

# GROUP MISSION

Which of these management philosophies best fits your group?

- "If it ain't broke, don't fix it."
- "Did we do things right?"
- "Are we doing the right things?"

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**T**he same rule applies to people or businesses: when faced with a changing environment, revitalize or decline.

The purpose of this article is to aid group practices in the revitalization process. We focus on three basic management philosophies, changes occurring in the health care environment, the strategic management approach, indicators of market and technical expertise strength, the mission formulation process, four less apparent but serious forms of competition, and, finally, we look at the two basic types of competitors that are expected to dominate tomorrow's health care industry.

**Doing things the traditional way is not going to work very well. You will always be talking about past practices, and asking, "What would the founder do?"**

## Three Management Philosophies

No matter what kind of business you're in—for-profit/not-for-profit, product or service—one of three philosophies will drive the corporation:

- **Tradition-Driven**, typified by the expression, "If it ain't broke, don't fix it."

If a corporation's environment is not changing, being tradition-driven works. An example can be cited. It worked very well for The Bell System in the telephone industry for almost 50 years. The environment was highly regulated because The Bell System was a regulated monopoly. Now, many environmental forces are beyond its control. For example, technological changes are blurring the boundaries between the telephone and

the computer business; new competitors, such as MCI and Rolm Corporation are becoming successful, and, in the process, customers are becoming more sophisticated and are demanding more services. Indeed, the large corporations that formerly depended on Bell for telecommunications services are now becoming Bell's own competitors.

If you're in a changing environment, doing things the traditional way is not going to work very well. You will always be talking about *past practices*, and asking, "What would the founder do?"

- **Operations-Driven**, epitomized by the question: "Did we do things right?"

This question is asked at the end of each day and week. The corporate focus is on current practices. Things are happening so fast that there seems to be no time to look into the future or think about the past. The operations-driven corporation is a product of a highly volatile environment. Conditions are changing so rapidly that a one-year strategic plan is a long-term plan. For example, the technology is changing so fast in the personal computer industry that long-term plans are meaningless. Similarly, rapid deregulation of the airline industry and the banking industry is forcing suppliers in those industries to focus on the present.

- **Strategy-Driven**, represented by the question: "Are we doing the right things?"

The dominant focus of a corporation with this philosophy is obviously the future, and its concern is the development of a strategy that will keep it alive and growing in a changing, but essentially predictable environment.

No one would deny, at this point, that group practices face a changing environment. (Some groups might even claim that they are in a highly volatile environment.) What are some of the changes already occurring, or likely to occur, in the group practice environment?

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## FOUR ENVIRONMENTAL CHANGES

Today's group practice faces an environment marked by four basic dynamics: (1) changing patient needs, (2) changing technologies, (3) changing competition, and (4) changing regulation. For the purpose of study and understanding, we will divide each into three parts.

### Changing Patient Needs

- *Rise of Health Consciousness.* Not only is the American public becoming more and more health conscious, people are turning to a range of nontraditional sources for health care information and alternatives. In the process, there is a growing emphasis on illness prevention—a major shift toward a wellness orientation. *Patients are questioning the norms they were given, right or wrong, by the medical profession.*

**Many marginal clinics will not survive alone. They'll have to team up with an organization that has managed to establish a good reputation and market presence.**

- *A Time-Driven Society.* With more than half of U.S. women now working outside the home, there is less available family time for taking care of personal business. At the same time, there is a spectacular rise in the "singles" households. For example, nearly 25% of all U.S. households are single adult homes. As the time squeeze grows, more and more companies will be compelled to discourage the use of corporate time for personal obligations, thereby compounding the time problem their employees face.

The banking industry began to recognize this problem about 10 years ago. Today, banking is literally a 24-hour business, supported by ATMs (automatic teller machines). Banks have learned. *We believe the health care industry is in the process of learning that the Monday to Friday, 9 to 5 routine is not going to work anymore.*

- *Greater Patient Self-Reliance.* The patient is becoming an "expert." The expertise that has been gained by the public in regard to the mass consumer market is now rising in the health care business as it has in financial services. Patients are unhappy about the human repair business in much the same way that they are unhappy with the automobile repair business. *They have lost confidence in the experts and the specialists and therefore they are taking matters into their own*

*hands.* Fortunately, this is an evolutionary trend and therefore it is not likely to happen overnight.

### Changing Technologies

- *Integrated Diagnostics.* The health care industry is in the process of converting from an electromechanical to a microprocessor-driven technology. With today's electronics you are now capable, for example, of taking a single blood sample and running more than a hundred different tests. Modern electronics has opened up a new world of possibilities. *The integration of diagnostic functions promises significant time savings. It also greatly compounds the complexity of diagnostic operations.*

- *Need for Enhanced Expertise.* The advent of new technologies is redefining the role of the paramedic and the practitioner, much as the introduction of the word processor has changed the traditional secretary and the boss. *Without a broad enhancement in expertise, the traditional paramedic and the practitioner will be unable to cope with the technological revolution in the medical field.*

- *Enhanced Quality at Lower Cost.* Previous technologies offered better quality at higher cost. Consequently, you had to charge more. Now you can offer higher quality at a cheaper rate, which is what you need to be responsive to cost-containment pressures. *This trend in technology is true in electrocardiology, in breast cancer detection, and in a range of other diagnostic areas.*

### Changing Competition

- *Nontraditional Competitors.* Who are they? We can look at what has happened to Blue Cross/Blue Shield for an illustration of one potential competitor. The Blues' largest competitor today is big business, the corporate client that wants to self-insure. In group practice, it is also very likely that the actual or potential corporate client may decide to provide health and medical services to its own employees on its own premises.

Another nontraditional competitor that may be expected to enter the health care environment is the mass retailer. It's already happened with financial services. Some people are predicting that within 10 years the average consumer will go to a Sears store when in need of routine medical and dental care. If that seems hard to believe, just consider what happened only about 20 years ago with eye examinations. A handful of retailers, such as Sears and Pearl Vision, have totally changed the character of one aspect of the medical profession; taken business away from the ophthalmologist, a highly trained MD, and turned it into a service provided by paramedics. The eye examination has become a routine matter; and it's become big business,

a mass-merchandising business.

I'm told that Sears is successfully experimenting with a dental program. Imagine the Sears Dental shop, next to the Sears Optical shop, next to the Sears Medical shop. It's not as far-fetched as it seems. *The local banker would have laughed at us about 10 years ago if we had suggested to him that Sears was going to be in the financial services business.*

- **Market Fragmentation.** Consider the case of buying homes. Formerly, everybody had a 30-year fixed mortgage; today, the person buying a home can select from a range of choices. You have an adjustable mortgage, a "balloon" payment system, seller financing, builder financing, etc., besides the traditional 30-year arrangement. . . . The point is, you have a greater diversity of suppliers in the marketplace, offering different products and services, and the result is market fragmentation.

*We expect the same thing to occur in the health care industry; different competitors specializing in different markets and products. The 24-hour emergency center and the HMO are increasingly common examples; close to 1,000 emergency centers are already out there.*

**The local banker would have laughed at us about 10 years ago if we'd suggested to him that Sears was going to be in the financial services business.**

- **One-Stop Health Care Centers.** Some organizations will go for it. "Anything you want or need, we have it—whether it's surgery, a minor examination, emergency care, or plastic surgery—even physical fitness. It's all here under one roof."

*We think some hospitals are going to move in that direction. This strategy may also be applied by retailers like Sears, and shopping mall stores.*

#### **Changing Regulation**

- **Drive Toward Deregulation.** It is more than a prevalent mood in government; the spirit for deregulation is also making deep inroads into society. *As traditional regulatory boundaries are broken, competition springs into place.*

The impact of deregulation and the growth of competition is compounded by the surplus of physicians. When there was a shortage of doctors, customers came to you. Today, there is getting to be a shortage of customers and this trend is forcing you to go to them.

- **Mergers & Acquisitions.** As a result of excess capacity, we can expect a fairly dramatic increase in clinic merger and acquisition activity. There won't be room for too many clinics in the same community.

Again, consider the banking industry: today we have approximately 14,000 banks in this country. In 10 years we expect the number of banks to drop to about 100! (Some analysts are forecasting as few as 20.) The emergence of mature markets results in consolidation.

*Many marginal clinics, like many marginal hospitals, will not survive alone. They'll have to team up with an organization that has managed to establish a good reputation and market presence.*

- **Stronger Safety Regulations.** Government is going to increase its role in this area. Consider, for example, the case of infectious waste control management in hospitals; Environmental Protection Administration (EPA) standards are far tougher than most hospital administrators realize. Most hospitals are breaking the rules, without realizing it. We can expect the EPA not only to increase the standards in this area, but also to enforce them.

*The advent of stricter product safety standards is a natural progression when you deregulate an industry. Because you allow anybody to enter, you get both high and low-quality suppliers in the marketplace. Minimum quality control standards must be established to protect the consumer.*

Given these changes in the group practice environment, what should your organization be doing?

#### **THE STRATEGIC MANAGEMENT APPROACH**

In industries in which customer needs seem to be ahead of the supplier—and health care qualifies—whoever brings the two parties closer and makes them compatible, wins.

It requires strategic management, a future-oriented approach to managing markets and products through quantitative resources (Manpower & Money) and expertise (Technical & Marketing).

As a future-oriented process, strategic management comprises the following activities and decisions:

- Formulation of the future mission of the organization in light of changing external factors, such as regulation, competition, technology, and customer needs.
- Development of a competitive strategy to achieve the future mission.
- Creation of an organizational structure that will deploy resources to carry out its competitive strategy successfully.

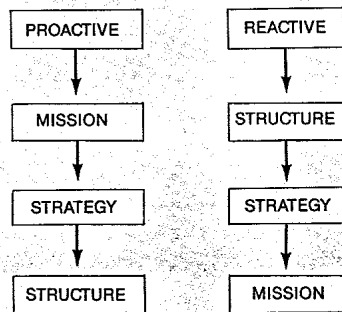
As physicians, you are accustomed to thinking of yourselves in functional terms: "I'm an oncologist. I practice oncology. You're a support person. You're in charge of the x-ray department." As a result, you have naturally developed organizations that are based on

functional specialization. That may not be the organization of the future in the health care business. What we are more likely to see is the development of organizations composed of highly integrated but autonomous divisions, each a separate profit center, all dealing with the same customer in a consistent and team fashion.

Unfortunately, the proactive prescription—mission-drives-strategy-drives-structure—is often difficult for an established group practice. Because its structure is already in place, structure seems to drive strategy. It fights back. The group's people are also in place, meaning that they tend to prefer the status quo. Change isn't terribly appealing.

Taking the proactive course requires the group practice to create a corporate culture that influences the thinking and performance of its members, even the language they speak. No longer is the group in the business of saving lives; the basic objective now becomes to save lives without losing money in the process. In today's environment, meeting this objective will be difficult for the group practice that doesn't have proper mission, strategy, and structure in place.

### Strategy vs. Structure



### INDICATORS OF STRENGTH

Your organization's position in the market is based on its *market* and *technical* expertise strengths relative to the competition. There are standard indicators of strength in each area that apply to any industry—product or service.

#### Market Strength

- *Reputation.* The name "Mayo" has a worldwide association with medical excellence.
- *Location.* How many different locations do you offer and are they conveniently located?

- *Service.* How good are your people when they serve the patient? Are they friendly, prompt, courteous, and efficient?

Apply these measures to McDonalds. Excellent *reputation*: known for the consistency of their fries, burgers, and shakes. More *locations* than anyone else in the fast-food franchise industry. But *service* is their biggest market strength. McDonalds has a "Hamburger University" where they train all franchisees. And they train them very well—give them a corporate culture. Any company that can take the most obnoxious teenager and convert him or her into a friendly, smiling robot—and do it at minimum wages—has to be a great company.

#### Technical Expertise Strength

- *Cost Efficiency.* Are you providing the service at an equal or lower cost than the competition?
- *Versatility.* Can your expertise be used for other purposes?
- *Uniqueness.* How unique is your expertise? Enough so that no one else can duplicate it?

The American automobile industry, for example, has not been cost efficient. Now they're trying to be. They have finally identified that there are two major cost inefficiencies inherent in the way they build cars. The first, as you might expect, is wages, but more importantly, the fringe benefits provided to employees. The second major cost inefficiency is in the area of inventory management. We tend to keep parts and supplies in stock for longer periods of time, thus tying up working capital in idle resources. By contrast, the Japanese believe in and practice an assembly process that essentially eliminates holding costs.

A group practice may have similar problems of high wages/benefits compared with the emerging mass merchandisers such as Sears. It will also be important to pay closer attention to idle fixed resources, such as equipment, supplies, and office space.

The most *versatile* technology I know is baking soda. Imagine a product known primarily for its use in making breads that is also good for killing odors in many places such as the refrigerator and cat litter box, and also as a cleanser for carpets, laundry, pots and pans, even teeth. That's versatility.

Then look at the heart surgeon. Can he also perform a physical exam? What about fixing parts other than the heart? Will he also do plastic surgery, for example? The specialization that has characterized American medicine over the past decades has obviously contributed heavily to the creation of a nonversatile medical technology.

The final area of technical expertise—uniqueness—applies to all of your resources—professional, equipment, and support people. If you are not unique, you're lacking an important component of technical strength.

## MISSION FORMULATION RUST-PROOFING BUSINESS

We're a worldwide company. Our business is rust-proofing new cars. And we're having tremendous problems. People are keeping their cars longer. New car sales have peaked pretty much in the U.S. and abroad. That's one problem. More critical is the fact that auto manufacturers are now rust-proofing at the point of assembly.

The situation we face is somewhat analogous to the challenge you face in the health care business today in the U.S. What are our options?

### Sell Our Expertise to the Manufacturer

In other words, forget our retail new car rust-proofing outlets and align ourselves with the auto makers on what we call an OEM—Original Equipment Manufacturer—basis, at the point of assembly.

Our alternative is to look at our market strengths—reputation, location, and service—and see if we can broaden our market horizons.

### Expand Into New Car "Protection"

We ask ourselves: "What does rust-proofing do?" It protects the car. Maybe we should redefine our business; be in the new car protection business. What other types of protection are there? The new paint needs protection. Why not offer polyglycoating at our thousands of retail centers? One coat lasts forever. What about the car interior? Most people don't take very good care of their upholstery; maybe they'll care more if they have to hold on to their car longer... polyglycoat for the outside, Scotch Guard for the inside.

When you begin to broaden your horizon, you suddenly realize that rust-proofing is only one component of a much larger business. New cars need protection not only against natural hazards, but also against things people do to cars. What's the biggest manmade threat to new cars today? Theft. Cars are being stolen in record numbers. What should you do if you decide to get into the business of protecting cars against theft? Buy out the company that makes electronic alarm devices.

### Get into New Car Customization

If there is some doubt about the long-term potential of the new car protection business, given the experience we've had with rust-proofing, what about leapfrogging into the new car customization business? Not only are people keeping cars longer, they're also demanding an array of individualized extras that no assembly process can provide.

The biggest car customization demand turns out to be sun (and moon) roofs. Number two on the list is stereo systems. However, getting into the car customization business will require a *diverse* set of new technologies. And they must all fit together as a system. You're no longer in the specialty rust-proofing business

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### Rust-Proofing the Old Car

Thus far, in considering how we can rescue our rust proofing business, we've only considered new business options limited to *new cars*. What about used cars?

People are keeping cars longer. Obviously the rust-proofing auto makers apply will wear thin in time. Why not switch our mission to rerust proofing? No need to change the technical side of the business; just the marketing side to serve a different market. When do people think about rerust proofing? When they want to sell their car. Same thinking applies when people want to sell their house, or when they are looking for another spouse. They get into physical fitness.

### Jump to Industrial Rust-Proofing

A final option we might consider is to reformulate our mission to rust-proofing industrial products. Get away from cars altogether. Think big... bridges, cranes. You might even land a U.S. Navy account.

The drawback, of course, is that this route requires complete marketing change. The retail locations are useless because you can't expect the bridge to come to you. Also, the franchisee who sells rust-proofing locally is basically a mechanic. Selling to big business means you have to hire a topflight corps of account executives. And the technology you applied to cars may then have to be modified to work on bridges.

You're in the group medical practice business. What scenario might be developed for your organization?

## MISSION FORMULATION GROUP MEDICAL PRACTICE

If we had to define your current business, we would say your existing products/technologies are *curative medical services*, and your existing markets/functions are *local clients*. What options are open to your organization?

### Mission Options: Group Medical Practice

|  | Existing Products/Technology | Related Products/Technology           | New Products/Technology     |
|--|------------------------------|---------------------------------------|-----------------------------|
|  | CURATIVE MEDICAL SERVICES    | CURATIVE + PREVENTIVE HEALTH SERVICES | FITNESS & WELLNESS SERVICES |
| Existing Markets/Functions<br>LOCAL CLIENTS    | CURRENT BUSINESS             | →                                     | →                           |
| Related Markets/Functions<br>SATELLITE CLIENTS | ↓                            |                                       |                             |
| New Markets/Functions<br>CORPORATE CLIENTS     | ↓                            |                                       |                             |

### Mission Options: Rust-Proofing Company

|  | Existing Products/Technology | Related Products/Technology | New Products/Technology |
|--|------------------------------|-----------------------------|-------------------------|
|  | RUST-PROOFING                | CAR PROTECTION              | CAR CUSTOMIZATION       |
| Existing Markets/Functions<br>NEW CARS       | CURRENT BUSINESS             | →                           | →                       |
| Related Markets/Functions<br>USED CARS       | ↓                            |                             |                         |
| New Markets/Functions<br>INDUSTRIAL PRODUCTS | ↓                            |                             |                         |

- From our observation of your business, we would say that the average physician-controlled organization will find it more natural to stay with existing products and technology. This position is supported by the fact that there is still a market in most communities for curative medical services. However, given the environmental changes cited earlier, it will be necessary to do business differently. In other words, your mission remains the same, but your strategy changes.
- The second most common option, as demonstrated by groups across the country, is to take existing products and technology to related or new markets. This includes providing services to satellite communities, as well as to the corporate client at their place of business.
- Some groups will elect to take a lateral step, reformulating products and technology into a curative/preventive approach to existing markets. The add-on will be increased diagnostic, early-detection, illness intervention expertise.
- Leapfrogging from curative medical services—or even making the jump from a curative/preventive position

in existing markets—into fitness and wellness services will be a tough problem for most groups. For one thing, "body protection and customization" is not nearly as prestigious—or challenging, many physicians would claim—as your present business. It also requires development of a range of new products and technology. As a result, the fitness and wellness box on the mission board is likely to be captured by other competitors, such as hospitals and mass merchandisers.

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It is important to remember that the direction you go in depends on your strengths. You go across into preventive care and physical fitness if your strength is the marketplace—reputation, locations, and service. A group practice such as Mayo Clinic can easily think of going across the mission board. On the other hand, if your strength is in technical expertise, you go down and offer your resources to other markets, such as satellite locations and corporate offices. It is easy to visualize a conflict between the physician and the administrators over decisions related to mission.

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**OUTSIDE COMPETITION**

There is a tendency to think of competition in terms of existing players in the marketplace—in your case, other clinics, hospitals, urgi and surgicenters, etc. This is the obvious competition. There are four outside forces, however, that must be kept in mind.

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**When a buyer decides to make what you've been supplying, you've lost everything. This happens when the consumer says, "I'm not going to visit the doctor anymore. I'll take advantage of other ways to make myself healthy."**

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**Buyer Becomes Supplier**

When a buyer decides to make what you've been supplying, you've lost everything. This applies not only if a corporation chooses to establish its own dedicated medical facility; it also happens when the consumer says: "I'm not going to visit the doctor anymore. I'll take

advantage of other ways to make myself healthy."

Blue Cross/Blue Shield, on the insurance side of the industry, as was previously mentioned, has gotten into plan management the hard way, as a result of large corporations (e.g., Illinois Bell) deciding to self-insure.

Your challenge, as a group practice, is to find a formula to reestablish the win-win relationship you've had with the buyer. That is why many group practices today are taking the full definition of marketing so seriously.

**New Entrants**

The 24-hour, convenience-oriented, emergency centers that have sprung up in the marketplace should be regarded as the forerunners of a much more potent competitive force. When the concept has achieved a sufficient degree of consumer appeal, look for new entrants (e.g., Sears).

**Supplier Becomes Competitor**

Obviously, physicians are the suppliers in a group practice setting. In the process of addressing the realities of a changing external environment, groups cannot afford internal strife. Competition is strong enough without having your own physicians decide it is in their best interest to leave the group and form their own clinic. Again, you must make sure to create a win-win situation for the group and its physicians.

Another situation in which the supplier can become a competitor, for example, occurs when medical electronics companies supplying you with products decide to go after the mass market. We see this happening with blood pressure units; every retail medical supply outlet now carries these products. The home diagnostics device market is destined to become big business.

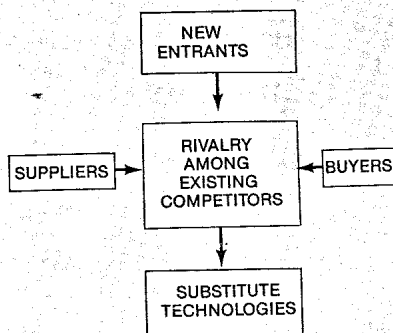
**Substitute Technologies**

Technologies could very well be developed that would bypass your business altogether. Given your apparent inclination to remain in the curative medical services business, and growing consumer demand for fitness and wellness services, I'd look for these substitute technologies to be oriented toward illness prevention. One possible area would be genetics technologies. It's happening in agriculture and in the animal world; who's to say it can't happen in the human world. Certainly, ethical issues must be resolved, but that happens with every new technology. The potential also exists for your business to be bypassed by new chemical technologies, and purely mechanical technologies such as exercise equipment related to physical fitness.

Consider what is happening in the telecommunications business, for example. We now have a cellular mobile phone; no need to page you anymore. Big hospitals now have earth stations that enable them to communicate via satellite, bypassing the local telephone exchange.

Tear Out

### Analysis of Competitive Forces



### FINAL ANALYSIS

We expect the health care industry to divide into two types of competitors:

- *Full-Line Suppliers*, offering a complete range of products under one roof—curative, preventive, fitness and wellness. One-stop shopping. Something for everyone. And they will be volume-driven rather than margin-driven. We expect big hospitals and large retailers to dominate the full-line circle.

- *Specialists*, who will be either *product-specific* ("All we do is oncology"), or *market specific* ("We do everything for children, from birth and beyond the traditional pediatrics cutoff point").

At this stage, your industry has no inner circle, no full-line suppliers. Instead, it consists primarily of product specialists, often (e.g., group medical practices) offered under one roof, but restricted to a limited market area. We should expect continued development in the area of market specialization, such as children's, women's, and senior citizen centers.

#### A Product Specialist

*Footlocker*. They offer only one thing: athletic shoes. But they carry anything and everything, in all sizes, for anyone who jogs, plays tennis, basketball, walks to work, or doesn't want to wear leather shoes to school. Next door at the mall, the full-line softgoods retailer sets aside one corner of the store for footwear and calls it "The Family Shoe Center."

#### A Market Specialist

*The Limited* is the store for the young woman under 30, somewhat affluent but not rich, fashion-oriented but

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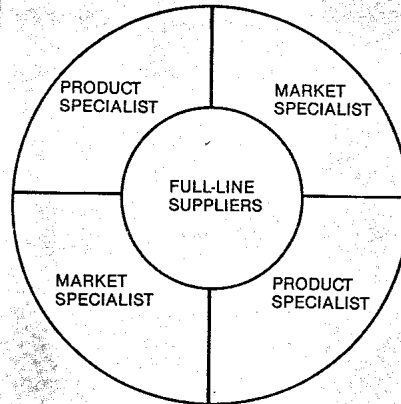
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### Emerging Competitive Structures



not running as far afield as punk, and modern in terms of lifestyle: she works and expects her husband to do his share of the dishes. *The Limited* is an excellent example of market niching strategy. Sears, the full-line supplier, would say: "That market's too narrow for us." Meanwhile, *The Limited* has something like 650 stores today and it's one of the most successful and fastest-growing retail chain stores.

With the emergence of full-line suppliers in the inner circle, we believe that some group practices will not survive. They will try to consolidate with other group practices to obtain more efficiency in resource sharing and economies of scale. This outcome is similar to what is happening in the banking and savings and loan industries.

The group practices that are likely to remain successful and grow are the ones that will be proactive and think strategically. The group that continues to be tradition-driven or operations-driven will find it more and more difficult to survive. □

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