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Learning From Market Leaders: Questions to Ask and Rules to Follow

Contributor Edward M. Hindin says healthcare organizations can learn a lot by studying the tactics of market leaders in other industries.

Successful companies achieve and sustain their dominant position by delivering "extraordinary levels of distinctive value" to carefully selected customer groups every day. Studies conducted by leading authorities on business strategy and corporate transformation, Michael Tracy and Fred Wiersema, highlight the importance of focus when building a market leader. In *Discipline of Market Leaders*, Tracy and Wiersema write that, to be successful in distinguishing themselves from the competition, organizations must have a precise understanding of the products or services they deliver and a clear definition of the target customer. These distinct attributes, they say, must be understood at all levels in the organization--not only by executives, but also by frontline employees. The service- and customer-based approach should drive the budget process and investment decisions of the organization, not to mention the day-to-day interactions with customers and suppliers. The resulting clarity and focus, the authors theorize, can help organizations set themselves apart.

Moving parts

According to Tracy and Wiersema's research, successful companies choose from among three distinct approaches to reach their respective markets:

1. **Operational excellence** means efficiently, consistently and cost effectively providing a limited range of standard or routine services
2. **Customer intimacy** means developing and maintaining intimate relationships with selected groups of current or new customers
3. **Product leadership** means continuously developing and launching new programs and services not readily available elsewhere

They build their operating models and align their organization's support and decision making structures and employees to deliver on their distinctive promise.

Companies driven by operational excellence, like FedEx, Dell and Wal-Mart, offer the customer standardization and the best price with the fewest hassles. Those driven by customer intimacy, like Nordstrom, DHL and Cott Corporation, offer the best tailored solution. Organizations choosing to distinguish themselves by product leadership, like Apple, SONY and Intel, offer the most innovative products, services or solutions. The key attributes of the business-customer relationship--the products and services offered, the price, convenience and service--are unique to each model and are all ruthlessly adhered to in order to deliver on the promise.

Tracy and Wiersema's study finds the operating models, systems and structures of successful

companies focusing on the same value discipline to be remarkably similar. The operating model for customer-intimate organizations, however, is vastly different from those pursuing operational performance as their distinguishing characteristic. For example, a FedEx employee can easily move to another operationally excellent highly “standardized” overnight delivery company but would be lost moving to more customer intimate, “customized” DHL.

At the same time, leading companies establish and achieve minimum or industry standard levels of performance in the other two disciplines. A customer-intimate company without sufficient profitability or return on investment or without minimum levels of product or service innovation would quickly fail.

Companies that did not focus on creating and sustaining a unique value-added approach to their customers failed to achieve the market leadership position that produced the desired business performance. These companies typically invested in all three areas of potential distinction without creating a distinction for themselves in any one space.

Think of the three approaches as a tricycle. The drive train and steering mechanism are attached to the big wheel out in front (customer intimacy). If the back wheels (operational performance and innovation) fall off or aren’t properly sized, the trike doesn’t function.

Making it work in healthcare

So, how can this model help healthcare organizations focus on the few critical actions that will make a difference? While hospitals and physicians traditionally distinguish themselves as market leaders based on high standards of patient care, patient safety and positive outcomes, excellence in these areas is often based on minimum requirements or expectations for consumers.

For healthcare organizations, acceptable quality and safety performance standards and friendly customer service representatives are necessary, but they are not sufficient to achieve and maintain a market leadership position. When it comes to maintaining existing customers and attracting new ones, hospital and healthcare organizations must choose from the same three paths of their business counterparts to create value and distinguish themselves.

Each of the three models or strategies requires a distinct operating model, systems, structures and procedures to ensure success. To determine which of the strategies is most likely to provide your organization with the competitive advantage that leads to your desired level of profitability, ask yourself these questions:

- Will a highly standardized level of service be valued by the people we serve? Are our customers more likely to value efficiency and price over a more customized approach?

If so, operational excellence may be right for you, especially if your hospital serves a market with a heavy concentration of patients with fixed payment rates.

- Are our patients attracted by “have it my way” customized service? Is our hospital in a position to value the long-term relationship over the value of individual transaction?

If so, the customer-centric approach of a “customer intimacy” strategy could be your best choice, especially if yours is one of many available community hospitals.

- Can costly new technologies and service create the “pull through” needed to justify investments?

The product leadership option is probably only effective for specialty hospitals or major academic medical centers with significant supplemental research and development funding. But you may be able to support the growth of the entire enterprise if you can gain volume and revenue from the limited base of patients who use advanced services.

6 rules for sustaining market leadership

Most hospitals are neither able to nor prepared to compete as the low cost, highly standardized, limited service providers. Only a few can sustain themselves based on their ability to drive substantial volume from new technology or services. Most compete for physician loyalty and consumers based on customer service, but they do so without the requisite culture, structures and systems in place to distinguish themselves on an on-going basis.

Choosing a path for creating competitive advantage is critical, but hospitals must also establish and maintain minimal levels of performance in each of the three areas to remain successful. This model is not being widely used by healthcare organizations yet, however, keeping these six rules in mind can get you off to a good start:

1. Choose the value discipline or market leadership strategy best suited to your organization.
2. Get organizational commitment and focus your resources on the chosen approach.
3. Build and support operating models, systems and structures in a way that enables you to sustain your market leadership position.
4. Train/hire employee consistent with the requirements of the operating model.
5. Set performance requirements measurement for your chosen discipline and the remaining two disciplines.
6. Resist the temptation to attempt to lead your market in all three disciplines.

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