MHSA 8863 -- Healthcare Strategic Marketing and Planning
Service Area/Competitor Analysis

I. What is Service Area/Competitor Analysis?
   A. Competitor analysis is the process by which an organization attempts to further define and understand its industry through identifying its competitors, determining the strengths and weaknesses of these rivals, and anticipating their strategic moves. It embodies both competitor intelligence to collect data on rivals and the analysis and interpretation of the data for strategic decision making.
   B. With the increase in industry consolidation, emphasis on the “bottom line” in not-for-profit as well as for-profit organizations, niche marketing, and emphasis on competitive advantage, health administration students increasingly need to develop competitor analysis skills. Some health care experts suggest that such a business approach subjugates quality of care issues to bottom line issues. Competitor analysis, however, is central to strategy as competitors’ actions often determine an organization’s success or failure.
   C. External analysis provides the context by identifying the general and industry issues that may impact individual health care organizations.
   D. Competitive analysis focuses on the specific competitive market and competitors within that market.
   E. In the past competitor analysis may not have been necessary in analyzing health care markets. However, the industry has changed because of the following factors:
      1. Increases in managed care.
      2. Efforts to reduce cost.
      3. Efforts to increase efficiency.
      4. Increases in the number and size of for-profit health care organizations. (health plans, LTC facilities)
      5. Changes in perspective concerning competition.
      6. Over supply of hospital beds in some areas.
      7. New organizations entering markets.
      8. Decline of friendly competition. (Perspective 3-1.)
      9. Separation of consumers of health services from payors.

II. Specific Purpose of Competitor Analysis.
   A. Organizations should engage in competitor analysis for the following reasons:
      1. To gain an understanding of competitors. (Perspective 3-2.)
      2. To identify any vulnerabilities of competitors.
      3. Assess the impact of its own strategic actions. (Perspective 3-3.)
      4. Identify potential moves that competitors might make that could endanger the organization’s position.
   B. The process helps develop and identify competitive advantage.
   C. Types of competitor information.
      1. General -- general competitor information is useful to avoid surprises in the marketplace, provide a forum for executives to discuss and evaluate their assumptions about the organization’s capabilities, market position, and the competition, develop awareness of significant and formidable competitors that require the organization to respond to, help the organization learn from rivals through benchmarking, build consensus among executives concerning the organization’s goals and capabilities, thus increasing their commitment to the chosen strategy, and
foster strategic thinking throughout the organization.

2. **Offensive** -- offensive competitor information is helpful to identify market niches and discontinuities, select a viable strategy, and contribute to the successful implementation of the strategy.

3. **Defensive** -- defensive competitor information will aid in anticipating competitor’s moves and shortening the time required to respond to a competitor’s moves.

D. Depending on the intent of the competitor analysis, an organization might use all of these categories or just one or two. For example, in the early stages of competitor analysis, the organization may seek only general information. As an organization plans to enter new markets, offensive information may be the primary focus of the competitor analysis. In the face of strategic moves by a powerful competitor, defensive information may take precedence.

### III. Impediments to Effective Competitor Analysis

A. **Misjudging industry and service area boundaries** -- To avoid a focus that is too narrow, the service category and service area must be defined in the broadest terms that are useful. In today’s health care environment, competition may come from very non-traditional competitors (outside the health care industry). Typically, health care managers have focused their analysis on local markets. However, a local or regional focus may lead to delays in recognizing changes in the service area boundaries.

B. **Poor identification of the competition** -- In many cases health care executives focus on a single established major competitor and ignore emerging or lesser known potential competitors.

C. **Overemphasis on competitor’s visible competence** -- Less visible attributes and capabilities such as organizational structure, culture, human resources, service features, intellectual capital, management acumen, and strategy may cause misinterpretation of a competitor’s strengths or strategic intent.

D. **Overemphasis on where, rather than how to compete** -- effective competitor analysis requires predicting how competitors intend to position themselves. Although often difficult, determining competitors’ strategic intent is at the heart of competitor analysis. An effective competitor analysis should focus on what rivals can do with their resources, capabilities, and competencies - an extension of what competitors are currently doing to include possible radical departures from existing strategies.

E. **Faulty assumptions about the competitors** -- Faulty assumptions can suggest inappropriate strategies for an organization. Poor environmental scanning perpetuates faulty assumptions.

F. **Paralysis by analysis** -- In environments undergoing profound change, volumes of data are generated and access to it becomes easier. Under such conditions, information overload is possible and separating the essential from the nonessential is often difficult.

### IV. A Process for Service Area Competitor Analysis. (Exhibit 3-1.)

A. **Defining the service categories.**

1. It is important to focus competitor analysis on specific service categories. The service category may be very broad such as acute inpatient care or very specific such as pediatric hematology-oncology.
2. Each service category may have a different geographic and demographic service area.
3. Many health care organizations have several service categories or products and each may have different geographic and demographic service areas. Identifying service categories is seldom an easy task and the level of specificity will vary with the intent of the analysis.

4. For a multi-hospital chain deciding to enter a new market, the service category may be defined as acute hospital care but for a rehabilitation hospital, the service category might be defined as physical therapy or orthopedic surgery.

5. In addition, because many health care services can be broken down into more specific sub services, the level of service category specificity should be agreed upon. For example pediatric care may be broken down into well-baby care, infectious diseases, developmental pediatrics, pediatric hematology-oncology, etc.

B. Defining the service area. (Exhibit 3-2.)
1. Geographic boundaries – vary by service category (emergency room boundaries are closer to the hospital that open heart surgery geographic boundaries).
2. Service area profile – includes economic, demographic, and community health status indicators (different economic conditions may call for different competitive actions - Exhibit 3-3).
3. Health care organizations generally focus their environmental analyses on their service areas or community. The service area is considered to be the geographic area surrounding the health care provider. It is usually limited by fairly well-defined geographic borders. Beyond these borders, services may be difficult to render due to distance, cost, time, and so on and are probably not competitive. Therefore, a healthcare organization must not only define its service area but also analyze in detail all relevant and important aspects of the service area.
4. Managed care/selective contracting tends to interrupt the normal decision making by consumers. An employed individual today usually has some choice in health care insurance. The employer may offer one or more different “plans.” Once the consumer has selected a managed care plan, the availability of further choices becomes more restrictive. And, in fact, the more the HMO attempts to control health care costs (structures health care delivery more), the more restricted choice becomes for consumers.

C. Service area structure analysis - Porter’s competitor analysis. (Exhibit 3-4 for a diagram of Porter’s competitor analysis and Exhibit 3-5 for an example using the analysis.)
1. Porter suggested that the level of competitive intensity within the industry is the most critical factor in an organization’s environment.
2. In Porter’s model, intensity is a function of the threat of new entrants to the market, the level of rivalry among existing organizations, the threat of substitute products and services, the bargaining power of buyers (customers), and the bargaining power of suppliers. The strength and impact of these five forces must be carefully monitored and assessed.

D. Conducting competitor analysis and mapping strategic groups.
1. Competitor strengths, weaknesses, and strategies. (Exhibit 3-6 for potential competitor strengths and weaknesses.)
2. Critical success factor analysis.
3. Strategic groups.
4. Mapping competitors (Exhibit 3-7 for a map example).
5. Likely competitor actions or responses.
6. Organizations have a unique resource endowment and a comparison with a given competitor will help to illuminate the relationship between them and to predict how they compete with (or respond to) each other in the market. Both quantitative and qualitative information may be used.
7. Competitor information is not always easy to obtain and it is often necessary to draw conclusions from sketchy information. Such information may be obtained through local newspapers, trade journals, focus groups with customers and stakeholders, consultants who specialize
in the industry, securities analysts, other health care professionals, and so
on.

D. Synthesizing the analysis.

1. In order to be useful for strategy formulation, general external
environmental analysis (Chapter 2) and service area competitor analysis (as
covered in this chapter) must be synthesized and then conclusions drawn
relating what is known about the general environment with what is known
about the local competition.