a designated task. Most common legal forms include contractual arrangements, formation of subsidiary corporation(s), partnerships (general, limited), creation of NFP title-holding corporation(s) for tax purposes on unrelated real-estate ventures. Lower cost market entry strategy than mergers, more effective strategy to align incentives among organizations than alliances.

** <u>Market Entry Development Strategies</u>

1. *Internal development* – "do it yourself" market entry strategy as opposed to a purchase vs. cooperative strategy where the organization uses existing organizational resources, competencies, and capabilities to generate new products, services, or lines of business. Most typically employed with concentric (related) forms of diversification strategies. May/may not be less costly approach to market entry than purchase and/or cooperative strategies.

2. *Internal ventures* – establishment of "separate" entities within the organization itself for a specific purpose, usually related to some type of conglomerate (unrelated) diversification strategy. Same considerations as with internal development.

## V. Competitive Strategies

** Having selected the adaptive strategies and market entry strategies, managers must decide (1) the strategic posture of the organization and (2) how the products and services will be positioned vis-à-vis competitors' products and services. (positioning strategy)

** Organizations may be classified by how they behave within their market segments or industry – their strategic posture. Research by Miles and Snow has shown that there are at least four typical strategic postures for organizations – defenders, prospectors, analyzers, and reactors. (Exhibit 6-14 shows the advantages and disadvantages of each strategic posture).

>> Defender – market posture based on strategy to aggressively defend market in cases where target market is narrowly defined (niche) or products/services limited. Basis for defense usually is with regard to the use of aggressive pricing or differentiation.

>> Prospector – market posture based on strategy to continuously search for new market opportunities with respect to market and/or product/service development.

>> Analyzer – combination of defender and prospector market postures where organization attempts to adopt dual strategies of maintenance and change with respect to specific products/services and/or lines of business.

>> Reactor – not a prospective strategy for market posturing, basically a read and react type of approach to organizational strategy (which is to say, no strategy at all).

** The positioning strategies are divided into market-wide and market segment. The question addressed via the formulation of positioning strategy is, "Should we target the entire market or only a particular segment of the market?" (Exhibit 6-17 shows the advantages and disadvantages of each of the positioning strategies)

>> Market-wide Strategies (Exhibit 6-15 - Porter's Matrix.)

1. *Cost leadership* – low cost basis for competition. Highly standardized products/services and leveraging of economies of scale in operations to minimize cost of production. Need for reasonably large market share/volume to be developed over time.

2. *Differentiation* – product/service differentiation from competitor products/services as the basis for competition. Differentiation may exist with respect to quality, scope of products/services, ease of access/convenience, etc. Such differential attributes should be highly valued by consumers.

>> Market-segment Strategies

1. *Focus/cost leadership* – cost leadership positioning within a defined market segment.

2. *Focus/differentiation* – product/service differentiation positioning within a defined market segment.

## VI. Combination Strategies

** Most often, organizations will employ combinations of the aforementioned strategic alternatives for the purpose of pursuing the strategic direction of the organization as defined by its mission, vision, and strategic goals.

** The most common type of combination strategies employed by larger health services organizations involve vertical integration with other HSO's via acquisitions and alliances as well as market development through merger and acquisition. (Exhibit 6-18)

** Strategies may be implemented simultaneously, or, more commonly, may be implemented in chronological phases for the purpose of accomplishing the broader strategic shift as dictated by mission, vision, and strategic goals. (Exhibit 6-19)