

# The Case for a Medical Practice Retail Strategy

Marc D. Halley, M.B.A.\*

**T**he provision of medical care is assuming some of the characteristics of retail services delivery. This article outlines some of the factors that impact consumer (patient) decision-making in selecting providers. It focuses on measures that practices and institutions may adopt to improve patient satisfaction and to establish and maintain the referral chain. These actions range from promoting word-of-mouth referrals to enhancing relationships with primary care providers.

**Key Words:** Medical care marketing; patient satisfaction; medical referral sources; medical referral chain.

In his book, *From Mind to Market—Reinventing the Retail Supply Chain*, Roger D. Blackwell states:

“In the new millennium, the rules of battle will be rewritten. No retailer, manufacturer, or wholesaler will be strong enough to win on its own. Great firms will fight the war for dominance in the marketplace not against individual competitors in their field but fortified by alliances with wholesalers, manufacturers, and suppliers all along the supply chain. In essence, competitive dominance will be achieved by an entire supply chain, with battles fought supply chain versus supply chain.”<sup>1</sup>

This same consumer-driven argument can be made for medical practices, hospitals, and health systems. In a standard medical services supply chain, a patient visits a primary care physician, who may send the patient to a specialist or directly to a hospital and its affiliated hospital-based physicians (see [Figure 1](#)).

**... successful organizations will increasingly focus on consumer-driven “demand” chains ...**

Blackwell, however, argues that successful organizations will increasingly focus on consumer-driven “demand” chains, which integrate all the components of the supply chain around a singular focus: meeting the expectations (“demands”) of the retail customer—“the ultimate master.”<sup>2</sup>

The interdependence of medical service providers creates a natural demand chain (see [Figure 2](#)) with some

unusual characteristics. For example, each member of the medical services chain interacts directly with the end user (the “retail” customer). In addition, each succeeding step along the chain must meet the unique needs, wants, and priorities of every chain member in all of the preceding steps. This phenomenon is known as *customer plurality* and presents a tremendous challenge and opportunity.

**... medical providers are increasingly called upon to meet the demands of patients who behave more like customers than patients.**

The challenge lies in ensuring that each demand chain member clearly understands and is prepared to meet the needs, wants, and priorities of the retail customer, as well as the preceding demand chain members. The opportunity lies in the interdependent nature of the medical services demand chain, which requires that all members of the chain work together to ensure a positive overall experience for the retail customer.

## RETAIL CUSTOMER BEHAVIOR

In this customer-choice environment,<sup>3</sup> medical providers are increasingly called upon to meet the demands of patients who behave *more like customers than patients*. Understanding this behavior is key to a successful retail strategy. Today physicians are faced with customers who want convenient appointments, interactive discussions of their conditions, the latest wonder drugs they saw advertised, and second opinions if they don’t get the answers they want to hear—the “wants” and “prior-

\*President and CEO, Ambulatory Management Services Inc.; phone: 614-898-0036; fax: 614-898-7056; e-mail: mhalley@amsnetworks.com. Copyright © 2004 by Greenbranch Publishing LLC.

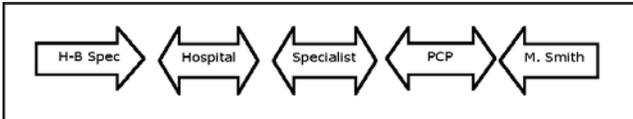


Figure 1. Medical Services Delivery Chain

ities” part. Private practice physicians, hospital-based physicians, nurses, therapists, and others experience the same challenges trying to meet the expectations of patients and their families—expectations that often have little to do with the patient’s clinical care.

This retail customer behavior is influenced by the nature of retail service delivery. For example, the perceived risk associated with purchasing *services* (including medical services) is higher than the perceived risk associated with *product* purchases.<sup>4</sup> This perception and other similar factors influence the behavior of medical services customers in at least three significant ways:

**Referrals.** In my experience, more than 60 percent of new patients/customers select a primary care provider based upon a referral from a friend or relative. Primary care providers make the majority of referrals to specialty physicians; and the hospital associations of both primary care and specialty physicians influence their hospital referral preferences. These factors, of course, directly impact which hospital-based physicians will be included in service delivery. While image can play a significant role in certain circumstances (e.g., the Mayo Clinic or some academic medical centers), relationships among physicians and between physicians and hospitals still influence a majority of patient referral decisions, because patients lack the information they need to make such decisions themselves.

**... the perceived risk associated with purchasing services (including medical services) is higher than the perceived risk associated with product purchases.**

**Surrogate measures.** Because customers do not have the medical skill to determine the clinical competence of their medical service providers, they form their opinions based upon surrogate measures that have little to do with actual clinical performance. These include:

- Convenience or ease of accessing the service
- The caring demonstrated by the providers and staff
- Physical facilities
- Wait time
- Willingness of the provider to listen and communicate effectively
- The manner in which the “exit” from the encounter is handled: how return visits are scheduled or referrals are handled
- How payment is handled: Is the co-pay requested on arrival? What are the attitudes and language of the cashier?

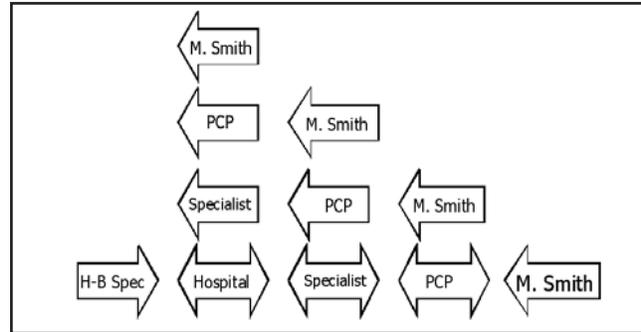


Figure 2. Medical Services Demand Chain

- The way residual balances and post-insurance claim processing are handled

Consequently, physicians and other providers who pay attention to these surrogate measures and meet the associated patient/customer preferences are the most successful in competitive situations.

**... more than 60 percent of new patients/customers select a primary care provider based upon a referral from a friend or relative.**

**Customer loyalty.** According to retail experts, “A customer’s physical involvement in the production of the service can add a deeper level of psychological involvement.”<sup>5</sup> There are few situations where “physical involvement” is more significant or intimate than in the physician/patient relationship. By its very nature this relationship requires significant trust on the part of the patient, who takes a risk to engage a provider in the first place and is loath to change physicians once a relationship is established. At the same time, if the provider violates that sacred trust, it can rarely be rebuilt.

**... customers do not have the medical skill to determine the clinical competence of their medical service provider.**

Physicians and other providers who practice successfully in increasingly competitive environments are finding it necessary to pay particular attention to understanding and meeting the needs, wants, and priorities of their patients/customers. Since all members of the medical services demand chain come face to face with the patient, developing this retail sense is a challenge applicable to all. This state of preparation is referred to as “retail readiness.”

## RETAIL READINESS

Achieving excellent retail performance takes tremendous energy and constant attention to details over time.

## Retail Readiness

**Customer knowledge:** How well do we know the needs, wants, and priorities of our current and potential customers? Have we established systems to solicit these needs, wants, and priorities from customers and potential customers? Do we incorporate current and potential customer feedback into our operating decisions? Is retail customer knowledge shared among demand chain members?

**Customer access:** How convenient are we to access? Do our systems accommodate customers trying to reach us? Are we available when our customers want to see us? Are referrals to other members of the demand chain seamless to our customers?

**Customer expectations:** Do we properly influence the perceptions of customers who come to visit us? Do they understand our patient-friendly policies and procedures, such as accessing after-hours care, financial policies, and prescription refills? Do we help our customers avoid embarrassment and frustration by clearly setting expectations in advance? Are all of our demand chain members supportive of one another, and do they deliver a consistent service message?

**Customer service team:** Given the inseparability of the services from the providers and staff, are our human resources hired, trained, evaluated, and rewarded for meeting customer needs, wants, and priorities? Do all

demand chain members do their part to ensure a consistent service level?

**Customer service culture:** Is high-quality care and caring the expectation within and between demand chain member organizations? Are poor performers (either providers or staff) moved out of the organization? Are customer complaints carefully analyzed and viewed as opportunities to improve quality and service? Do we audit our retail readiness as a demand chain and as individual members on a periodic basis and develop action plans to discuss and correct shortfalls?

**Customer service policies:** Are our policies, procedures, and processes customer-focused and customer-friendly, or are they geared toward provider convenience or “efficient” operations?

**Education/Promotion:** Do we actively and purposely set high customer expectations about our services and the services of other demand chain members? Do we provide better patient information than our competitors, in our offices, through our providers and staff, and on the Internet?

**Customer experience:** Do we do all we can to ensure that every customer experience is a positive experience? Do we ask if we have succeeded? Do we have processes in place to solicit, measure, investigate, and provide feedback on poor performance?

Fortunately, even the slightest improvements begin to have immediate positive impact on customer perceptions.

Retail readiness requires attention to eight key areas in the practice setting, listed in the accompanying sidebar. Consistent attention to these eight areas will ensure that the medical practice is prepared to meet the needs, wants, and priorities of its patients/customers more effectively than less enlightened competitors.

## PRACTICE RELATIONSHIP MANAGEMENT

Experienced demand chain members recognize the critical role of primary care physicians and certain internal medicine subspecialists who develop long-term relationships with retail customers (patients). They realize that the practices of these “relationship providers” are the true measure of market share or market potential for the medical services demand chain. Other members of the demand chain are “occurrence providers” who have *cases* or *admissions*, but do not build long-term relationships with retail customers.<sup>6</sup>

Although branding strategies, customer relationship management initiatives, and modern facilities and equipment certainly influence consumer preferences, primary care providers still direct the majority of referrals into the

demand chain. As a result, the number, strength, and commitment of affiliated primary care physicians are (or should be) of particular concern to all members of the chain.

### ***... primary care providers still direct the majority of referrals into the demand chain.***

Successful specialty physicians have learned the critical nature of building strong relationships with referring physicians. Like retail customers, most referring physicians base their referral decisions on a number of factors in addition to perceived clinical competence:

- Recommendations of other primary care providers
- Responses from patients who have previously been referred
- Ease of access
- Willingness of the specialist to share knowledge with the primary care physician
- Timely clinical feedback in the form of letters and phone calls
- Trust emanating from a personal relationship with the specialist

A clinically effective specialist who understands how referral decisions are made will win future referrals. Those

specialists who fail to do so will have viable practices only as long as they have no significant competition.

Similar to developing retail readiness, specialty physicians, practice managers, and staff should focus their efforts on meeting the needs, wants, and priorities of primary care physicians and other providers from whom they do or can receive referrals. Such efforts might include the following areas of consideration:

**Access.** Being accessible to referring physicians is just as critical as being accessible to patients/customers. Access involves availability for phone consults, responsive scheduling for urgent as well as non-urgent patients, and a willingness to accept not only the primary care physician's well-insured referrals, but also the uninsured patients.

**Retail readiness.** Developing retail readiness is critical to specialists in maintaining relationships with referring physicians. No primary care provider can long tolerate the embarrassment of patients returning from the specialist with complaints about the care or "caring" they experienced. Primary care providers will change their referral patterns to more retail-ready specialists as soon as other options exist.

**Clinical feedback.** Successful specialists recognize the importance of keeping the primary care provider apprised of findings and conclusions. This habit is not only a clinical imperative to promote coordination of care, but also a courtesy to the referring physician who provided the patient in the first place. Those successful specialists who are the busiest in competitive markets take great pains to make sure that their support systems promote excellent feedback to their referring physicians. Much of this feedback will be in the form of letters and/or may include personal telephone contact.

**Acknowledging referrals.** An important subset of the previous point is the ongoing acknowledgment by specialists of each referral received from the primary care physician. There are few words more powerful in any language than "thank you." Wise specialists carefully track their referral sources and take immediate action to rectify any displeasure on the part of these important physicians.

**Education.** Specialists recognize their responsibility to share their specialized knowledge and skill to help referring physicians improve their care for patients. Providing education in both formal and informal settings (including physician-to-physician telephone consultation) bonds the referring physician to the specialist and improves the level of primary care provided in the community. Engaging the primary care physician in "co-managing" their patients takes a bit more time on the front end, but pays huge dividends for both specialists and primary care physicians, not to mention the patients. A few specialists even equip their examination rooms with telephones and talk with their referring physicians while the patient is still

in the examination room, confirming the primary care physician's diagnosis and discussing treatment plans. Is it any wonder that such specialists have plenty of business?

*... relationship management is and will remain a key retail strategy for successful practices ...*

## SUMMARY

The medical services demand chain is a vital component of a successful retail strategy. The unique character of this demand chain includes an understanding of the complex needs of multiple customer segments including patients, their families, and referring physicians. This phenomenon increases the challenge facing all providers to understand and meet the needs, wants, and priorities of these multiple customer segments, simultaneously. In addition, the interdependence of all the individual demand chain members further complicates the challenge of meeting customer expectations, as every member's performance influences the retail customer's view of the entire service experience. As a consequence, successful medical services demand chains will require:

- A shared understanding of all customer needs, wants, and priorities
- Proper incentives to establish or maintain correct behaviors
- The ability to measure and provide performance feedback efficiently and effectively
- Leadership with the courage to move beyond those who are unwilling or unable to provide the required level of service to retail customers and to other demand chain members

Although the challenge of creating an effective medical services demand chain as the basis for a successful retail strategy is significant, the rewards promise to be equally inspiring. ■

## REFERENCES

1. Blackwell RD, From Mind to Market—Reinventing the Retail Supply Chain, New York, HarperBusiness, 1997, pp 1–2.
2. Ibid., p. 2.
3. Coile Jr. RC, Futurescan 2002—A Forecast of Healthcare Trends 2002-2006, Health Administration Press, Society for Healthcare Strategy and Market Development, p.3.
4. Anderson CH, Retailing—Concepts, Strategy and Information, St. Paul, Minnesota, West Publishing Company, 1993, pp 175–176.
5. Ibid., p.175.
6. Halley MD, The Case for Divestiture, Carolina Healthcare Business, July/August 2002, p.19.