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1994

## Valley Wide Health Services, Inc. FY 93/94 Marketing Plan Development

Jan C. Vest

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**VALLEY WIDE HEALTH SERVICES, INC.  
FY 93/94 MARKETING PLAN DEVELOPMENT**

Jan C. Vest, B.S.

An Abstract Presented to the Faculty of the Graduate  
School of Lindenwood College in Partial  
Fulfilment of the Requirements for the  
Degree of Master of Business Administration

1994

## ABSTRACT

This culminating project develops a marketing plan for a Community and Migrant Health Center in southern Colorado. The need for marketing plans for large multi-specialty group practices is becoming more and more evident. Increased competition for patients and the anticipated national and state health care reform suggests that the provision of physician services will continue to become more competitive in the future.

Community and Migrant Health Centers have not traditionally had to compete for patients. They have occupied a special niche in most markets, they were created to provide services to the medically underserved, and they very often are the only provider of service that the poor can access.

Valley-Wide Health Services, Inc. of Alamosa, Colorado is unique in the Community Health Center field. With a budget of over 6.5 million dollars per year, it is one of the largest employers in the San Luis Valley. It is the second largest CHC in the state of Colorado and provides health care to over 16,000 individuals each year.

The purpose of the project is to develop a marketing plan to assist Valley-Wide in efforts to remain financially viable into what appears to be a potentially volatile future. The only competitor in the region is making a multimillion dollar investment in a new facility and technology. The state medicaid department is being mandated to force medicaid recipients into a managed care program. This group now represents over thirty per cent (30%) of Valley-Wide's cash each year.

With state and national health plans being planned in the future, Valley-Wide must take actions that strategically protect its' current market share and provide continued growth.

The plan that has been developed from this project has been implemented in part as of this date in 1994. The acceptance of a marketing plan into the business operations of the organization will assist in negotiation of the turbulent times that may lay ahead for all primary care health care providers.

**VALLEY WIDE HEALTH SERVICES, INC.  
F/Y 1992-1993 MARKETING PLAN DEVELOPMENT**

Jan C. Vest, B.S.

A Culminating Project Presented to the Faculty of the  
Graduate School of Lindenwood College in Partial  
Fulfillment of the Requirements for the  
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1994

**COMMITTEE IN CHARGE OF CANDIDACY:**

Assistant Professor Daniel W. Kemper,  
Chairperson and Adviser

Professor Elizabeth Lemasters, Phd.

Adjunct Assistant Professor Michael Wood

## TABLE OF CONTENTS

List of Tables .....	iv
List of Illustrations .....	v
Preface .....	vi
I. Introduction .....	1
Health Care Delivery and Marketing .....	1
Community and Migrant Health Centers .....	3
Valley Wide Health Services, Inc. ....	3
Demographics of the San Luis Valley .....	5
Valley Wide PayerMix and Provider Profile .....	6
Competition .....	12
Purpose of the Study .....	12
II. Literature Review .....	14
Problem Statement .....	58
III. Methods .....	59
Subjects .....	59
Instrument .....	60
Materials .....	60
Procedure .....	67
IV. Results .....	68

V. Discussion .....	74
Summary .....	74
Limitations .....	77
Suggestions For Future Research .....	79
Conclusion .....	80
Appendix A .....	82
Appendix B .....	83
Works Cited .....	110
Vita Auctoris .....	112

## List of Tables

Table 1. Valley-Wide Operating Budgets .....	6
Table 2. Clinic Provider Profile .....	8
Table 3. Where The Health Care Dollars Go .....	15
Table 4. 1987 Employee Analysis .....	20
Table 5. FTE Provider & Unduplicated Users .....	27
Table 6. Community and User Characteristics .....	29
Table 7. Market Share By Income .....	31
Table 8. Market Share Estimate .....	32
Table 9. SLV Medical Group Profile .....	35
Table 10. Clinic Budget Revenue .....	47
Table 11. Primary Care Services By Location .....	49

## List of Illustrations

Figure 1. Fiscal Year Revenue Projections .....	10
Figure 2. Fiscal Year 92 Payer Mix .....	11
Figure 3. Patient Revenue .....	28

## Preface

It is impossible to not know that payments to health care providers in America are going to change. How it will change is yet to be determined. It does seem that the change will involve increased competition for patients, reduced payments for services, and some kind of managed care. The U.S. Congress began debate on a proposed National Health Care system in January of 1994. Some believe that the Republican party lost the White House because of the public's concern about growing health care costs.

In Colorado, the Governor has had a feasibility study completed on a universal health care system for all the citizens of the state. The state medicaid office has applied for a wavier from the Federal government, which would make it possible for their office to contract for global fees for prenatal and delivery services.

The movement for change is gaining strength every day and primary health care providers are scrambling every day to protect their control over their patients.

These forces have made it necessary for group practices

to be prepared to change quickly in the way they do business. This is exactly the situation Valley-Wide Health Services, Inc., a Community and Migrant Health Center, finds itself in the isolated market of the San Luis Valley of southern Colorado.

The time is now to begin preparation for a new and volatile reimbursement environment that all health care providers face in the future. This culminating project is designed to help Valley-Wide face the challenges of the future.

## Chapter I

### INTRODUCTION

#### Health Care Delivery and Marketing

The need for goods or services creates demand in the marketplace. "Marketing is human activity directed at satisfying needs and wants through exchange processes" (Kotler 4). In most industries success is dependent on the acceptance by the public of the goods or services offered. Health care delivery is unique in this regard because it is proprietary. The market is at a disadvantage. Consumers cannot easily select a medical service provider based on price or service because they lack the knowledge necessary. Therefore the market is less adept at providing what competition provides in other industries.

When the market provides weak competition, uncontrolled price increases may result. This is the case history of the health care market in America. The average health care expenditure as a percentage of the gross domestic product (GDP) in 1990 was 12.4% (Labate 27), as compared to 6% of GDP in 1960 (Smith 19).

The empowerment of health care providers endorsed by the Medicare system between 1965 and 1983 created an unregulated hospital based health care service. The Medicare program became a major payer for all hospitals. There was no negotiation on prices for services. Hospitals profited without notice. "The legislators naively

thought that mere statutory language would guarantee that hospitals would bill for no more than the 'reasonable cost of services' . However, hospitals routinely raised rates without any influence by the payer, the U. S. government" (Glasser 203).

In 1983, this unregulated environment became a system of fixed amount payments for each hospital admission. The payments are based on the diagnosis of the patient as part of a diagnosis-related group (DRG). The government set the price based on statistical research and formulas, without any negotiation with hospitals (Glaser 203). This system increases hospital responsibility for the costs of care. However, even with this restraint, cost increases continue.

The cost of insurance premiums required to pay for the increasing expenditure for care has excluded 35 million people from health insurance. This situation and the tragedies that accompany it, are creating political movement to redesign and restructure the health care system. In this volatile environment, marketing will play an important role. The change anticipated in the reimbursement environment, (i.e., universal health care) will mean more competition between non-profit and for profit medical groups especially in rural areas.

The subject of this study is a non-profit Community and Migrant Health Center located in a frontier setting in southern Colorado. Community Health Centers are funded by the federal government to provide care for the medically underserved in urban and rural settings.

The position in the market place of these health care providers currently and in the future is uncertain. Although, the continued need for the services is well documented, the funding required to provide care is unsure. The federal money could potentially be redirected.

### Community and Migrant Health Centers

In the late 1960's the "Neighbourhood Health Center Movement" (Jonas and Rosenberg 146) began. The Community Health Center (CHC) program developed from the Neighbourhood concept and was part of the "War on Poverty."

The goal of a CHC is to provide comprehensive health care in a low-income community. Community participation in the operating of the facility (Starr 371) is encouraged. Today many CHC's in medically underserved areas provide services to both low-income patients and private-pay patients. Valley Wide Health Services, Inc., located in San Luis Valley of Southern Colorado, is a CHC that has flourished in the present reimbursement environment. However, the future may offer less security.

### Valley Wide Health Services, Inc.

Valley Wide Health Services received federal funding first in 1976 as a Community and Migrant Health Center. It was not the designated grantee but was funded by the San Luis Valley HMO. The

San Luis Valley HMO is owned and operated by members of the San Luis Valley Medical Group.

A conflict of interest was identified by the Public Health Service (PHS) in 1984 and as a consequence the CHC grant was made competitive and the Valley Wide community board decided to apply for the grant.

The CHC grant was awarded to the organization in 1985 and the budget of the agency tripled the first year. Valley Wide grew from two physicians and an administrator to 8.33 FTE physicians and 9.3 FTE Physician's Assistants. Valley Wide now has 126 employees and an operating budget of 6 million dollars (Valley Wide Health Services Personnel Manual). To an organization of this size, changes in reimbursement will have a significant impact.

Colorado Care, the State wide universal care program now being considered, may cause critical funding changes, since medicaid is over 25 % of Valley Wide's revenue; 40 % of the Valley Wide budget is the CHC grant. These funds may be at risk if there is a national or state health care system. The Colorado Care proposal eliminates medicaid and all federal grant monies may be directed to the state insurance plan. This would mean all providers would compete for patients who previously had received services at CHC's. At this point Valley Wide is the only provider of care for the medically indigent population in the San Luis Valley. However, if there is a

universal coverage program, the reimbursement will attract for profit medical groups and solo practitioners to this population.

Valley Wide is well positioned geographically, with five medical clinics and one dental clinic in the six county region. These locations are important when considering the demographics of the region and the ability to compete.

### Demographics of the San Luis Valley

Valley Wide Health Services provides primary medical care to six counties in southern Colorado; dental services are also provided. The area of the region is 8,188 square miles. It is very isolated geographically and the winter weather adds to the isolation with daily temperatures of 19-17 below zero.

The population of the Valley in the 1990 census was 40,207, which represents a 6% increase from the 1980 census. In 1992 the unemployment rate was 10.4% compared to Colorado's 6%, the total labor force was 20,851 (Dept. of Labor, 1992).

The valley has high levels of poverty. In 1992 there was 11,057 of a population of 40,207 or (27.5%) living at or below the poverty level. The per capita income level ranges from \$11,058 in Mineral County (population of 558) to \$6,664 in Conejos County (population of 7,453) (Dept. of Labor, 1992). There continues to be a diversity of ethnic groups, with Hispanics being the largest minority.

## Valley Wide Payer Mix and Provider Profile

After adjustments the projected income of Valley Wide in the Fiscal 91/92 year was \$4,803,539, which includes the \$2,108,621 in Federal 329/330 grant monies. The FY 92/93 income projection is some \$600,000 less due to three specialists leaving the practice (see Table 1). One Obstetrician-Gynecologist left the San Luis Valley this fall after finishing her loan repayment obligation to the National Health Service Corps. The other Obstetrician-Gynecologist left Valley Wide and went into private practice. A general surgeon left Valley Wide employment, but remains a contract CHC provider (Valley Wide Specialty Contracts).

Table I

Valley Wide Operating Budgets		
1991 Revenue Projections By Payer % of Revenue		
SLIDING SCALE	\$1,096,200	33%
BC/BS	\$264,600	8%
MEDICAID	\$1,020,600	30%
MEDICARE	\$453,000	13%
OTHER INS and SELF- PAY	\$529,200	16%
<b>TOTAL</b>	<b>\$3,363,600</b>	

1992 Revenue Projections By Payer		
		% of Revenue
Medicaid	\$775,791	28.58%
Medicare	\$331,130	12.20%
Self Pay	\$293,440	10.81%

Sliding Scale	\$759,175	27.97%
Other Ins.	\$554,575	20.43%
<b>Total</b>	<b>\$2,714,111</b>	

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Source: 1991 and 1992 CHC Grant Application

The medical mission of Valley Wide is primary care. The departure of the specialists was expected. In order to Replace the revenue and fullfill the need for more primary care physicians, an internist and a Family Practice physician were recruited and are in practice at this time.

The Provider profile for Valley Wide Clinics indicates a staff that can increase the number of patient encounters. Only two providers meet current Medical Group Management Association (MGMA) standards associated with median charge generation for their specialty. The top producer generates about \$400,000 a year in charges. These figures indicate there is real opportunity for comfortable growth within the practice. According to the MGMA Cost Survey: 1992 Report Based on 1991 Data, the median total net revenue per FTE Physician by Number of FTE Physicians for multi-specialty Groups was \$366,274. This figure is the net figure for group practices with 10 FTEs or less. The total gross median charges was \$404,352. Valley Wide has five physicians out of eight that are \$100,00 or more below this median figure. MGMA Cost Survey

Table 2

<b>Clinic Provider Profile by Clinic Site</b>				
<b>Valley Wide FTE Provider Profile</b>				
<u>Physicians</u>	<u>Alamosa</u>	<u>Antonito</u>	<u>Center</u>	<u>San Luis</u>
<u>Family Practice</u>	1.8	.7	1	.1
<u>Internal Medicine</u>	2.7	.1		.6
<u>P.A.'s &amp; N.P.'s</u>	5.1	1	1.2	1

Source:1992 CHC Grant Application

As indicated in table 2, the Alamosa Clinic has the largest provider staff. Alamosa generates seventy percent of all charges. The other sites are financially subsidized at this time. The Antonito and Center facilities do have potential to be profitable clinics. The San Luis site does not have that same potential due to the poverty and small population.

Physician Assistants and Nurse Practitioners are an important part of the provider group. They are supervised by physicians. They are less expensive to support and provide excellent primary care services. The average salary of a mid-level provider at Valley Wide is \$44,000 per year. The costs of supporting a mid-level practice are in the range of \$75,000 to \$100,000 per year depending on the seniority and practice location. Mid-level providers are budgeted to have 2,800 patient encounters per year. With an average charge of \$45 per

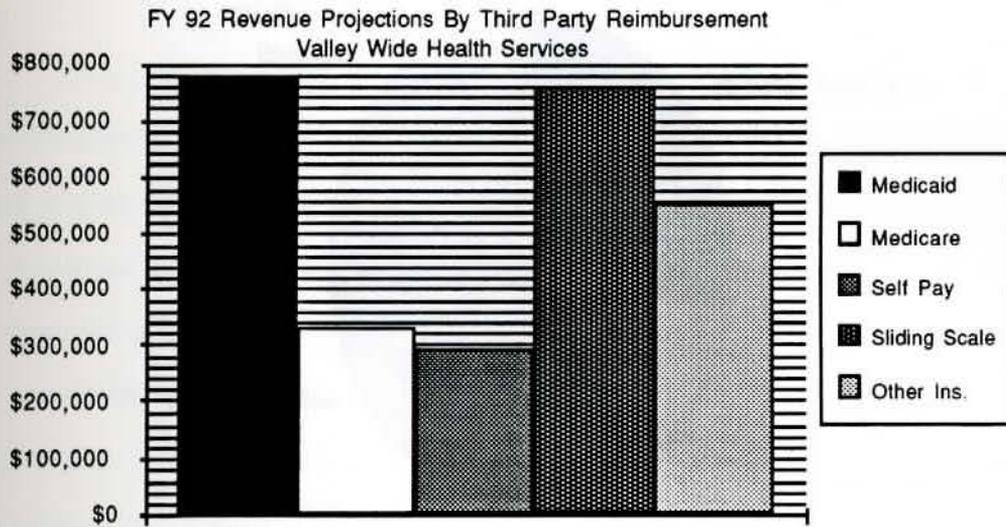
encounter this generates \$126,000 per year in gross charges. Mid-levels are very cost effective in helping Valley Wide accomplish its mission.

### Payer Mix

The payer mix projected for the 92/93 fiscal year indicates that medicaid will be the major payer and the sliding scale or CHC patients will be the second largest group. Medicaid is very important because of our Federally Qualified Health Center status. As a Federally Qualified Health Center, Valley Wide receives higher reimbursements for medicaid visits. Figures I and II provide the projected revenues by payer and the percentage of total charges.

Figure I

1992/1993 Fiscal Year Budget Projections  
Valley Wide Health Services, Inc.  
Alamosa, Colorado



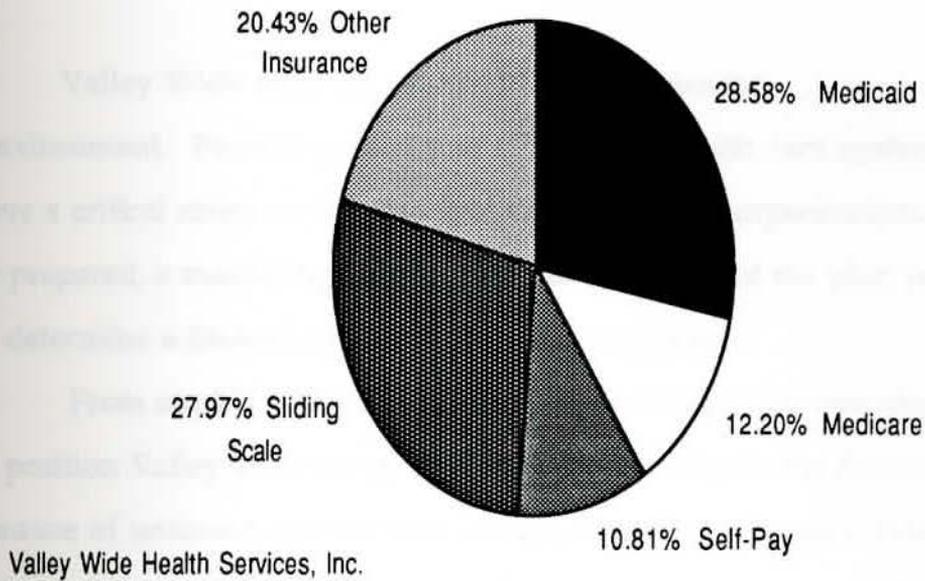
Source: 1992 CHC Grant Application

Figure II

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1992/1993 Fiscal Year Budget Projections  
Valley Wide Health Services, Inc.  
Alamosa, Colorado

FY 92 Payer Mix of Projected Revenues



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Source: 1993 CHC Grant Application

Analysis of the payer mix will be part of the marketing plan. The information accumulated will help determine the actions taken.

Competition

The main competitor for market share is the San Luis

Valley Medical Group. A multi-specialty group practice, they are planning to add an ambulatory clinic in the fall of 1993 and recruitment of physicians will be a very important part of their strategy. They provide primary and specialty care in Alamosa and Monte Vista.

### Purpose of the Study

Valley Wide faces an uncertain reimbursement environment. Political pressure to change the health care system will have a critical effect on the financial viability of the organization. To be prepared, a marketing plan is essential. The goal of the plan will be to determine a financially viable direction to pursue.

From market research, the study will identify different strategies to position Valley Wide for growth and profitability in the future. Because of unknown government action, it will be necessary to have several different options. The preventive services that are in place will play an important part in positioning Valley Wide for continued success. "Valley Wide has been recognized for creative approaches to the health care issues affecting the population. The Adolescent Health Program with the first rural school based clinics in the country has been modelled extensively. The perinatal program, First Care, has shown remarkable outcomes with the first few years of programming with lowered low-birth weight rates and earlier entry into prenatal care (Salazar 1992). In 1992 an adult day care and geriatric case management

program was created with special services for patients with Alzheimer's disease. Preventive services are a recognized approach to reducing the cost of care and influencing behaviours of high risk populations. Valley Wide is differentiated in the market place by the comprehensive nature of the services it can provide.

## Chapter II

### LITERATURE REVIEW

#### Health Care Services, The Product

A broad spectrum is included when discussing definitions of health care services. The definition may be less important than the purpose. H. David Banta points out on page 2 of his essay "What is Health Care?", the purpose of health care is to promote health. However, the health care system deals with disease. Medical practice is almost exclusively concerned with diagnosis and treatment of disease (Banta 12). The product definition for health care has two parts; prevention of disease and response to disease.

The current focus on disease arose from the cult of Asklepios from ancient Greece, which focused on miracle cures. Christianity solidified disease in a preferential place; the idea of miracle cures persisted and does so today (Banta 13). The current health care system product in the United States has developed partly in response to this tie to miracle cures. Those who possessed these cures soon had economic power, and continued to develop the product to create more wealth.

The economic power that physicians and hospitals developed continues to influence the product history and development. The fact that modern medicine developed as part of the age of reason does not indicate that it is purely rational (Starr, Introduction ). "Our

conceptions of disease and responses to it unquestionably show the imprint of our particular culture, especially its individualist and activist therapeutic mentality. Yet, whatever its biases and probably because of them, modern science has succeeded in liberating humanity from much of the burden of disease" (Starr Introduction).

"Liberation from the burden of disease" has created a great dependence of the population on physicians and the entire U. S. health care system (Starr 4). The outcome of this dependence and the product developed is a gigantic, expensive system of Health Care delivery in America.

The Health Care expenditures in 1993 are estimated to be \$940 billion . In contrast, the Military Industrial Complex is estimated to be \$290 billion. The expenditures according to Lee Smith of Fortune Magazine are allocated as follows in Table 3:

Table 3

Where The Health Care Dollars Go 1993 est.  
Total: \$939.9 Billion

---

Hospitals	\$363.4
Physicians	\$175.2
Dentists and other professionals	\$91.6

Drugs and medical devices	\$86.8
Nursing homes	\$76.0
Administrative Costs	\$54.3
Other (includes home care of elderly and disabled: school and industrial infirmaries)	\$37.3
Public health programs	\$29.4
Research (excluding corporations)	\$14.1
Construction	\$11.8

---

SOURCE: FORTUNE. Table from "THE COMING HEALTH CARE SHAKEOUT," by Lee Smith (1993): 73

U. S. spending on Medical care has been expanding at an unimaginable rate since 1970 when it was \$74 billion dollars and seven and three tenths % of the Gross National Product (GNP). In 1992 the projected expenditure on care was \$809 billion dollars and 13.4% of the GNP (Fortune, March 93, 47).

The miracle cure and disease aspect of the definition of the health care product has created an angry market. Consumers and politicians are pointing at two villains--costs that continue to climb and an insurance system that leaves 36 million Americans without insurance coverage (Fortune, March 93, 46).

### The Valley-Wide Product

Valley-Wide Health Services has six primary care Medical

clinics, one Dental Clinic, four preventive case management programs, a women and childrens' nutrition center, and an adult day care program. The Medical products of Valley-Wide are primary care for the entire family and obstetrics.

Primary care is a concept that has roots that go back to the "Committee on the Cost of Medical Care in the 1930's " (Somers-Jonas, Rosenberg 153). Primary care are services provided by appropriately trained health professionals or teams. The team or an individual provide most of the preventive and curative care for families and individuals over a significant period of time, and coordinates any services that might be required. The primary care giver integrates and explains to families their overall health problems and gives attention to their psychological and social dimensions (Jonas and Rosenberg 153).

Valley-Wide provides primary care services coordinated by three Internal Medicine specialists who provide adult medicine services and five Family Practice Physicians who also provide obstetrical services. Physician Assistants and Family Nurse Practitioners are also employed to provide outpatient care. These physician extenders are supervised by a physician and provide clinic care. Although their charts are reviewed every two days by the supervising physician, consultations with a physician are available daily.

The preventive care programs that complete the primary care bundle of services differentiate Valley-Wide in the market area. When a patient is registered with Valley-Wide, access to the preventive and

case management programs is included at no extra charge. For example, the First Care program, a perinatal case management program, begins providing support and education as soon as a positive pregnancy test is recorded. This early intervention has helped to reduce the number of low-birth weight babies in our six county area. It also provides support after delivery.

The Adolescent Program has health education programs in every school district in the San Luis Valley. The Adolescent Health Educators provide counselling and referral information to teenagers that are involved in high risk behaviours such as drinking and unprotected sex.

The Women, Infant and Children's' nutrition program (WIC) assists with nutrition information and training for new mothers. WIC case managers are available to see patients in each of the five medical clinics.

Choices is the name of the geriatric case management program. This program helps geriatric patients and their families with difficult decisions that may occur in later life. The geriatric case manager works closely with the Internal Medicine physicians to help provide support and the linking of services for this population. Another geriatric program is Casa de Oro Adult Day Care, which provides day care to clients that need attention during the work day of a caregiver .

The Health Promotion and Disease Prevention ( HP/DP) program works with communities in the market area to provide

healthy living programs and information. One of the most recent HP/DP programs has been the Tobacco Free stop smoking program and smoke free work place initiative.

### Product Development and History

Valley-Wide first opened a clinic in Alamosa and Antonito in 1976, with one National Health Service Corps physician and two NHSC mid-level practitioners. A Rural Health Initiative grant funded all operating expenses. In 1977, VWHS assumed operation of the San Luis Health Center and two NHSC physicians joined the medical staff (Valley-Wide Corporate History). By 1980 Valley-Wide was providing a significant amount of health care in Costilla, Conejos and Alamosa counties. 50 per cent of operating revenues were generated from patient services (Corporate History).

In May of 1983 the management of a clinic in Saguache County was taken over by Valley-Wide Health Services, Inc... On July 1, 1984 VWHS became a Public Health Service Community Health Center (CHC) grantee to provide a Migrant Health Program in the Valley. This included a clinic in Center, Colorado , which is also in Saguache County. The clinic in the city of Saguache was then closed.

The staffing level in 1987 had increased considerably. Table 4 describes an organization that started with three employees in 1976 and grew by 1987 to an employer of over fifty.

Table 4  
1987 Employee Analysis

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<b>Medical Staff:</b>	
Family Practice	3
Internists	3
General Surgeon	1
Mid-Level Practitioners	3.8
<b>Other Health</b>	
Counsellors	1
Dental Hygienist	.4
Support Staff	40

---

**Source:** Valley-Wide Corporate History

The San Luis Valley HMO was a major contributor to the creation and growth of Valley-Wide. The HMO Community Health Center program reimbursed Valley-Wide for services provided to the medically indigent population. This program was funded by the Public Health Service through the Public Health Service CHC grant and was administered by the HMO.

On July 1, 1985, the Public Health Service awarded VWHS the CHC grant for the San Luis Valley. The HMO reacted to this change by removing all Valley-Wide physicians from the HMO physician panel.

This action was designed to limit VWHS's ability to provide service to HMO patients.

Valley-Wide continued to grow, despite the positioning actions of the HMO. In 1987 Valley-Wide provided services to over 9,000 San Luis Valley residents (Corporate History)

As recently as August of 1993 the HMO had requested a meeting to discuss the return of Valley-Wide physicians to the HMO panel. If this occurs the citizens of the Valley will once again have the opportunity to see Valley-Wide physicians in a clinic in their home town, instead of having to travel long distances to Alamosa to the San Luis Valley Medical Group.

#### Design Considerations

The needs of the market population for health care services has driven VWHS's product design. This is apparent in the concept of multiple clinic locations. The services were initiated in the areas of greatest need in Alamosa, Antonito and San Luis. The greatest barrier to care has been, in the past and is today, the great distances that the population must travel to get to a health care provider. The close to home product design concept led to a five clinic system of primary medical care and an open eye to opportunities to add new clinics when needed.

The Rio Grande Medical Center in Monte Vista, which opened in February of 1993, represents commitment to this concept. Another opportunity being investigated is in the Del Norte area. Most of the physicians have left the community in the last three months, and the small hospital is near closing. Valley-Wide has been approached by community leaders to provide primary care services.

Affordable health care service, the second product design characteristic, is driven by the need of the market population. A major barrier to health care access is the high level of poverty. Conejos and Costilla counties are two of the poorest counties in Colorado and the nation (Colorado Department of health data 1992). The San Luis Valley has 26.3% of the population living at or below poverty . The statistics escalate when poverty of children is measured, in Costilla county 50.3% of the children live at or below poverty and Saguache county reports 42.7% (Saguache and Costilla Social Services Office, As cited in the 1993 Public Health Service Federal Assistance Application). Unemployment in the region in 1992 was 10.08% compared to the Colorado rate of 5.9% (Colorado Department of Employment).

The mission of VWHS, created by the community board of directors, drives the product design and is responsible for the multiple clinic sites. Income and family size are the basis of a sliding scale fee structure. This sliding fee schedule provides a competitive edge to VWHS for the self-pay market. It also meets the necessary criteria for

VWHS to remain the 330/329 CHC grant recipient in the San Luis Valley.

### Strengths and Weaknesses

Strength and Weakness analysis is a usual part of product line analysis (Coddington and Moore 171). This analysis can lead to appropriate levels of effort to distinguish a service from competitors. The strengths of the Valley-Wide product are:

1. the multiple clinic site strategy provides the customer with medical care close to home.
2. the sliding scale fee schedule provides financial incentives to patients without insurance to choose a Valley-Wide clinic for services.
3. the Valley-Wide position of accepting new patients provides open access to care.
4. the Valley-Wide commitment to accept medicaid patients provides a growing pool of patients.
5. the Federally Qualified Health Center status gives Valley-Wide an advantage in higher reimbursements for medicaid and medicare patients and a price advantage for these patients..
6. a medical staff that is committed to the mission of the organization and the population of the San Luis Valley.
7. the relationship with the National Health Services Corps provides an advantage in recruiting physicians.

8. Physician Assistants and Nurse Practitioners are employed to provide clinic care at a lower cost than physicians.
9. a strong executive team provides responsible financial, business, and medical leadership.

Weaknesses Include:

Weaknesses can be more dynamic than any opportunities created by strengths of an organization. A realistic assessment of weaknesses is always pertinent

1. Valley-Wide is seen as the poor peoples clinic in some communities.
2. Because of the loan repayment program through the National Health Service Corps there is physician turnover.
3. A lower profit margin creates limitations in regard to building design and space in some clinics.
4. Registered Nurses are not employed because of the labor cost.
5. Our physicians are not allowed on the San Luis Valley HMO physician panel and this limits insurance patients from choosing Valley-Wide physicians for their care.
6. Lack of Cash for investment in new plant and equipment.
7. The public often perceives physician assistants and nurse practitioners as not providing as high a quality of care as physicians.

## Differentiating Factors

According to Michael Porter in his book Competitive Advantages: Creating and Sustaining Superior Performance, competitive advantage grows out of what value a firm creates for buyers. "There are two basic types of advantages, cost leadership and differentiation" (Coddington and Moore 64).

Valley-Wide, a Community and Migrant Health Center, receives forty percent of its revenue from a grant from the Federal government. This difference creates both threats and opportunities. The competition often complains that the Federal funding provides an unfair advantage to VWHS. The Federal Grant only makes it possible to provide services to those who could not afford services without Valley-Wide's presence in the market. In the anticipated new reimbursement environment it is not clear how the federal grant funds will be administered.

Valley-Wide provides primary care and obstetrics with four Family Practice Physicians who practice Obstetrics and three Internal Medicine Physicians. The competition has only three physicians who will deliver babies. Valley-Wide has clinics in the five largest communities in the market area; the competition has only two clinics. The competition provides sub-specialty care with Urology, Orthopedics, Ophthalmology, Pediatrics and Ear Nose and Throat specialties in their

practice. In construction they have a large outpatient clinic and surgery center. Valley-Wide is committed to primary care only.

The outreach and case management services available to Valley-Wide patients provide a significant difference in the value patients receive for their health care dollars. These support programs provide education, transportation, and advocacy services for all Valley-Wide patients.

As a Community Health Center the services that are provided reflect the needs as assessed by the Board of Directors, Executive Director, Medical Director and Support Program Directors. The needs assessment done each year for the Federal grant has helped Valley-Wide be sensitive to the dynamics of the population. Many of the management team are on other community boards and represent the interests of the organization throughout the area.

As a Non-Profit Corporation Valley-Wide can provide services without requiring as large a profit margin as its competition. The revenue and expense structure must always provide adequate cash for investment in equipment, staff, and contingencies, but there can be some advantage in not having to answer to stock holders.

The main difference between Valley-Wide and the competition is the Community Organization concept. The board of directors and the management team make decisions with the common good of the entire community being an important dynamic in the decision making process.

## Sales History

Health Care expenditures have been projected to increase every year for some time. A 1984 projection for physician services estimated expenditures of 135 billion dollars by 1995 (Coddington and Moore 290). Expenditure estimates for physicians in 1993 have already exceeded that figure, and are currently 175 billion dollars. The Valley-Wide sales history follows this trend of continuing increases in sales dollars.

Valley-Wide has experienced an increase in revenue every year since 1988. Price increases have been a contributing factor, but a real increase in the number of users in the market is also evident from information described in Table 5.

Table 5.  
FTE Providers and Unduplicated Users

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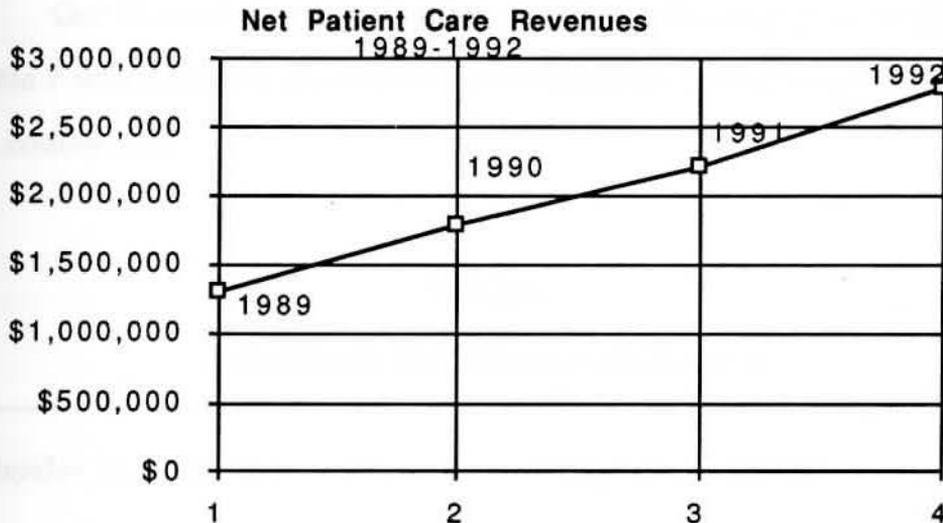
<b>Fiscal Year</b>	<b>FTE Providers</b>	<b>Number of Unduplicated users</b>
1987 FY	10.8 FTE	14155
1988 FY	11.6 FTE	15000
1989 FY	15.08 FTE	15935
1990 FY	15.45 FTE	15623
1991 FY	16.58 FTE	16471
1992 FY	18.95 FTE	16330
1993 FY	17.69 FTE	16330

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Source: (Federal Grant Applications 1987-1993)

The revenue growth that accompanied the increase in users has been substantial. From 1989 to 1992 the net grew from one and three tenths million to two and seven tenths million dollars. This paralleled the growth of health care expenditures nationally. in this period. Figure 7 illustrates this rapid growth.

Figure 7  
Patient Revenue



Source: (Valley Wide Financial Statements 1989-1992)

In the Fiscal Year 92/93 the revenues increased again to two and nine tenths million dollars. The number of users drives increases in revenue. The number of users has flattened since 1991.

## Share of the Market

Market Share is a percentage of total current demand (Keckley 14). The methodology used to measure demand for this study involves two measures; The first of which is demographic. Because the market is relatively small in population, it is easy to assess this percentage of market share. The second measures market share dollars. This was selected to indicate how much return on investment might be expected by increasing market share.

Our Federal Grant application requires a demographic analysis. Table 7 illustrates the community and user characteristics for the entire six county area.

Table 6

### Community and User Characteristics

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Calendar Yr. Reported: 1991                      BCRR No.: 080030

Center Name: Valley-Wide Health Services, Inc.

Address:     204 Carson Avenue  
                  Alamosa, CO 81101

<u>BY RACE/ETHNICITY</u>	Community-Wide Users*	
	Data Total No.	Total No.
White (Excluding Hispanic)	21,244	8,492
Black (Excluding Hispanic)	81	17

Hispanic (All Races)**	<u>19,002</u>	<u>7,633</u>
American Indian & Alaskan Native	<u>285</u>	<u>117</u>
Asian/Pacific	<u>163</u>	<u>48</u>
Other	<u>78</u>	<u>26</u>

BY-INCOME

At or Below Poverty Level	<u>11,348</u>	<u>8,067</u>
1-150% Poverty	<u>7,149</u>	<u>1,894</u>
151-200% Poverty	<u>6,046</u>	<u>1,469</u>
Above 200% Poverty	<u>16,310</u>	<u>4,900</u>

BY INSURANCE STATUS

(Assign each person to only one category of payor)

Medicaid	<u>6,413</u>	<u>5,094</u>
Medicare	<u>5,515</u>	<u>2,156</u>
Other	<u>22,552</u>	<u>6,937</u>
None	<u>6,373</u>	<u>2,143</u>

BY SPECIAL POPULATION

Migrant Farmworkers	<u>2,700</u>	<u>1,446</u>
Seasonal Farmworkers	<u>5,651</u>	<u>3,183</u>
Homeless	<u>900</u>	<u>65</u>
HIV-Infected	<u>19</u>	<u>3</u>
Substance Abusers	<u>-----</u>	<u>32</u>
Refugees	<u>-----</u>	<u>-----</u>
Other (Elderly)	<u>5,515</u>	<u>2,156</u>

\* Last full 12 months for which you have complete information.

\*\* Please note that Hispanics are classified in this category regardless of race.

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Source:(1993 Valley-Wide Health Service, Inc. Application for Federal Assistance)

The percentage of market share for each segment gives a picture that

can lead an observer to several different conclusions. If you look at the population by income and insurance status, as in table 7, the following percentages of market share for each segment are clear.

Table 7  
**Market Share by Income**

**Valley-Wide Market Share**

At or Below Poverty Level	71%
1-150% Poverty	26%
151-200% Poverty	24%
Above 200% Poverty	30%

**Market Share By Insurance Status      Valley-Wide Market Share**

Medicaid	79%
Medicare	39%
Other	31%
None	34%

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Source: (Valley-Wide Federal Assistance Application 1993)

**Translating Market Share into Dollars**

Estimates provide important information regarding growth potential and how an increase in market share might influence production capacity requirements. The estimates can also be used to

calculate return on investments made to acquire additional market share in each respective segment of the market. Table 7 is a Market Estimate Analysis that uses the Rand McNally Market Atlas of 1992 Estimated Buying Power to arrive at a total health care market expenditure in the San Luis Valley. The Estimated Buying Index is gross personal income less personal taxes, and non-tax payments such as fines, fees and penalties. The analysis also uses 14% of GNP spent on health care (Smith, 1993) to calculate each county's expenditure on health care from the estimated buying power of each respective county. In a 1988 study published in the American Hospital Association News, the Health Care Financing Administration (HCFA) estimated that 20% of all health care expenditures are for physicians services. Table 8 uses this same assumption to estimate the total physician services market in the SLV.

Table 8  
Market Share Estimation Analysis

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Estimated Buying Power Valley Wide Market Area <u>Expenditures</u>	<u>Est. Buying Power</u>	<u>Health Care</u>
Alamosa County	\$104,141,000	\$14,579,740
Conejos County	\$ 39,564,000	\$ 5,538,960
Costilla County	\$ 20,948,000	\$ 2,932,720
Mineral County	\$ 6,709,000	\$ 939,260
Rio Grande County	\$111,388,000	\$15,594,320
Saguache County	\$ 27,073,000	\$ 3,790,220

Total Est. SLV Market Health Care Annual Expenditures	<u>\$43,375,220</u>
Physician Services 20% of Health Care Expenditures	<u>\$ 8,675,044</u>
Valley-Wide Market Share in Charges	<u>\$ 4,463,247</u>
% Valley-Wide Market Share in Charges	<u>51%</u>

Each Physician Market Share % point is worth \$86,750

Each Valley Wide Patient Contributes and average \$251 per year.

Each 1% of market share generates an estimated 346 patients.

Each New Patient Generates an average 4.45 encounters per year.

The estimated number of additional encounters per 1% of market share is 1538 encounters per year.

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Source: (Rand McNally Market Atlas 1992, Valley-Wide 1992 Financial Statements)

To check the reliability of the estimates in Table 8, the SLV Regional Medical Center annual revenues were researched. Paul Herman, CEO indicated that his hospital, the largest in the valley with 70 beds, produced \$24 million dollars of charges in 1992. This information, accompanied by the Valley-Wide Financial Statements, reveal that the method of estimating the total expenditures on health care services, as indicated above are reasonable.

SLV Regional Medical Center revenue 1992	\$24,000,000
Valley Wide Health Patient Services revenue 1992	<u>4,128,600</u>
Total of these two Health Care Providers	<u>\$28,128,600</u>

The other providers of service in the Valley are Conejos County Hospital, which is a ten bed hospital, and the SLV Medical Group. Other services included in the health care expenditure estimate are nursing homes, durable medical equipment, and pharmacy services. The SLV Medical group has most of the remaining health care market share dollars.

### The Competition

The competition for primary care customers in the San Luis Valley takes place between Valley-Wide Health Services, Inc, the San Luis Valley Medical Group, and several solo practitioners. The San Luis Valley Medical Group competes in major way with Valley-Wide Health Services. They have two clinic locations, the largest of which is located in Alamosa. They have begun construction of a large outpatient ambulatory clinic that will include outpatient surgery, reference lab, and x-ray. This is scheduled to open in February of 1994. Their second clinic site is in Monte Vista and has three physicians on staff. Table 9 displays the staffing profile of San Luis Valley Medical Group.

Table 9  
SLV Medical Group Physician Profile

<u>Physician Specialty</u>	<u>FTE</u>
Family Practice	3
Internal Medicine	3
Pediatics	1
Urology	1
Orthopaedic Surgery	1
General Surgery	1
Ophthalmology	2
Psychiatry	1

Source: (SLV Physician Directory)

The San Luis Valley Medical Group has recently lost two Obstetrician-Gynecologists and a Family Practice Physician and are actively recruiting to replace the lost positions. Basically, Valley-Wide competes against their Family Practice, Internal Medicine and Pediatrician for patients. Since they do not see the uninsured unless they can pay on the day of service, we compete for the medicare patients and patients who have insurance. Recently they approached us regarding an initiative which would allow the SLV HMO to contract with the state for all the medicaid patients in the area. Since Valley-Wide receives a profitable reimbursement for these patients and has

almost 80% of these people as customers, this does not seem likely at this time.

### Competitor Strengths

1. A well respected medical staff
2. Financial strength and the flexibility that comes with cash.
3. They are positioned as not the poor peoples clinic.
4. They are seen as private business men instead of a government supported business.
5. New facilities will be open in February of 1994
6. The new facilities will create new revenue opportunities for them in outpatient surgery, lab and X-ray.

### Competitor Weaknesses

1. They have lost three primary care physicians in the last five months.
2. They have started competing with the SLV Regional Medical Center and appear to be in medicine only for the money, at the expense of the only viable hospital in the Market.
3. They have a conflict of interest with SLV HMO because they are the only physician group associated with them and their fees are very high.
4. They have signed up to care for patients through their SLV

HMO contract that they may have difficulty caring for at their current primary care staffing level.

### Competitor Market Share

The SLV Medical Group is the only other significant competitor in the San Luis Valley. Using the aforementioned Market share estimates for Valley-Wide, the SLV Medical Group has at least 48% of the remaining market for primary care patients. The other 1% is maintained by several solo practitioners scattered throughout the marketplace.

### Pricing Strategy

In the early days of Valley-Wide operations, pricing was a function of limited research and gut feelings. The strategy was basically developed by the board of directors and the Executive Director. The strategy was to be priced lower than the SLV Medical Group. The current pricing strategy was developed from the original concept but a great deal more research and analysis has taken place in the current fee schedule model. The fee schedule is policy is reviewed on an annual basis. The following is a quote from the financial management policy manual:

Valley-Wide Health Services fee schedule is determined based on the McGraw Hill relative value unit for the

procedure, multiplied by a medical or surgical conversion factor. The conversion factor is determined using a revenue maximization process involving VWHS total costs for providing medical care divided by the the total relative value units for the same time period. The current conversion factors are \$82 for surgery and \$4.75 for evaluation and management (primary care). Fees for laboratory and supplies are based on the vendor prices to VWHS with a 40% increase. All fees are reviewed on an annual basis, recommendations for fee schedule changes are presented to the executive director and board of directors for approval.

This quote gives the formula used to arrive at the conversion factor which is used to calculate the cost of units of medicine. The conversion factor in many areas of Colorado is as much as six dollar per unit of medicine ((Prunetwork Participating Provider Agreement). The six dollar figure that is being paid by insurance providers such as Prunetwork obviously allows Valley-Wide a competitive advantage in bidding for provider contracts. The conversion rate includes cost plus fifteen per cent markups.

Another aspect of the current pricing strategy was the decision to use the office visit charge as a low cost service. The prices of all major competitors' office visit charges are monitored annually. The office visit charge, consumers can easily compare. Valley-Wide office visit prices are purposely priced below all competitors. This has led to a consistently lower office visit charge for Valley-Wide patients.

The prices that the SLV Medical Group charges are considerably higher than those of Valley-Wide. Their unit of medicine conversion

rate is Five dollar and seventy five cent per unit of medicine. This information was received in a personal interview with a SLV Medical Group physician. This compares to a Five dollar and seventy five cent conversion rate of Valley-Wide (Valley-Wide Financial Management Policy Manual 1993). This does give them a significant advantage in generating cash for investment and development. However, it gives Valley-Wide an advantage when competing for managed care contracts. Valley-Wide is the lowest cost provider at this time. If national health reform brings tough competition, the SLV Medical Group may have to reduce their conversion rate and use their reserves to compete for business. Valley-Wide has just initiated a reserve fund for a managed care reimbursement environment.

The decision to maintain a lower conversion factor has also influenced the mixture of payors with whom Valley-Wide participates. There are three kinds of revenue dollars that Valley-Wide receives:

1. Grant Dollars from the 330/329 Community and Migrant Health Center funds are Twenty Eight per cent of total revenue.
2. Cost Based Dollars come from the State Medicaid Program, which is Thirty Five per cent of total revenue.
3. Fee for service dollars which include private pay patients and the uninsured, which represents Thirty Seven per cent of total revenue.

Since two of these revenue sources are fixed, the pricing strategy must reflect an ability to meet federal grant criteria and a reasonable cost

based system. The private pay and uninsured markets benefit from this philosophy and pay less for service.

It is clear from Valley-Wide's lower conversion factor that prices could be raised and still be competitive. However, the physician compensation package was production based and most increases in prices passed through to the medical staff. Since the board of directors has committed to providing cost effective care, the decision to keep prices as low as possible and still retain a competitive salary structure for the medical staff has resulted in both the pricing strategy and the physician compensation model.

A low conversion factor is an advantage and a disadvantage. It reduces the amount of surpluses that are possible, but also makes the services very competitively priced. In the anticipated health reform market, the low conversion rate could position Valley-Wide with increased potential to acquire more primary care market share.

### Promotion Strategies

Promotion strategies for Valley-Wide have basically been centered around traditional news releases regarding physician's practices and the promotion of preventive services by the support programs like the Adolescent Program. This approach has been successful because of the limited amount of competition for patients. Another strategy has been the rewarding of health care providers for

integrating into community activities. This has given the medical practice increased visibility.

Nationally, competition for patients has created impetus for a competitive surge. There was a proliferation of health care providers in the 1980's; this is expected to continue in the 1990's. The increase in providers of services has created an environment where the customer is king (Keckley 6). "Because supply is greater than demand the customer has a choice-of physicians, of hospitals, of freestanding facilities, and so forth" (Keckley 7). In this environment promotional strategies involved everything from television and radio advertising to the use of Billboards to increase the identities of health care providers to the market. In the San Luis Valley there has been only minimal use of radio and newspaper advertising by health care providers.

### Environmental Factors

The economics of health care are very volatile in the national political arena. The Clinton administration has worked for eight months on a National Health Care plan that has the potential to turn the financial and service relationships providers have with patients upside down. It is unclear how Community Health Centers like Valley-Wide will be affected. Since medicaid is thirty-five per cent of Valley-Wide revenue, there is no doubt there will be some change in reimbursement levels for this population. Currently Valley-Wide

receives payment presently on medicaid patients through a cost based system. There are indications that this will change in the new national health care plan. At this time there are no incentives for large managed-care organizations to provide care to medicaid patients. However, the White House has emphasized that the new system will offer incentives for taking care of the nation's underprivileged.

Under the new system, say Clinton administration officials, regional health alliances will pay managed-care organizations more for patients who require greater resources, even though they will be the same as those of everyone else in their plan. As a result, managed-care organizations will not have a financial disincentive to enroll the poor.  
(U.S. News & World Report, September 20, 1993)

This will mean Valley-Wide must be positioned to be the low-cost provider and be able to provide care in a capitation environment. Already the SLV HMO has contacted the executive team of Valley-Wide, regarding a proposed joint contract with the Colorado State Medicaid Program. The environment will change quickly and Valley-Wide will need to be prepared for many contingencies.

### Corporate Objectives and Strategies

The philosophy of the Board of Directors and the current national philosophy of providing universal access are similar. Valley-Wide has successfully integrated the philosophy of providing

comprehensive care to the medically needy with the framework of a delivery system that integrates the medically indigent with other citizens of the Valley (Grant Application, 1988).

The corporate financial objectives have basically been to continue to provide services where they are needed in the San Luis Valley. These objectives have been achieved by using resources to attract private pay patients and other funding sources. All revenue has been used to provide care.

For the future, a new objective has been established to create a reserve for managed-care and a reserve for operating funds. Previously this had never been allowed by the Federal Grant Criteria. In anticipation of the national health care reform there has been indication from the Public Health Service that this limitation will be eliminated.

For the last three years Valley-Wide has ended the year with a surplus in operating revenue. This revenue has been obligated to future expenditures, in order to assure the continued level of Federal funding. With the elimination of the reserve limitation Community Health Centers will be allowed to operate much like other non-profit health providers, and create reserve accounts for contingencies.

#### Potential Marketing Problems

One problem anticipated with the physician group is their

acceptance to the marketing plan. Since the physicians, physician assistants, and nurse practitioners all provide the services that Valley-Wide sells, they must accept the responsibility of providing the kind of product described to the consumer. The volume of patients they can see comfortably, the kind of patient they will see, and the way they are willing to handle patient communication are issues that must be addressed and consensus reached, with each individual provider. One unaccepting physician can hinder the chances for success of the objectives of the plan.

Another problem may be the lack of financial reserves for the practice. Although Valley-Wide has a healthy balance sheet, changes in the reimbursement system could devastate the organization; there is no operating reserve. We would be forced to operate on our accounts receivables if the costs of providing care suddenly outpaced our reimbursements for services. This lack of reserve also will influence the resources that can be committed to the marketing budget.

### Potential Marketing Opportunities

Valley-Wide has the largest number of primary care providers in the market area. In the managed care environment the primary care provider has the opportunity to control the membership or enrollment of patients. This provides the opportunity for Valley-Wide to increase market share and spread costs over a larger volume of

patients. The communities in the Valley see VWHS as a leader in providing medical services. The Del Norte and South Fork-Creede Area have already approached the executive team to assist their communities with the shortage of physicians in their region. This area represents the most attractive opportunity because of the lack of competition for business. It would also provide Valley-Wide with a sixth medical clinic to solidify our presence in each of the largest communities in our market area.

### Marketing Objectives

The San Luis Valley's greatest market needs are Obstetrics and Gynecological services. There are very expensive costs for flying higher risk pregnancies out of the Valley and of course a greater risk for mother and child without OB-GYN specialists close to home.

A second market need is more primary care providers in the southwestern end of the Valley in the Del Norte and South Fork-Creede communities. At this time, there is only one doctor for over 3,500 people, and the local hospital is possibly closing. In the summer months the population grows to over 6,000 in this area. In a meeting with the South Fork Planning commission Valley-Wide was asked to participate in solving this area's medical care crisis.

These two market needs can be dealt with only through the recruitment of OB-GYN's and Primary Care physicians to provide

services. This recruiting effort will be the focus of the market need and community need objectives.

The corporate needs are a short term and long term plan for survival in a national and state health care system. The objectives of a reserve account for managed-care programs, and a three month operating reserve for the organization, will necessitate increasing market share and lowering the cost of providing service to create larger budget surpluses. In a new state and national health care system the board of directors may need to discuss changes in the mission statement to adjust to the new environment that may be created. Historically Valley-Wide has not looked outside of the Valley for alliances or medical services; this may become necessary in the new environment. There is every indication that large hospitals may be forming health care system alliances to increase their opportunities of providing tertiary care to larger populations.

#### Sales Target Objectives

The total targeted revenue for the 1993/1994 fiscal year is 6.128 million dollars (Grant Application 93/94). The portion generated by services is budgeted to be 3.525 million dollars. This amount is based on 16,300 individual users generating an average 4.5 visits per year. This number is based on historical information of each provider practicing and estimating the effects of new providers expected to begin

working in this fiscal year (93/94 FY VWHS Budget). The total revenue included in the budget is 6.8 million dollars. There are 697,413 dollars of adjustments to revenue anticipated based on operating history.

Contributions by Clinic are as follows in Table 10:

Table 10  
Clinic Budget Revenue Projections 93/94 FY

Alamosa	Antonitio	San Luis	Center	Monte	Dental
2,525,800	339,300	494,600	394,800	411,000	223,000

Source: (1993/1994 Valley-Wide Budget)

Other revenue is acquired from federal, state, and private foundation grants, and the WIC contract.

Market share will remain at least 51% of the primary care physician services market and 58% of deliveries done in the market area. The objective is to increase market share in primary care in Rio Grande County through increased production by the Monte Vista clinic, and the possibility of a new clinic in the Del Norte area. Deliveries will also increase with the addition of a female family practice physician in Monte and Alamosa. The opportunity in Del

Norte has a potential \$240,000 of revenue in the first year (Expansion Proposal Grant Application 93/94).

### Marketing Strategy

The strategy Valley-Wide follows, provides primary services close to home for patients. This strategy was employed with the new clinic in Monte Vista and again with the opportunity for a clinic in Del Norte. The Del Norte expansion is in the planning stage. Meetings with the community, Valley-Wide medical staff, and the Del Norte Hospital Administrator have already taken place. Recruitment of a physician to staff a clinic at least two days a week has been completed. A Physician Assistant or Nurse Practitioner will also be recruited to provide services at least three days a week. This will provide five days a week of primary care services to the Del Norte area population.

### Positioning Strategy

Valley-Wide has positioned itself to provide services to the entire population of the San Luis Valley. It has accomplished this through its commitment of opening clinics in the largest communities in each of the six counties in the market area.

The Community Health Center approach has also positioned Valley-Wide to respond to market needs. As a CHC, Valley-Wide works with community leaders and organizations to provide medical

services throughout the Valley. Physicians , Program Managers, and other staff are encouraged to work on community boards and to participate in community development and educational activities.

There are indications that many large hospital systems are going to look for primary care providers to joint venture with, in the new health care delivery system. Valley-Wide has already received indications of this through donations from Parkview Episcopal Hospital in Pueblo. A donation of \$30,000 of equipment and supplies were made in March of 1993. A collaboration with a large hospital will provide a link to sub-specialty and tertiary care for patients of Valley-Wide. The possibilities of specialty clinics in the Valley and other collaborations will assist in keeping patients in a Valley-Wide Health Services system.

Table 11 illustrates the availability of primary care providers in Valley-Wide locations by community and the SLV Medical Group primary care availability by community.

Table 11  
Primary Care Services By Location

	FTE Providers Family Practice	FTE OB	FTE Internal Medicine	FTE Pediatrics
Alamosa	6.5	2.5	2.5	6.5
Antonito	1.2	1	.1	1.2
Center	2	.2		2
Monte Vista	2	1	.6	2

San Luis	1.4	1.4
Del Norte		

**SLV Medical Group Primary Care Provider By Community**

	FTE Providers Family Practice	FTE OB	FTE Internal Medicine	FTE Pediatrics
Alamosa	2	2	3	3
Antonito Center				
Monte Vista	2	2	1	2
San Luis Del Norte				

Source:(Valley-Wide Grant Application and Local Interviews)

Valley-Wide's positioning strategy will remain the same for the 93/94 fiscal year. That strategy, to be the Primary Care Medical Clinic, close to home. The organization will strive to maintain this position through recruitment of physicians and a commitment to opening clinics in underserved areas like Del Norte and South Fork-Creede.

**Product Differentiation Strategy**

Valley-Wide clinics will provide services, regardless of the ability to pay for services. There are important value added pieces to Valley-Wide medical services. The preventative, intervention and support programs are included for each patient when needed. No other provider of primary care services in the market area provide similar services.

The competition, while providing primary care, are more focused on sub-specialty care. Valley-Wide has decided to continue to focus only on primary care, including the preventative and support programs.

### Pricing and Quality Strategy

Quality of care involves the perception of the patient as well as the outcomes of treatment plans of health care providers. Quality of outcomes is measured by the Quality Assurance (QA) committee. Audits are conducted on a continuous basis to maintain and monitor the level of quality established by the QA committee. Currently Valley-Wide clinics are also audited by the United States Public Health Service and Blue Cross/Blue Shield of Colorado. These audits assure compliance with levels of quality of two outside health care organizations.

This quality of care strategy provides assurances to patients and the board of directors that Valley-Wide provides a quality product to its customers.

Part of the quality strategy is to maintain modern, attractive, and comfortable facilities in all clinics. Examples of this are the current plans for a new clinic facility in Center, which is a small clinic in Saguache County. Currently the clinic cannot handle the demand for

services. The new clinic will be capable of handling twice the capacity of the present site; it is scheduled to open in the fall of 1994.

A new Dental Clinic is also planned for Alamosa. Currently the Dental program is housed only in Center. The new site in Alamosa will provide much needed services to the underserved populations in the southern part of the market area.

The pricing strategy will continue to be focused on being the high quality, low cost provider of the market. A plan to increase the unit of medicine conversion rate will be presented to the board of directors and the executive team. This increase does not contradict the low cost provider strategy. Presently the Valley-Wide conversion factor is seventeen per cent below the competition. The additional revenue will be an important part of creating reserve accounts for managed-care and operating reserves.

### Target Markets

The Rio Grande County population will be the focus for the 93/94 fiscal year. The Monte Vista Clinic will be the base for this focus. The opportunity in Del Norte and South Fork-Creede are possible and will be developed if it can be accomplished without creating a negative impact on other medical providers in those communities. There are over 10,000 residents in Rio Grande County. In 1992 Valley-Wide had 4,100 patient accounts from the Zip Codes of that county (Valley-Wide

MIS). This was before a Valley-Wide Clinic was available to patients. The objective is to gain over 50% of the market by the end of 93/94 fiscal year.

The products are comprehensive primary care and obstetrics. The price will be lower than the competition. The place is in a clinic setting close to the home of potential patients and the promotion strategy will be to use newspapers, radio, school health education programs, and involvement by staff in community organizations.

#### Marketing Strategy-Action Plans and Tactics

The objective to increase market share in Rio Grande County will be approached using two tactics. The first tactic, recruit physicians to provide care; the recruitment has been accomplished. A new family practice physician and internist now work in the new Monte Vista Clinic. A second family practice physician will work in Del Norte when the opportunity there fully develops. Valley-Wide does not want to be perceived as the cause of the Del Norte hospital closing. In concert with this position, Valley-Wide supports recruitment efforts by the community. An offer has been made to the hospital and community leaders to open a Valley-Wide clinic in the hospital. This will not be acted on until the hospital completes negotiations with other management consultants. We intend to open a clinic within 30 days after the situation stabilizes.

### Differentiating Strategy Action Plan

1. Continue to promote support and education programs for all populations of the Valley.
2. Research the development of a managed-care network with a larger health care system or hospital outside the Valley.
3. Continue to be the low cost provider that has clinics close to home for patients.

### Pricing and Quality Strategy

1. Maintain a lower cost office visit rate than the competition.
2. Improve clinic facilities to improve access and comfort for patients.
3. Improve staff performance and presentation through training and the purchase of uniforms for nurses and support staff.
4. Implement Quality Improvement system for receptionists and medical records staff.

### Distribution Plan

1. Work with Del Norte Hospital to open a clinic in that community.
2. Increase the number of providers that deliver babies to achieve an increase in the obstetrics market.
3. Promote the new clinic in Monte Vista in the newspaper,

radio, and through involvement in community organizations.

4. Open the Monte Vista clinic to evening hours to provide more access for working people and their school age children.

#### Promotion Plan

1. Quarterly newspaper articles written by the Director of Health Education.
2. Increase sports physical programs with all school districts.
3. Increase visibility of women health care providers.
4. Promote the comprehensive primary care model to the entire market area.
5. Increase Health Education activities in the Monte Vista and Del Norte areas.

#### Measurement, Review and Control

The measurement of all marketing activities will be done through a reporting system utilized by the patient registration personnel and the Director of Clinic operations. Each new patient will be asked how they heard about the Valley-Wide clinic. A report will be generated monthly for each clinic to provide data for analysis of the effectiveness of promotional activities. The Director of Clinic

Operations and Director of Health Education will report results to the Executive Director.

A daily production report created and reviewed weekly by the Director of Clinic Operations, Director of Finance, Medical Director, and the Executive Director. This report illustrates a breakeven analysis for each clinic and the entire medical clinic system. This report also provides management with the ability to adapt quickly to changes in demand patterns that effect the cost of doing business.

#### Marketing Budget

The marketing budget for Valley-Wide has never been established in a formal manner, but has been a line item on the budget. \$5,000 dollars are allocated for the current fiscal year. This budget will be used to place advertisements in local newspapers, on radio stations, and to develop promotional materials. This does truly reflect the current cost of marketing activities for the organization.

This approach to establishing a budget for marketing is not unusual. It is often the case that budgets are established from the top down and the managers of the budgets are expected to work with what they are given (Sockin and Grottalio 11). "The same as last year" approach has been the only method used in Valley-Wide history.

Marketing budgets should be established based on the impact desired of programs. The justification for expenditures should come

from the bottom up in an "orderly fashion" (Sockin and Grottalio 11). In the past, line items like physician recruitment, other Health, Health Education, Advertising, etc. were catch all costs historically incurred by cost centers.

A marketing budget designed to include all marketing activities established from the bottom up, will increase the effectiveness of dollars spent communicating internally and externally in the market place. Valley-Wide with its many programs and services all linked by a common mission will be more integrated and capable of measuring outcomes with a marketing plan approach to delivery of services.

### Summary and Conclusion

The need for a Marketing Plan for any organization that sells a product is just as important as the need for a Business Plan (Sockin and Grottalio 1). Valley-Wide has provided service in an environment where the customer did not have the freedom to choose, as in most areas of the economy. The limited income of most of the current customer base has proved unattractive for the competition. However, the new environment promised by the Clinton administration will create a marketplace where medical practices are more in competition than ever before. This is especially true for the San Luis Valley.

Another aspect of the need for a plan is the opportunity Valley-Wide has to exploit the strengths of its product delivery system. With

a clinic in five locations and the opportunity to open a sixth location, Valley-Wide has an opportunity to gain more profitable market share and to continue to successfully execute its mission of serving the medically underserved.

### Problem Statement

Valley-Wide faces several challenges in the future. The SLV Medical Group is positioning to be a highly visible, vertically integrated, high tech provider of primary and specialty care. They already have links with a local HMO and have available cash and assets to be very competitive in a National or State Health Care reimbursement environment. If a National Health Care System provides low income patients with more choice, Valley-Wide will lose control over forty per cent of its current market share.

A marketing plan will help management and physicians to prepare for successful negotiation of the uncertain future of primary care services in the San Luis Valley.

## Chapter III

### Methods & Evaluation

#### Subjects

The evaluators of the project were Michael Bloom and Marguerite Salazar. Bloom is a health care management consultant with May and Associates of Richland, Missouri. He has a Masters degree in Public Administration from Harvard University, JFK School of Government and Policy. He was the Executive Director of Valley Wide Health Services from 1977 to December 1989. Bloom is still a resident of the San Luis Valley and provides important insights for the project evaluation. He consults nationally with Community Health Centers and the United States Public Health Service.

Marguerite Salazar is the current Executive Director of Valley Wide Health Services. She has a Masters Degree in Guidance and Counseling/Psychology from Adams State College in Alamosa. She attended a management seminar "Managing Ambulatory Health Care Organizations" in 1987 at the Harvard School of Public Health. Salazar recently was a member of a panel that provided information to the National Health Care Task Force, chaired by First Lady Hillary Rodham Clinton, on rural health care issues and Hispanic health issues. Salazar also participated in a National Health Policy Forum sponsored by the Kellogg Foundation and George Washington University. Under

her direction Valley Wide Health Services has opened a new clinic in Monte Vista and is planning a new larger facility in Center, Colorado this fall of 1994. Salazar began as a member of the Board of Directors of Valley Wide in the early 1980's and was hired in 1985 to the Director of Community Programs. She became Executive Director in January, 1990.

### Instrument

The instrument used to evaluate the project was a personal interview with the evaluators. This method of evaluation has been selected because of the close working relationship of both individuals to Valley Wide Health Services. Their experience in the local market and with the internal operations of the organization provided clear insights into the project's merits and weaknesses. The evaluators read the plan and made recommendations and criticisms. An hour interview was scheduled with each evaluator. A letter (Appendix A) asking for general comments from both evaluators was included with the plan when they received it for evaluation.

### Materials

This project is designed to incorporate a marketing plan (Appendix B) into the annual budget plan of the organization. The plan will accumulate marketing data from internal and external

sources. Analysis of the data will provide the management team with a more formal business approach to goal setting and monitoring of resource allocation.

The plan will establish financial goals based on a return of sales approach to revenue creation. In this first year and subsequent years the executive team will coordinate with each cost center a return on sales approach to revenue contribution by each respective program.

The premise for the fiscal year 1993/1994 is developed in response to the overwhelming changes anticipated in the major revenue streams for the organization. The new environment will demand new alliances in the health care market of Colorado. The situation analysis makes clear the need for a new mind set and organizational culture to provide an assurance of continuity of the mission of the organization.

The market analysis will begin with a snapshot look at the national and state levels. The local market analysis will be much more detailed and provide the executive team with data important to the strategic decision making process. The information accumulated will provide information for a decision tree approach to negotiation tools for managed care contracts.

The scope of this project will include organization development and product development. The result could be the creation of a health care network that integrates the primary care services provided by Valley-Wide Health Services, the acute care of the SLV Regional

Medical Center and a larger tertiary care center in a large urban hospital system. The potential of forming a state wide HMO in affiliation with the Colorado Community Health Center Network organization is also being considered. Discussions with a number of health care consultants have been initiated to provide additional guidance in positioning the organization for the future.

The project financial performance criteria will require reorganization of some current departments. The health promotion/disease prevention program was renamed marketing. The marketing functions of the organization were added to this department's responsibility. The staff has begun acquiring customer information through phone and personal surveys. The budget of this department was reallocated as necessary.

The project will cross all lines of the organization from the board of directors, program staff, support staff, accounts receivable staff, management team, executive team and medical staff. The Public Health Service Regional Office will also be encouraged to help with the integration of the plan.

#### Scope and Description of the Project

The plan development will follow seven (7) steps.

1. Identify estimated potential market
2. Identify Valley Wide market share

3. Identify the value of each market share point
4. Establish marketing objectives to increase market share.
5. Segment target populations by product and services.
6. Develop Strategies and tactics to implement to accomplish objectives.
7. Collect Data and Measure Results.

By estimating the potential market, an estimate of opportunities for growth and the cost of maintaining current share was developed. The method of estimating total market potential employs the Estimated Buying Power of each county as accumulated by the Rand McNally Sales & Marketing Planning Atlas. The estimated expenditures for physician services was calculated by multiplying the 14% of GDP for Health Care expenditures ("The World Economy in Charts", Fortune, July 92) of each county's total purchasing power and then multiplying that number times 19%, which is the percentage of all health care expenditures estimated to be physician services (Fortune, May 93, 73). This formula provides a method to estimate the total market of physician services in the San Luis Valley. The Valley Wide market share can be ascertained by comparing Valley Wide's actual patient charges against the total estimated physician service market number.

From these calculations an estimate of the number of patients per 1% of market share, the number of patient encounters per 1% of

market share and the additional revenue generated from each 1% of market share can be approximated. From these figures a reasonable cost of acquiring additional market share can be researched.

The market was further defined by identifying the demographics of age and service need. The strategies to fulfil the needs of each segment are developed by recognizing services customers want. The marketing strategies must also consider the strengths and weaknesses of Valley Wide and the competition. This internal and external analysis was helpful in finding a differentiation strategy for Valley Wide Health Care Services.

The measurement of results is an on-going activity. It is important to track weekly the impact of all activities on patient volume at each respective clinic. The goal of all activities is to define Valley Wide Health Clinics as the Health Care Provider to choose.

Just as important as developing the plan is soliciting the support of the Board of Directors and Medical Staff. Either of these groups could undermine the plan before it is implemented. Initial meetings with the Board of Directors have indicated their support of a marketing approach to accomplishing the mission of the organization. The physician staff is more difficult because of the impact any increase in patient volume may have on their respective medical practices.

The strategy with the physician group was to show them with concrete information how marketing will provide benefits to them as

well as more patients to the practice. For example, recruiting is easier with a larger patient base.

The support staff and preventive programs will also be enlisted in the support of the plan. The support staff is a very important group, since they communicate with the customers as much or more than the medical providers. The preventive programs are the services that differentiate Valley Wide from the competition. Their acceptance of the plan is also imperative.

The role of each program and medical service and the integration of the objectives of the plan must be made clear. A workshop for each program was developed and presented to each group to solicit the involvement and contribution to the success of each year's plan.

The target populations we serve are divided by age group and geographic area. Since the San Luis Valley covers 8,000 square miles, geography is simply a practical matter. The organization is familiar with age group segmentation. The Health Care Plans that drive the medical and preventive practices targeted groups are divided by Perinatal/Pediatric, Adolescent, Adult, and Geriatric populations.

Each targeted population will have objectives individualized to their respective group. The medical practice and the preventive services that work with each group was unified by working to achieve the same objectives. The preventive services will provide important

feed back to the medical providers about treatment plan compliance and communication issues with the targeted group.

A strength of our medical practice is the location of clinics in five communities in the service area. This gives us an advantage over the competition, which has only two clinics in the Valley. This positioning was the focus of all segmenting activities and was a building block for the strategies of the marketing plan.

Collecting data and measuring results is important to the success of the plan. The entire organization needs to know if the efforts they put forth are acquiring the desired results. The Adolescent Center Staff already has in place a data collection system regarding the Teen Birth Rate for example. The objectives of the plan will include development of data collection and measurement systems to report on clinical and financial outcomes in relation to tactics implemented.

As a community based non-profit entity, Valley Wide is concerned with continuity of the organization and accomplishing the mission of the community board of directors. Each year we evaluate the objectives we established for each service we provide. Our Management Information System (MIS) provides much of the data necessary for reporting in our grant application. The MIS will also provide data on the results of marketing activities. Monitoring on a daily, weekly, and monthly basis will provide the marketing team with information on the effectiveness of activities.

## Procedure

A personal interview of the evaluators was conducted separately at their convenience. The first evaluation with Salazar was November 19, 1993. The second evaluation interview was scheduled December 6, 1993 with Bloom. The evaluators were asked to comment on the project's approach to accomplishing its objectives, ease of implementation, and chances for effective integration into the operating system of Valley Wide's Management Culture.

## Chapter IV

### RESULTS

Evaluation of the Marketing Plan was completed by Salazar and Bloom in December, 1993. A one hour interview was conducted with each evaluator. The interview with Salazar was conducted in her office at Valley-Wide Health Services, Inc.

The evaluation was informal using the plan as a guide. Should the plan be implemented as prepared was the primary evaluation question.

Salazar found the plan to be acceptable for the intended purpose. She specifically was interested in using the plan to provide a methodology to better integrate the preventive programs into the revenue streams of the budgeting process. Each program fulfills dual purposes. The first is to reduce the cost of care by insuring patients comply with treatment plans and appointments. The second purpose is to attract patients and refer patients to the medical clinics.

She suggested a pilot project to track revenues created by the preventive services. The goal of the project is to create a reporting mechanism to track on a regular basis the revenues generated by the programs. The data collected will provide the number of new referrals and the revenues generated by the respective program.

This data could then be used as a management tool for the program director. The revenue could be included in the budget for the program. The justification of services, that are now non-reimbursable in the current payment system, is an important step in getting ready for the anticipated National Health Care reform. The first program scheduled for evaluation is the First Care Perinatal Program. The collection of data began the first week of January, 1994.

Another area of interest was in the analysis of the Valley-Wide capacity to provide services in the adult medicine and medicare markets. She requested that more information be accumulated on the total market and the medical staff's ability to provide services.

She did agree to accept the marketing plan for implementation this fiscal year. She suggested that more information be gathered on joint venture opportunities with the San Luis Valley Regional Medical Center and other tertiary care centers outside the San Luis Valley.

Salazar had reservations concerning the advertising suggested. She recommended advertising not be used as a main portion of the plan. She suggested that less expensive activities, using program directors and medical staff, be used as part of the public relations and personal selling plans.

She accepted the premise that the Health Promotion and Disease Prevention Budget be used for marketing activities. The final budget approval would be part of the regular budget process.

Salazar also suggested materials be developed to solicit more grant funding. She initiated the first Annual Report project for this purpose. The Annual Report is designed as a tool to solicit funds from the local community and foundations around the country that work with Health Care systems.

Salazar also recommended taking actions suggested in the Product Planner section to create additional services, like a Senior Health Center to provide special information and case management services for this population. She agreed to implementation of special phone lines for customer services, like prescription refills, health care questions, etc. Investment in training for receptionists and nursing staff was also approved. A customer service orientation of the medical practice is important to succeed.

Bloom's evaluation of the project was conducted during a one hour interview. His general impressions of the plan were positive and he also was in favour of integrating a marketing plan into the business and budgeting process of the organization.

He suggested more analysis of the Health Alliances being created in the state. In his opinion, more benefits should be created to attract support from larger health systems in the state.

He recommended that management begin receiving training on operating managed care primary care groups. He was aware of contracts with several HMOs, but was concerned for our lack of an

adequate utilization review system to insure an aggressive cost containment program.

Other recommendations concerning the data collection used in the plan were to increase the specificity of market analysis. In each respective county and community with a clinic, he suggests gathering specific market information. The more accurate the numbers, the more responsive the medical practice is to each respective market.

He was very concerned about the ability to compete with the local competition, and also suggested that steps be taken to insure that other outside health systems would not try to open competitive services. As stated earlier, he recommended that discussions begin with large health systems in the major metropolitan areas of Colorado and New Mexico.

He discussed the need for the organization to take steps to align itself with the area hospital to attract a third specialty group. The strategy is to dilute the revenue streams of the only other medical group. He expressed the need for OB-GYN specialists and a pediatrician. He suggested that recruiting and staffing strategies should be a separated analysis in the plan.

In the section of the plan that reports the market segments By Insurance Status, Bloom commented about the large portion of the population in the "other" category. He indicated that it was absolutely necessary to get more specific information regarding this group. This group represents over fifty per cent of the entire population served.

In regard to the excess capacity of the adult medicine providers, he remarked that providers who would not work closer to capacity needed performance coaching or other jobs.

He affirmed the recommendation to research linkages with alternative delivery systems. He suggested that market share in the current environment and national health plan environment would have large blocks of patients moving from provider to provider, rather than individual choice having as much impact as in the past.

He disagreed with the assumption that a new Center Clinic facility could attract private pay customers. It was his feeling that the image of Valley-Wide as the poor people's clinic and the cultural bias in the community would still keep private pay patients away.

In the marketing strategy's section of the plan he addressed the advertising portion. His comment was that location and service equals advertising. He also remarked that public relations themes be tied to targeted markets.

The budget recommendations were not an issue for Bloom. He understood the premise of using the Health Promotion and Disease Prevention budget.

Bloom did agree that the plan be integrated into the budgeting process of the organization. He recommended the following:

1. analysis for each community demographic must be as accurate as possible.
2. find out from the SLV Medical Center CEO what the plans of

Volunteer Hospitals of America are in relationship to the National Health reform plan.

3. find out what impacts the choice of medicare patients.
4. specialty-care is missing from our product mix. He suggests collaboration with the hospital in this area.
5. strengthen our ability to deal with the adult patient.

The final remarks of both Salazar and Bloom concerning the integration of the plan in the business operation were positive. The implementation was approved and activity is underway to complete their recommendations.

## Chapter V

### DISCUSSION

#### Summary

The evaluation provided additional insights into marketing plan development. The evaluators each brought their own specific knowledge base and experience. Salazar, as the current Executive Director of the organization, was very interested in using the plan to prepare for the future. Bloom expressed concerns for the lack of preparation for managed care. Both accepted the plan design and recommended it be adopted and suggested a marketing plan be adopted each year.

Salazar's remarks pertained notably to the preventive care and case management programs. She plans to continue the promotion of a case management approach to providing cost effective comprehensive primary care, with a special emphasis on the medically under served. The marketing plan will provide an additional vehicle to accomplish her goals.

Bloom's comments concentrated on the accumulation of accurate and specific data. His other notable area of interest was the development of benefits for large purchasers of health care services. Some form of managed care seems to be inevitable and primary care providers will need a clear set of services and benefits to attract these

potential customers. Bloom, because of his work as a consultant in Colorado and other parts of the country, has experience with organizations like Valley-Wide that have changed very quickly from fee for service and cost based reimbursement to managed care capitation.

Both accepted the premise that the adult medicine market offered an opportunity for growth. The excess capacity Valley-Wide has in this segment provides an opportunity to increase market share without major capital outlays for physician recruitment.

The budget was accepted as presented. Salazar suggested that personal selling should be more of a focus than paid advertising.

The reorganization of the Health Promotion and Disease Prevention department into a Marketing department was assessed as a logical and productive step for organizational development.

The integration of a marketing plan into the budgeting process was supported and recommended. This will provide more monitoring opportunities of resource allocation.

Attracting additional grant funding was a topic that Salazar was very interested in pursuing in a marketing plan. This area, while not a consistent set of revenue streams, does provide potential startup capital and the opportunity to do research for special populations.

Bloom's comments regarding utilization review capabilities and other managed care issues provided the most critical information for

additions and corrections to plan development. This area of resource allocation will require considerable investment in the future.

Valley-Wide has no managed care systems in place at this time. With the knowledge that the state medicaid population is going to be forced into a managed care model soon, it is imperative that resources be allocated to acquire the necessary systems quickly.

Linking with other health care providers is an activity Valley-Wide is already beginning. Bloom encouraged this activity to provide additional strength for the medical practice in a changed environment.

Establishing a data collection system for the marketing department is recommended by Bloom. The information historically collected for grant writing has not provided the specificity needed for a customer driven product. His recommendation for gathering as much local information by service location will require an additional investment in staff and management information systems.

The problem identified at the end of chapter II describes the challenges Valley-Wide faces in the future. The competition is making a major investment in a new physical plant and medical technology. State and national political activities in the health care industry threaten the status quo of every primary health care provider.

Valley-Wide faces the potential loss of the Community and Migrant Health Center grants as historically received from the Bureau of Primary Health Care. Cost-based reimbursement, as a federally qualified health center, from the state medicaid office is going to end.

The replacement by a managed care system may include a capitation system for medicaid patients. This system would also require risk sharing by primary care providers.

With such formidable changes facing all health care providers, it is difficult to say that a marketing plan alone is going to solve the problems created by such overwhelming changes. However, the ability of any organization to deal with change is enhanced by gathering data about customers. The marketing plan does provide a thorough system for data collection and the ability to use the data to design services which will assist in protecting market share and increasing share in some specific segments. The implementation of the plan into annual operations will provide the Board of Directors and executive team with additional information to direct successfully the activities of the organization.

### Limitations

Valley-Wide is a very diverse organization. The culture of the organization has changed dramatically over the last five years. The members of the medical staff, because they are independent contractors, are sometimes difficult to integrate into the strategic planning process. Those physicians with the most seniority are the most difficult to bring into, what is described as a "Brave New World" for physicians. The difficulty encountered in discussing marketing issues with physicians

is not unusual. However, it did limit the ability to collect information important to product design for Valley-Wide. Since physicians provide the product, they obviously must be willing to cooperate with change.

The State medicaid office does not have an adequate system for collecting accurate information about the number of enrollees by county. The number utilized in the study was collected from state data, but when checked against other sources there are considerable discrepancies. Because medicaid dollars are thirty-eight per cent (38%) of the revenue for Valley-Wide, this could represent a major problem.

The future, as painted by most experts in the country, is going to involve some kind of managed care. Since Valley-Wide has no operating system in place to provide utilization review for managed care patients, the study lacks the ability to assess the needs of the organization, except to say that these systems must be acquired. This lack of operating experience skews the perceptions of the entire organization.

Valley-Wide has not had to compete for most of the current market share. As the only provider for the medically underserved in the market area, the organization has developed systems that respond to the need of the federal funding agency and the medical staff rather than the larger private pay market. This creates excessive resistance to the ideas usually associated with improving customer service.

This was the first marketing plan ever developed for the organization. There is no history of fund allocation for marketing. No

new funds were allocated for data collection, analysis or research. The use of some staff was made possible, but the lack of experience in data collection and limited time availability was a problem.

Estimating market share for the medical practice was also difficult. The literature indicated that a diagnostic code incident rate by population be used to establish potential physician visit demand. This approach was not possible with the resources available. Information was available for other information regarding the population needed to support specific physician specialties, but this could not be extrapolated into dollar amounts for market share points.

Specific community information was not available. The San Luis Valley covers over 8,000 square miles and has a population of only 40,000. This has led to aggregate data collection by outside agencies and excludes specific community data. The U. S. Census demographic information has suspect numbers in frontier regions. Currently Valley-Wide has not developed an information system that allows us to know our customers or potential customers as well as we might. The data utilized for resource allocation has been specific as necessary, but not customer specific.

#### Suggestions For Future Research

Community Health Centers across the country face similar problems. This system of primary care providers, created to provide

services to populations with no access to the private pay primary care system, have always experienced budget limitations. If given the opportunity to replicate this project for other CHCs, the researcher would need at least minimal financial support for data collection and analysis.

Developing methodology to establish market share estimates for accurate projections was difficult. The formula developed is suspect. To establish a more defensible methodology more research would have to be conducted in the area of primary care physician utilization and revenue generation.

Other areas of possible investigation are the current systems established to record customer perceptions of good service in the health care market. To create a market driven service organization, the need to define what good service is to the customer is absolutely necessary. In our health care organization and others that were researched, the definition of good service has been historically defined by the surveyor instead of the surveyed. To make an accurate assessment of what customers want in a primary health care service, a more detailed study would need to be designed and completed.

### Conclusion

As with many projects, the conclusion is the goal and one is

always glad to arrive, but the process of arrival is the most valuable. So it has been with this project. The development of a marketing plan for an organization that never anticipated the need for the same has been a very rewarding experience. In research of the literature much of value was found. In study of the organization culture, more of value was found.

The marketing plan developed will assist in solving the problems outlined in the problem statement at the end of chapter II. This first plan is only the beginning of what is an important structural change in how this organization prepares for the volatile changing market of primary health care delivery in the region, state, and the country.

APPENDIX A

November 1994

Marguerite Salazar, Executive Director  
Valley-Wide Health Services, Inc.  
Alamosa, CO 81101

Dear Marguerite:

Attached please find the Marketing Plan. Please review and make any comments on the plan you wish. The main question I am interested in-- is will you consider integrating the plan into the regular business operations of the organization?

The evaluation procedure will be a personal interview of at least one hour. Please make any comments about any subject you wish. Thank you for your support.

Sincerely,

Jan C. Vest, Director of Clinic Operations  
Valley-Wide Health Services, Inc.

## APPENDIX B

Valley Wide Health Services, Inc.

Marketing Plan Fiscal 1993/1994

Prepared By

Jan Vest, Director of Clinic Operations

### 1992/1993 Recap

The 1992/1993 fiscal year was filled with challenges. The year began in July with the departure of three physicians. Two OB-GYN's and a general surgeon left the practice. The general surgeon was asked to leave, the two OB-GYN's left for personal reasons. The impact on the Valley-Wide Product was considerable. The surgeon was a financial liability. The OB-GYN's, because of the high Malpractice cost and salary basically were a break-even proposition. However, the services they provided the community were very important to patients and the image of Valley-Wide.

The departure of these physicians created financial uncertainty in the first two quarters of the year. By December we had lost over \$281,000 and projections for the remainder of the year indicated that we would continue to lose money. It was obvious that action was required to rectify the projected losses. The executive team developed a plan to adjust expenses and revenue to reverse the loss trend. The goal of the plan was to recover the loss and end the fiscal year with a cash surplus.

The plan consisted of lay-offs of both support staff and providers, reduction of salaries of providers who were not meeting production goals to cover their practice expenses, and an eight percent price increase. Increased collection efforts by the accounts receivable department also were included in the action plan.

The plan was very successful. We were able to reduce expenses and raise revenue for the remaining period and end the fiscal year with

a \$180,000 surplus. The deficit reduction plan also provoked a new look at the provider compensation plan. The plan in place was not linked to the financial well being of the entire organization. Some physicians were able to make more money in salary and bonuses than they produced in their practice. This became apparent when we analyzed each provider's productivity and expense ratio. A new plan was developed and approved by the Medical Director, Executive Team, and entire medical staff. The new compensation plan went into effect July 1, 1993.

A formal marketing plan was not done. The market share of Valley-Wide has been recorded each year in the CHC grant application, no goal for market share has ever been established. The grant reporting criteria require program updates and program plan. This has not usually required a situational analysis, competitor analysis or other analysis included in a marketing plan. Business activities are directed by a needs assessment correlated with the medical needs of the medically underserved population and a zero based budgeting process.

#### Strategies that Failed or Succeeded

The current reimbursement environment has helped Valley-Wide. medicaid reimbursement has increased every year. The medicaid intake worker tactic was successful in increasing the number of enrolled medicaid patients in the practice.

The collaborative practice model plan was not successful in creating better internal communication between physicians at the

Alamosa Family Medical Center. The goal of this plan was to provide better continuity of care for patients, and open both internal medicine and family practice to new patients. The plan was successful in opening the practices. Each provider now has open slots in their schedule each day. Patients are more likely to see the same practice team, but we were not successful in creating practice loyalty to their patient base.

Opening the Monte Vista Clinic was successful. The clinic has performed ahead of projections and now is contributing over ten per cent of the patient volume monthly to clinic operations.

#### **Business Objectives FY 92/93**

To maintain market share in the OB and GYN markets.

To establish Valley-Wide as a high quality provider in the Rio Grande County market by opening a clinic in Monte Vista.

To gain more market share in Center by expanding and building a new clinic.

To attain a positive Return on Sales and have a Surplus

#### **Business Marketing Strategy**

To introduce Valley-Wide Primary Care services as the value added health care

care product in the market, through further integration of the support programs

with each target market segment.

#### **I. Premise For FY 93/94**

The new environment anticipated by a State or National Health Plan demands that Valley-Wide prepare for competition in a more formal way. The new environment may create more choice for medicaid patients and those patients without insurance that currently receive care only through the Community Health Center Program. These two groups represent over three million dollars in cash received in the current environment. Currently medicare patients now can choose their own provider. The private insurance segment can also choose their own health care provider. These are the two segments where market share is controlled by the SLV Medical Group.

The new environment will require a different approach by management and the physician staff to maintain current market share and to increase market share in those segments that provide the greatest growth opportunities. A new approach will be critical if Valley-Wide is to maintain the current mission in the market place. The fixed cost structure of the entire organization is based on a six point five million dollar budget. We must be prepared to capture enough market share to guarantee the current organizational structure.

Our product concept is based on the comprehensive primary care model for the four life cycles. These segments (life cycles) are the pediatric, adolescent, adult, and geriatric populations in the region.

The pediatric, adolescent and adult populations fit into the Family Practice and Obstetrics target markets. The adult and geriatric populations are the target of the Internal Medicine practice. Obstetrics is a target market exclusive of internal medicine adult patients but are linked. We will make our services much more attractive for existing patients by targeting the specific needs of each respective market segment and designing services exclusively to fit their needs.

## **I. Situational Analysis**

### **Business Objectives and Strategies**

**1. Mission Statement:** Valley-Wide Health Services is dedicated to maintaining the ability to provide primary care services to the citizens of the San Luis Valley with a special interest in the medically underserved populations. To maintain its current market share the organization wants to become the market leader in all segments of the market and be prepared for direct competition with all other primary care providers in the market region and outside the region for patients who previously were excluded from choice because of their lack of financial resources.

**2. Long and Short Term Objectives:**

(A) To increase sales from four point four million in patient revenue to five point one million incrementally over the next two years.

(B) To grow net profitability from three percent of sales to eight percent of sales incrementally over the next two years.

(C) To create reserve funds for managed care contingencies and operating security.

**YEAR 1:**

\$four point six MILLION (+12% vs. Prior Year)

six% Return On Sales (ROS) (+50% vs Prior Year)

**YEAR 2:**

five point one MILLION (+16% vs. Prior Year)

eight% ROS (+62% vs. Prior Year)

(D) To establish the company's position as the leader in primary care services for all age groups both with consumers and within the local industry.

Based on the business objectives, overall strategies in each functional business unit for year one includes:

1. Finance: To optimize financial systems and capital resource management

2. Operations: To reduce overhead expense as percentage of production.
3. Marketing: To become more customer oriented by specific targeted segments of the market.

### **Market Analysis**

**National Level:** The national debate on Health Care Delivery is mentioned daily on television, radio and in print media. President Clinton has introduced his plan to provide universal access to all Americans. Funding for Community Health Centers may be eliminated in its current form. The plan creates more opportunities for the consumer to choose her health care insurance plan and her doctor. This creates both opportunities and threats for Valley-Wide in the market. Many patients will become paying customers who currently are covered by the CHC grant. Primary Care services are emphasized in what is anticipated to be a managed care environment. The goal for universal coverage is 1997. Spending caps on medicare and medicaid are expected to be reinvested back into the universal coverage system. The aging of the population will increase the need for internal medicine physicians.

**State Level:** ColoradoCare, a state designed universal access health care plan, is expected to be implemented January 1, 1995. This program has been developed in response to the national health care debate and

the increasing costs of the state's portion of medicaid. Since medicaid is a significant part of our revenue mix, any change in this reimbursement could have detrimental effects on operations. The other influence of this state managed program is that the CHC funds could be administered differently than the current federal system. There have already been discussions on the federal and state level about administering the funds through a block grant model, which would funnel the CHC funds through county governments. Medicaid represents almost 1.5 million dollars of current Valley-Wide revenue. Any reduction in the medicaid reimbursement level would adversely affect operations. Since we do not operate with meaningful surpluses we are at risk for a cash deficit if reductions in medicaid payments are significant

**Local Level:** Revenues continue to increase in each segment of the market except Obstetrics.

The obstetrics market has been flat for the last four years with just under 600 deliveries per year.

We have 58% of this market. There is opportunity for growth with the addition of family practice physicians who do deliveries.

The internal medicine market is a segment with excellent potential for growth. Currently we have only 39% of these patients. In the other insurance market, as indicated in the grant application, we

have only 31% of the market. There is also opportunity for growth in the no insurance group. Valley-Wide has 34% of this group. In both the state and national plans, all of these groups will have insurance. Providers will be paid through capitation or on discounted fee for service basis. In both scenarios the more patients that are enrolled with our program, the more opportunity we have to generate additional ROS (Return On Sales).

The legislation for national health care reform has just been introduced. The final plan will be different than what has been introduced. It will very likely not be implemented until 1995. The state plan is moving at a parallel pace. Until the national plan's implementation, opportunities for enrollment of medicaid patients, private pay patients, medicare and the non-insured group should be taken advantage of. It is very likely that if a state or national plan gives consumers a choice, they will stay, at least for the first year, with their most recent provider of service. The more people we have registered as patients, the more likely we will maintain market share in each segment.

The Del Norte/South Fork opportunity will provide easy access to over 3000 patients in an underserved area. Dr. Bogner of Del Norte is very happy to work with us and is planning to begin November 1 of

this year on the transition from private practice to being a Valley-Wide physician.

The SLV HMO director has approached Valley-Wide regarding our physicians accepting HMO patients. The Board of Directors is reluctant at this time. Alliances locally should be considered in the face of the unknown health care reform issues. The SLV Regional Medical Center is interested in working with us for the best interest of the community. They also have a building that will become vacant sometime in June of 1994. This space would be an excellent place to open an internal medicine practice separate from our family practice facility.

The college insurance company has contacted us about bidding for next years contract. This year we will provide the same benefits as the SLV Medical Group is. This is a \$10 Co-Payment at the time of service.

#### Market Segments By Insurance Status:

	Community Total	Current Users
Medicaid	6,413	5,094
Medicare	5,515	2,156
Other	22,552	6,937
None	6,373	2,143

The opportunities for growth are in the other insurance status, medicare, and No Insurance group. Currently the accepted wisdom is to increase enrollment before the reform package is in place. With the addition of the Del Norte practice, the Monte Vista Practice, and additional space in Alamosa and the Center expansion we will have attractive facilities and excess capacity to attract enrollment.

**Business/Category Level:** The health care segment of the economy has quadrupled in size since 1980. The cost of care has increased at twice the rate of the rest of the economy. Physician services have grown at the same rate. The rate of growth has created national, state, and local pressures to do something about the rapid cost increases. The federal government has begun the debate on a national health plan. The state government has begun preparation for a state health insurance system. Both systems include a managed care approach to cost containment with providers participating in the financial risks of the cost of care.

The impact of these changes point toward a health care delivery system that includes more competition between providers. The customer will have more choice. This choice is the dynamic that will perhaps affect Valley-Wide most significantly. The typical influences on buyer behavior, convenience, cost of product or service, service and

quality levels will dictate the choice consumers make about who provides their health care.

There is in both the federal and state plans a greater emphasis on primary care. This includes increased use of Physician Assistants and Nurse Practitioners. The public will be better educated about the quality and cost effectiveness of these providers.

To remain competitive, health care providers will need to have a complete network of care, which includes primary care, subspecialty care, emergency care, tertiary care and outreach and casemanagement. These networks will bid to capture patient populations and compete for market share against other networks.

The question of organizing as a local HMO or managed care company must be investigated. The new revenues expected in the market, when all citizens are insured, creates a situation where loss of local control is possible. With additional money in the market for those currently uninsured each person enrolled with a system becomes very valuable.

**Product Level:** Consumers change physicians with increasing frequency. A recent study indicates that between 32% and 36% of the sample had switched doctors. The causes for switching identified by

consumers are poor service, high cost, inconvenient location or hours, problems with access, problems with physician communication, problems with perceived quality of care, and employer selection of different health plan. Both the state and federal plans include an emphasis on providing quality of care information to consumers.

### SWOT ANALYSIS

#### Strengths:

Multiple Clinic Sites provides convenience

Sliding Fee Scale will attract enrollment

Open Practices increase access

Commitment to Medicaid Patients

FQHC will provide higher revenues

P.A.'s and FNP provide care cost effectively

Medical Staff committed to mission

Recruiting physicians

Strong Business Management Team

#### Weaknesses

VVHS is known as the public clinic

High Physician Turnover

Lower Profit Margin

We do not employ RN's

Lack of cash for investment

Perception of P.A.'s is not good

Fear of Change by physicians

High Fixed Costs

Lack of ability to

A willingness to change

move quickly

Poor relationship

with SLV Group

Strong Community Board of Directors

Good Relationship with SLV Medical Center

There is opportunity for our family practice physicians to gain more obstetrics share and for our internal medicine practice to gain more share. The new practice in Monte Vista and Del Norte will provide more access to these markets before the competition can recruit additional providers. The construction of a new Center Clinic will provide a more attractive environment for private pay customers in that area.

#### **OPPORTUNITIES**

In House Pharmacy at AFMC

Outpatient Center

Del Norte Practice

Center Clinic expansion

#### **THREATS**

SLV Medical

Group New

Outside

competition in

new environment

Lower

	reimbursements
Internal Medicine Practice Expansion	Loss of C/MHC Grant Funds
Higher Reimbursements for the uninsured	Managed Care lack of Experience
Durable Medical Equipment License	
Formation of our own HMO	
Joint ventures with SLV Hospital	

The opportunities are many but close monitoring of the competition, state health plans, and national health plans may require the ability for quick action in what may be a volatile environment.

#### **COMPETITIVE ANALYSIS:**

The SLV Medical Group, a new family practice physician in La Jara, Dr. Dale Thomas and his staff, are the competitors for primary care physician services. The SLV Medical Group has at least 48% of current market share. They are positioned to attract additional patients and to attract additional physicians with a new facility. They have experience working in a managed care environment and have an affiliation with the local SLV HMO to compete for any additional managed care premiums that may be available in a state or federal health plan. The

other primary care physicians have less advantages. The Valley-Wide position, with multiple clinic sites provides easier access to all patients and care close to home. The image of Valley-Wide as the poor peoples clinic is a barrier to growth and must be changed for a successful challenge in most segments of the market. A more detailed examination of the competition follows in the function portions of the plan.

### **STRATEGIC DIRECTION**

**Overall Direction:** Develop a network of care for the four life cycles segments. Increase capacity of the internal medicine practice to provide access to the largest growing segment of the market in the San Luis Valley. Increase the number of clinic sites in the west end of the geographic area. Develop a more customer oriented practice environment by separating internal medicine and family practice in Alamosa. Work with the hospital to attract another subspecialty group to the valley to be part of a new network of care.

**Target Market:** Women are the primary decision makers for health care services in each segment of the market. They are the primary target of all promotional and service design actions.

We will design the message to emphasize and define primary care as the most critical part of maintaining a healthy life for individuals and families.

**Positioning Statement:** Valley-Wide Health Services is the primary care system dedicated to helping you and your family maintain a healthy lifestyle with access to care close to your home with six medical clinics in convenient locations throughout the San Luis Valley. Transportation, translation, and outreach are available at every site.

**PERFORMANCE CRITERIA:** Generate gross sales of \$four point million (53.2% market dollar share) and net margins of at least 6% in the first year with subsequent sales growth to \$5.1 million in year two of operations with an increase in net margin to 8%.

#### **MARKETING OBJECTIVE**

To develop and increase Valley-Wide primary care services in all four market segments with a special emphasis on the medically underserved. Services will be developed that:

1. Deliver primary care close to home in convenient locations with convenient hours.
2. Expand Valley-Wide market share by at least 2 percent; and
3. Achieve a 2.2% market dollar share increase and generate gross sales of \$4.6 million and net margins of 6% the first year.

## **.KEY MARKETING STRATEGIES**

(Functional Roles and Guidelines)

**PRODUCT:** Comprehensive primary health care services including support and outreach are the product. We need to clearly identify the product definition and benefits for consumers. The advantages for individuals and families of being a Valley-Wide customer must be highly visible in the public mind and consistently reinforced with each customer encounter.

**PACKAGING:** There are many aspects in the packaging of primary health care services. The clinic atmosphere, communication standards required of receptionists, nursing, account representatives, physician practice styles, and the image of printed material and all media inserts are part of packaging. Valley-Wide primary care packaging also includes support services, lab, x-ray, and pharmacy.

**DISTRIBUTION:** The multiple clinic site location is the current strategy for distribution of services to customers. Expanding into the Del Norte, Monte Vista and Center Areas will make services available to a greater number of the market.

**PRICING:** We currently are the market's low cost producer. Additional research is needed to estimate the pricing requirements of a

managed care environment. Our current strategy of maintaining the lowest office visit charge is recommended. Currently we are over \$1 per unit of medicine lower than the SLV Medical Group. It is suggested we increase our conversion rate by 25 cents as soon as possible this year.

**ADVERTISING:** Advertising will play a larger role during the introductory phase of this plan. To attract new customers the benefits of the Valley-Wide services must be planted in the mind of the public. Media advertisements, special events, and educational opportunities will be developed which suit the demographic characteristics of the target markets.

**PROMOTION:** Promotion will be done by the Health Promotion/Disease Prevention programs.

Each program will be asked to develop a promotion plan to augment the media portion of promotion.

**PUBLIC RELATIONS:** Health care is a dominant theme in the media and will continue to be in the future. A public relations campaign will be planned and implemented quarterly by the Health Education Director. All information will reinforce the product identity and value added services of Valley-Wide.

### III PRODUCT DEVELOPMENT PLAN

We have a product identity in the market currently that attracts only 30% to 39% of the adult segment of the market. The largest potential for growth is in the private pay market, adult and medicare segments. We have the product in place to attract a significantly larger portion of both of these segments. The competition has more successfully competed for these groups.

Competitors:	Adults 21-60	Geriatric 60>
Valley-Wide:		
<b>Internal Medicine:</b>		
Robert Linden, M.D.	yes	yes
Shannon Mclaughlin, M.D.	yes	yes
Mike Firth, M.D. 1/2 time provider	yes	yes
Bill Brinton, M.D. .6 FTE Provider	yes	yes
<b>Family Practice:</b>		
Kris Steinberg, M.D.	yes	no
Roy Slice, M.D.	yes	no
Joseph Quintana, M.D.	yes	yes
Gladys Richardson, M.D.	yes	no
Elizabeth Kinney, M.D.	yes	yes
Dean Branson, D.O.	yes	yes
Phil Bogner, M.D.	yes	yes

**P.A. and Nurse Practitioner**

Eric Marty, P.A.-C.	yes	yes
Howard Cox, P.A.-C.	yes	yes
Thomas Reeves, P.A.-C.	yes	yes
Cathy McCurdy, P.A.-C.	yes	yes
Sarah Mulligan, FNP	yes	yes
June Fry, FNP	yes	yes

**SLV Medical Group and Other**      adults 21-60      Geriatrics 60>

Greg McCauliffe	yes	yes
Steve Sunderman	yes	yes
Grant Hurley	yes	yes
Eugene Gonzales	yes	no
Rick Ruitter	yes	no
Kathy Ruitter	yes	no
Dale Thomas	yes	yes
New La Jara Physician	yes	yes
Jim Cooper, P.A.	yes	yes
Marcos Celeda, M.D.	yes	yes

Valley-Wide has only only 39% of the medicare market and 31% of the adult market. However, we have 63% of the primary care

providers. This indicates we have excess capacity in the practices of our adult medicine providers. This is expensive to maintain, but provides great opportunity for growth.

#### **CONSUMER RESEARCH TRENDS:**

\* Physician service utilization increases as people age. According to current studies those aged 45 to 64 visit their physicians about 6 times a year, those 65 to 74 average 8 contacts, and those 75 and older average approximately 10 times a year. The population of America continues to age each year and the same is true of the San Luis Valley.

#### **IV PACKAGING PLAN**

\* Convenience is the most important aspect of customers decision making process when choosing a Doctor.

\* Transportation is also an important part of the decision. Many elderly are brought to appointments by younger working family members. So office hours need to be convenient for this group which is providing care and transportation.

\* Saturday and evening appointments provide additional access to this segment.

## V. DISTRIBUTION PLAN

- \* Each rural community wants its own physician or access to care close to home.
- \* A big concern is emergency services close to home.
- \* Being able to get an appointment with a provider and not having to travel 30 minutes to an hour in dangerously cold weather is an important incentive for getting care close to home.
- \* Being able to get prescriptions filled at the same location is another important issue.

## VI. PRICING PLAN

- \* The cost of care is important, but the cost of prescription medications because they are not covered by medicare, seem to have the greatest impact.
  
- \* Many medicare patients have only medicare part A, which hospital coverage.
- \* Payment plans are very important to this population who are on fixed incomes.
- \* The cost of insurance premiums and choice of Doctor are most important to this segment.
- \* They want at least 80% coverage of the most expensive parts of care, hospital and procedures.

Office Visits should be paid at least partially at the time of service.

## VII. ADVERTISING PLAN

\* The main communication vehicle for the Valley is the Valley Courier and the Monte Vista Journal. Local Newspapers have the largest advertising following. Radio Stations do have additional reach but only as secondary vehicles.

Phone Book Yellow Pages

This is effective for new patients and those choosing or switching Doctors.

Newspaper

Effective for image building, new service announcement, and workshop health education type information.

Radio or Television

Radio will be used to augment frequency of the message.

Personal Selling

Research indicates that most people surveyed choose their health care provider using word of mouth information from a family member or friend. This creates the opportunity to use one on one personal selling opportunities to attract patients. Special events and health education programs are effective personal selling tactics.

## **Creative Strategy**

### **Objective:**

To position Valley-Wide Primary Care services as the most convenient and most customer oriented health care system in the market.

### **Target Audience:**

The adult population 45-64 and 65 and up. Women are the main decision makers for health care services.

### **Key Consumer Benefit:**

Health Care close to home for your entire family.

### **Reason To Believe:**

17 years of growth and commitment to the SLV.

### **Tone and Manner:**

Women are the primary target. They make most of the choices about health care purchases.

The tone should be emotional, sincere, and focused on the family.

### **VIII Promotion Plan**

\* The Health Education Department will be responsible for identifying all companies in the area

that have 25 employees and over and contacting them about Valley-Wide services for adults. The same will be true for clubs,

organizations, and other agencies. The promotion aspect will be created to attract families and women to find out about Valley-Wide services.

### **IX. PUBLIC RELATIONS**

The Health Education Department will coordinate all PSAs. Monthly articles on services will be planned and inserted in local media. Efforts will be made to keep Valley-Wide adult services in the public eye at least 2 times each quarter.

### **X. BUDGETS**

Following is the summary for each of the functional areas:

Product Development (OtherHealth/Other/Printing	\$39,133
Packaging Development	
(Promotion/ Advertising/Equipment/	\$6,000
Distribution(Del Norte/Center/Monte)	\$4,000
Advertising	\$5,000
Promotion	\$4,000
Public Relations	\$2,000
Total	\$60,133

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