

SEGMENTING THE HEALTH CARE MARKET

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ABSTRACT

This paper has attempted to show why market segmentation will become increasingly more prevalent in the health care industry. It has also suggested how segmentation can be extremely useful to the health care practitioners. Finally, it has identified three customer characteristics (demographics, psychographics and usage patterns) as a basis for segmenting the market. It has also identified three marketing practices (competitive positioning, full line vs. specialty, and payment plans as other bases for market segmentation).

INTRODUCTION

Henry Ford had pioneered the automobile market with the successful introduction of the Model T car. The car was mass assembled at a very affordable price and was well built. It was a tremendous success. However, it came in only one color: Black. Many customers praised Mr. Ford for building an excellent car and requested that he offer more choices of colors. Mr. Ford is reputed to have responded, "Customers can have all the choices of color so long as it is black!"

At about the same time, General Motors came along with another strategy: offer the customer what he wants. They offered a variety of cars such as the Chevrolet, Pontiac,

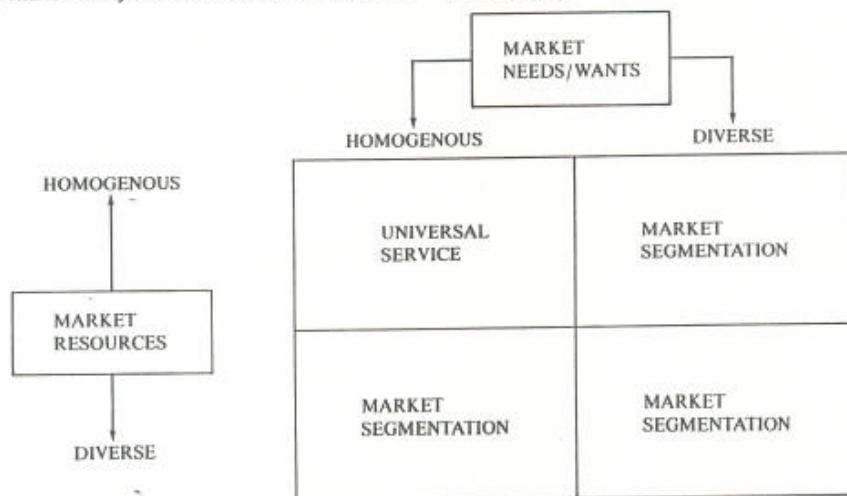
total market into segments consisting of customers with homogeneous needs/wants and resources. Once these segments are identified, it is up to the supplier to cater to only one segment or all of them. For example, General Motors opted to cater to all the segments through separate automobile divisions, but Rolls Royce has decided to cater to a very select segment of the market.

Segmenting the market becomes not only desirable, but necessary in a given industry if customers in that industry are diverse in their needs or wants or if the resources of time, and money are diverse. In other words, only when the market is truly homogeneous with respect to needs/wants and resources, you can practice a universal service philosophy comparable to Model T Strategy.

The following diagram summarizes this point.

WHY MARKET SEGMENTATION IS IMPORTANT TO HEALTH CARE INDUSTRY?

Segmenting the market is becoming more and more a reality in the health care industry. This is because neither the patient needs/wants are as homogeneous as they used to be, nor are their time and money resources as homogeneous as they used to be.



Oldsmobile and Cadillac, which were targeted for different segments of the market based on affordability and prestige.

It is suggested by many experts that Ford Motor Company lost its pioneering leadership because they chose a wrong strategy: offering only one model in one color when the market needs and wants were clearly not homogeneous.

Market segmentation, therefore, refers to dividing the

Resource Diversity: Affordability

Increasingly, affordability has become an issue in the health care industry due to more than average rise in the cost of health care delivery systems. While some patients are able to afford better but more expensive medical services, there are also many other patients who find health care beyond their reach. This diversity of the patients on affordability is further compounded by the reduction in employee fringe benefits offered by corporations and public

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Resource Diversity: Time

A second resource on which patients are getting more and more diverse is time. For example, with the rise in dual wage earners in many families, it is no longer possible for working spouses to access medical care during the traditional nine to five, Monday through Friday opening and closing hours. Similarly, we are witnessing an explosive growth in the singles market. For example, nearly 24 percent of all American households consist of households with single adults.

The breakdown of the traditional family consisting of a breadwinner and a homemaker is largely responsible for creating diversity in time as a resource.

A second factor in generating greater time resource diversity among patients is the explosive growth of leisure activities and interests. The increasing choices available to consumers is reducing the discretionary time available for health care services. It is unfortunate that what the patient needs most (taking care of his health) is often relegated in priority in favor of other less essential but more desirable activities.

Needs Diversity: Diseases

It is also interesting to note that patients are suffering from a more diverse set of diseases today than let's say two or three generations ago. It is, however, not surprising. As the economic and social activities of the country becomes more diversified, one should expect proliferation of diseases created as the side effects of more diverse occupations, lifestyles and living arrangements.

In my opinion, there are two major reasons for the proliferation of diseases in the society. First, people today are more exposed to dangerous environments as we progress on the industrial ladder. For example, physical surroundings in offices, factories, homes and outdoors possess more potential for producing diseases as compared to the older, highly primitive but peaceful life styles. The best examples are newer types of allergies, cancer and heart diseases. Second, non-traditional life styles and living arrangements are also likely to generate a greater variety of diseases. The most contemporary examples are the prevalence of AIDS and other contagious diseases.

Needs Diversity: Psychosomatics

At the same time, society is getting more and more diverse with respect to psychological diseases and emotional disturbances. Again, this should not be surprising. As a society progresses beyond the hardships of economic survival and issues of food, shelter and clothing, it focuses more and more on interpersonal relationships as well as self-identity and self-image values.

In my opinion, one can attribute the increasing diversity in psychosomatic disturbances due to two basic reasons. First, with the breakdown of social norms and values, it becomes increasingly the responsibility of the individual to cope with highly personal and social relationships. At the same time, if the individual is not educated or trained early in his or her life how to cope with these interpersonal situations, it becomes psychologically

Secondly, society today offers more choices, builds up higher expectations and aspirations resulting in often setting unrealistic goals and achievement norms. Consequently, despite hardwork and basic intelligence, we seem to be more frustrated and probably unhappy, resulting in emotional disturbances. The increasing popularity of psychological counselling or psychiatric help at the work setting or in public service agencies is probably a good indicator of this phenomenon.

In summary, market segmentation as a strategic concept is likely to become more and more important in the health care industry as the health care market gets more diverse in its needs/wants and in its time and money resources.

BENEFITS OF SEGMENTING THE MARKET

Segmenting the market can help the health care practitioners in at least three major ways.

Cost Efficiency Through Target Marketing

Market segmentation encourages the health care practitioners to use a rifle approach and get away from the shotgun approach so prevalent today. In other words, rather than trying to be everything to everyone, it encourages the health care practitioners to assess their own expertise and resources, and try to match them with a specific segment of the total health care market. For example, you may have specialized expertise in oncology, gastro-intestinal or heart disease. It, therefore, makes sense to target your expertise to those patients who need these specialized services instead of serving everyone for all diseases including routine physical examinations. Similarly, you may be located in a neighborhood with a lot of older people. It makes sense to target market your expertise to the gray hair market.

Identifying Neglected Segments

Often, we tend to neglect many smaller, highly unique market segments. This is often because we have been too busy taking care of the mainstream market. Market segmentation enables the health care practitioner to identify these neglected segments and reorganize his resources to satisfy the unique needs of these neglected segments.

The best examples of the neglected segments are teenagers and immigrants. It is interesting to note that nobody has really specialized in the teenage market. Often, a teenager therefore continues with the pediatrician until his or her adulthood, even though it may not be his or her preference. Furthermore, the teenager is a young customer who is likely to patronize the health care facility for a longer period of time unless he moves from the neighbourhood, usually to attend college. Most high school graduates who do not go to college, tend to live in the same community throughout adult life.

Immigrants are another good example of a neglected segment. In addition to the cultural and linguistic problems, the immigrants tend to carry or acquire diseases which require special diagnosis and treatment. For example, immigrants from Asian countries tend to carry tropical

Keeping Customers Happy

The third major benefit of implementing a market segmentation plan is the potential for keeping the customers happy. Each customer feels that his illness or problem is unique and wants a highly customized, personalized service. In particular, he resents the idea that he is another number in a long line of patients, and that the physician treats health care as a mass production factory.

Market segmentation, if properly implemented, differentiates services, facilities and delivery systems so that they are more customized to each group of patients. For example, disabled patients require more specialized services, facilities and delivery systems. If a special location or floor was dedicated to them with specialized equipment and even health care specialists, it may be more satisfactory to both the disabled and the other patients.

Similarly, patients with non life threatening emergencies can be physically segmented from life threatening emergencies making both segments happy. Indeed, some experts have argued that it was lack of segmenting these two emergencies which has led to the development and growth of 24 hour emergency centers in shopping malls and other locations throughout the nation.

METHODS OF SEGMENTING THE HEALTH CARE MARKET

There are two major ways of segmenting the health care market: patient characteristics and marketing practices. Each of these two major methods has several suboptions. In this section, we will briefly describe them.

Segmentation Based on Patient Characteristics

There are three different types of patient characteristics which are useful for segmenting the health care market: patient demographics, patient psychographics and patient frequency of health care utilization.

Patient Demographics

There are several basic demographics still extremely useful for segmenting the health care market. Perhaps the two most relevant demographics are age and affluence. Since the incidence and types of diseases tend to significantly vary by age of the patient, it makes sense to segment the health care market by different life cycle-groups such as children, teenagers, adults and senior citizens. As I mentioned earlier, it is surprising how no one has really segmented the teenager market.

Similarly, affluence becomes another major demographic factor due to the affordability issue. Even in countries where there is socialized medicine including the Scandinavian countries, it is interesting to note that private medical practice has always coexisted with socialized free health care services. In my opinion, it is possible to, therefore, segment the market at least with respect to premium vs. best value services. People who can afford are likely to patronize premium health care services. This does not mean that best value services should be inferior in quality. It simply means that premium services will probably have better ambience, modern equipment, more comfortable

personalized health care. To illustrate the point, Health Maintenance Organizations (HMOs) resemble the best value offering whereas Mayo Clinic symbolizes premium services.

A third demographic characteristic which is likely to become more and more important in the coming years is occupation. A person's occupation often dictates his life style and most directly his work style. Both work style and life style are probably the most direct sources of types and incidences of diseases including psychosomatic diseases. The typical occupational groupings will be factory workers, office workers, sports, students, farmers, hazard work and mobile workers (truck drivers and airline crews.)

Patient Psychographics

Increasingly, the psychology of the patient is becoming important in shaping the utilization of health care services. People differ significantly in their attitudes and values toward modern health care. Therefore, it is possible to segment the health care market based on peoples' attitudes and values.

Unfortunately, patient psychographics is a relatively new area of understanding. Therefore, it is not possible to identify and recommend standardized and agreed upon typology similar to patient demographics.

One possible typology suggested here is based on peoples' attitudes toward different ways of taking care of their sickness. For example, some people have in home remedies, others believe in self medication and still others may prefer non-pharmaceutical based remedies such as chiropractic, acupuncture or accupressure techniques. Furthermore, there are still others who believe in preventive methods such as physical fitness, vitamin intake and even meditation as ways of preventing illnesses. Finally, there is always a group of patients who can only be labeled as hypochondriacs!

In general, we can probably categorize patients into four psychographic types: skeptics, traditionals, hypochondriacs and realists. The latter group is likely to be best informed and the most appealing group of patients, because it will not hesitate to call the physician when necessary but also will not excessively abuse the health care system.

Patient Usage Patterns

The last patient characteristic is the usage patterns. It is no exaggeration to state that only twenty percent of patients contribute toward eighty percent of health care utilization! It is, therefore, possible to segment the market by the degree and type of health care utilization. For example, we can segment all patients into super heavy, heavy, light and infrequent users. Furthermore, it is possible to break down the heavy and the super heavy segments by the type of health care utilization such as general practice (GP) vs. specialist problems.

Fortunately, health care industry is blessed with patient records due to the regulated nature of the industry. Therefore, it should be possible to generate

Marketing Practices as a Basis for Segmenting the Health Care Market

It is also possible to segment the health care market based on the marketing practices of the providers. There are three different aspects of marketing practices which become a good basis for segmentation. They are: competitive positioning, full line vs. specialty and payment plans.

Competitive Positioning

Based on quality-price variations, it is possible for the health care practitioners to segment the market as follows:

		PRICE	
		HI	LO
QUALITY OF SERVICE	HI	PREMIUM POSITION	BEST VALUE POSITION
	LO	HIT & RUN POSITION	CHEAP GOODS POSITION

The health care practitioners may then select one of the boxes as their market segment and provide all health care services in a manner consistent with that quality-price combination. For example, if the health care provider chooses the premium positioning, it is extremely important that he has the best physicians, nurses and paramedics, that his physical facilities are sumptuous, that his support staff is courteous and professional, and his follow-through services such as billings, reminders and documentation are also the best. Of course, he should be highest priced in the market place. In general, most health care providers can be easily positioned in the above matrix based on their past and current practices. Unfortunately, most

health care providers are *perceived* by the patients as either premium suppliers or cheap goods suppliers. This has created a void in the best value positioning, and it is being filled by large retailers such as Sears Roebuck or by the HMOs.

Full Service vs. Specialty

A second method of segmenting the health care market is based on the concept of fully integrated, one stop health care centers. For example, Kaiser Permanente in California is clearly a one stop, full service where all health care services can be provided by the same organization and possibly under one roof.

On the other hand, it is possible to specialize by certain diseases such as oncology, gynecology, heart diseases or allergies.

Payment Plans

The health care provider can also segment the market by the method of payment. For example, he can offer his own prepaid plans, limit his practice to certain group insurance plans, or provide services exclusively to one corporation or organization.

It is likely that payment plans will become *increasingly* more and more popular as a basis for segmenting the market as the affordability becomes increasingly important in the health care field.