



S. Harvey Price is editor of *For Your Advantage*. A health care industry strategist based in Boca Raton, Fla., Mr. Price has worked as an independent consultant since 1971. His clients are community hospitals, hospital systems and major corporations.

About FYA

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TrendLeader Connections
406-586-8775
www.ForYourAdvantage.com

Exploitative or Exploratory?

The Ten Warning Signs and What to Do About Them

By John W. Kenagy, MD, MPA

These columns began last year with the goal of offering something new and different, something other than another recitation of "best practice business methods." *For Your Advantage* is designed for CEOs; you already know most best practice methods and where to go to get a refresher. This column is for those who want or need something new—an insight into the innovative, breakthrough ideas that will take your organization to new levels of success. And it has to be more than theory; you need to know what you need to do and how to do it now.

But doing something new seems risky because "we haven't done this before." So how does leadership decide it is safer to do something new than continue the status quo?

Here is a tool to help identify when new and different is safer than the old or status quo¹. Where is your organization aligned—are you an exploitative business or an exploratory business?

Alignment of:	Exploitative business	Exploratory business
Strategic intent	Cost, profit	Innovation, growth
Critical tasks	Operations, efficiency, incremental innovation	Adaptability, new products, breakthrough innovation
Competencies	Operational	Entrepreneurial
Structure	Formal, mechanistic	Adaptive, flexible
Controls, rewards	Margins, productivity	Milestones, growth
Culture	Efficiency, low risk, quality, customers	Responsiveness, manage risk, speed, experimentation
Leadership role	Authoritative, top down	Visionary, involved

"Exploitative" is not derogatory, just descriptive. Successful exploitative organizations are creative; great at doing and improving what they know how to do. They are profitable, confident, and competitive. Their business opportunities are growing and so are the number of people they employ. There is room for them and their competitors in the marketplace. Incremental solutions work because their current business model can grow by extending what the organization knows how to do, sometimes to breakthrough proportions. It works and it feels good.

Almost all established firms and every large health care organization I know

(Continued...)

¹ Adapted from O'Reilly C, Tushman M. "The Ambidextrous Organization." Harvard Business Review, April 2004

Exploitative or Exploratory? (Continued...)

work with an exploitative business alignment. And all is fine until the known, exploitative opportunities start to dry up. There are 10 warning signs for trouble, the opposite of exploitative success.

The Ten Warning Signs for Exploitive Organizations:

1. Profitability is increasingly challenging.
2. There is an increasing need to focus on "the numbers."
3. It is necessary to exit established, traditional lines of business because they are no longer profitable.
4. Increasingly aggressive competitors are taking advantage by competing "on a different playing field." Somebody is changing the rules of the game.
5. Consolidation and merger/acquisition strategies are necessary to maintain profitability by taking capacity out of the system and/or gaining market power.
6. Rigorous cost cutting and downsizing become key business strategies.
7. Regulation increases at the same time as organizations seek governmental support to maintain viability.
8. Consultants emerge with more and more "fixes."
9. New, expensive technology seems increasingly the only answer.
10. People start to talk about "transforming the industry."

When faced with these signals, exploitative businesses need to develop an exploratory business alignment to continue to grow and prosper. Therein lies the rub; historically less than 10 percent of exploitative businesses can make the transition.

And therein also lies the opportunity, because experience shows there are winning strategies and powerful tactical tools to help develop an explorative capability—strategies and tools that aren't rocket science; they're just new and different. But first, senior leadership has to know that it is safer to develop that new alignment than stay and extend what they know how to do.

The questions, then, to ask your management team:

1. Are we in an exploitative business alignment?
2. If yes, do we see any of the 10 warning signs emerging?
3. If yes, what do we do about it?

What are your answers? These questions are a great way to lead off a strategy session because they give your team a new way to frame the issues they face. What do you think? Does this framework help? If you have questions or want help using this model, e-mail me at jkenagy@kenagyassociates.com.

In my experience, #1 and #2 are usually easy to answer; #3 is the tough one. Many of the answers are in my previous columns, but if you answered yes to #1 and #2 and are interested in a tested, reliable, improvable answer to #3, check this column in your *FYA* next month. And, fortunately, you'll find the answer is not rocket science, just new and different.

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MPA, Director, Kenagy
& Associates, LLC (K&A)



About



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U.S. Citizens Speak Out on Health Care

By: Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

On June 1, the Citizens' Health Care Working Group reported its interim recommendations for "Health Care That Works For All Americans." Have you heard about this interesting organization? It was established by the Medicare Prescription Drug Improvement and Modernization Act of 2003 to create a way for the American public to "engage in an informed national public debate to make choices about the services they want covered, what health care coverage they want and how they are willing to pay for coverage."

The Working Group issued an October 2005 overview of the U.S. health care system that was then used for a series of hearings, community meetings, individual commentaries and Internet polls to elicit citizens' views regarding the following weighty questions about our health care system:

- What health care benefits and services should be provided?
- How does the American public want health care delivered?
- What trade-offs is the American public willing to make in either benefits or financing to ensure access to affordable, high quality health care coverage and services?

The Working Group's interim recommendations based on such citizen input are:

- "It should be public policy that all Americans have affordable health care"
 - o The financing for this recommendation would come from "dedicated revenue streams such as enrollee contributions, income taxes or surcharges, 'sin taxes,' business or payroll taxes or value-added taxes that are targeted at supporting these new health care initiatives"
- "Define a 'core' benefit package for all Americans"
 - o The recommendation covers a continuum of care that "encompasses wellness, preventive services, primary care, acute care, prescription drugs, patient education and treatment and management of health problems provided across a full range of inpatient and outpatient settings"
- "Guarantee financial protection against very high health care costs"
- "Support integrated community health networks"
- "Promote efforts to improve quality of care and efficiency"
 - o This recommendation includes a focus on "evidence-based practices," health information technologies such as electronic medical records and reduction of fraud and waste
- "Fundamentally restructure the way that palliative care, hospice care and other end-of-life services are financed and provided, so that people living with advanced incurable conditions have increased access to these services in the environment they choose"

The Working Group is actively seeking public input on its initial recommendations until August 31, 2006, after which it will prepare and issue its final recommendations to the Congress and the President. The law then requires the President to submit a report regarding the recommendations to Congress within 45 days; and after that the following Congressional Committees are required to hold hearings on the report and its recommendations: the Committee on Finance of the Senate; the Committee on Health, Education, Labor and Pensions of the Senate; the Committee on Ways and Means of the House of Representatives; the Committee on Energy and Commerce of the House; and the Committee on Education and the Workforce of the House.

Hopefully you and your colleagues are already or soon will be participating in this extraordinary public, grassroots discussion of our health care system. See www.CitizensHealthCare.gov for additional information.

I would like to hear your comments.

Send them to:

Richard.Kneipper@phns.com



About

TrendLeader
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FYA - For Your Advantage is brought to you by TrendLeader Connections. The function of TrendLeader Connections is producing educational materials and seminars that help healthcare executives differentiate between fads and trends; and making connections with "Trend Leaders" within the healthcare industry.

We are committed to delivering new perspectives and ideas, creative and innovative healthcare solutions, provocative concepts and quality educational materials to today's healthcare leaders. We want to concentrate on "what comes after what comes next."

Taking Back Healthcare Retail: Understanding the Customer Experience

By Harvey Hartman and Tony Paquin

Last issue we discussed consumers' enthusiasm and interest to live healthier lives and how supermarkets, drugstores and other retail channels are working with fervor to attach themselves beneath the wellness halo by introducing health and wellness products and services into their marketing mix.

Hospitals can set the stage for living, shopping and using health and wellness products and services. They can do this by creating their own compelling retail environments, and as a result build a bigger and better health care brand.

Currently, consumers do not attach the label of "wellness" to specific products; instead they use "wellness" to describe a way of living. The challenge is to connect the idea of "wellness" to a specific retail experience and to help position healthcare retail stores as providers of wellness lifestyle items.

Experience is many things. It is more than ambiance, though it certainly plays an integral role in creating a distinctive experience. Customer satisfaction is important too. Yet, it is not a singular measure of experience effectiveness. So, how do your customers and potential customers define "experience?" What keeps some customers coming back for more while others are sent packing? How do customers feel when they interact with your company? What are the key touchpoints intrinsic to a distinctive customer experience? Here are the primary experience touchpoints to keep at the forefront of any healthcare retail strategic planning and development:

- **Entrance Experience:** Usually some version of "walking through the door," where the customer experience first "takes shape." Interestingly, our prior research indicates that the entrance experience is more important from a context-setting than an evaluative perspective.
- **Sensory Cues:** From a sensory perspective, we are most concerned with aromatic, auditory and visual cues that influence both consumer behavior and sentiment in distinctive patterns throughout the entirety of the experience.
- **Design Experience:** Our goal here is to assess how well the customer manages to engage in the physicality of the experience whether it is a restaurant or retail setting. Our analysis here often highlights movement (flow, blocking and sticky points), seating issues (table heights, leg room, sight lines, etc.) and shelf heights (sight lines, reachability, etc.) among others.
- **Staff Interactions:** Staff interactions influence the customer experience in a number of dimensions including authenticity, engagement, credibility, confidence etc.
- **Product and Package (Brand) and Service Experience:** Obviously no research on an experience is complete without a discussion of the goods or services experience. While we do assess certain conventional "product/service-centric," concerns such as quality, selection, menu preparations,

ingredients, etc.; our primary focus is really more on how consumers come to make sense of the goods/services/brands as part of the larger context of their experience.

- **Knowledge Experience:** Where possible, identify salient drivers of knowledge intake; the transfer of relevant information to the customer.
- **Community Experience:** Identify important markers of community and local culture derived from the ongoing customer experience.
- **Surprise and Delight:** Unexpected elements that bring the customer delight and pleasure within the scope of the experience.
- **Exit Experience:** Much research indicates that the exit experience may be among the most salient in terms of the customer's "experience memory" and, hence, may be most important in terms of overall experience evaluations. Importantly, the perception of "value" should also be explored in this context to understand if the benefits of the experience outweigh the costs associated with the experience.

Certainly, there is no one type of retail experience and not all shopping experiences are created equal - whether in the physical or in the virtual world. The most significant point about defining experience is that it be grounded in well-researched consumer aspirations, expectations and requirements. However, this presents a paradox of sorts, you see, we have found in our years of research that consumers can't really tell you what "experience" is or what it means. But, we have learned from our research alongside consumers one very important tenet: no matter how business or its many gurus would define it, it is the consumer that ultimately defines experience.

Harvey Hartman is founder and chairman/CEO of The Hartman Group, Inc., a full-service consulting and market research firm offering a wide range of services and products focusing on the health and wellness markets. The company's headquarters are located in Bellevue, Washington. An author, business school lecturer and former Fortune 500 senior executive, Hartman is a nationally recognized expert on American cultural change and the consumer activities that impact daily business products and services. He can be contacted at: harvey@hartman-group.com.

Tony Paquin is skilled at developing retail business opportunities within healthcare systems. He has over 20 years experience leading strategic companies in the insurance and healthcare industries. He previously founded and managed one of the largest technology companies in the insurance sector, and was CEO of a NASDAQ listed healthcare services company. You can reach him at: tony@thepaquingroup.com.

