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Product Line Management in Healthcare

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Marketing and delivering a competitive product or service has become more important to the healthcare sector with the increasing market competition and changing reimbursement methods. The need to integrate the operational, marketing, and financial performance of a distinct product, program, or service to meet the customer requirements has emerged. Most healthcare organizations are struggling to find ways to rapidly mobilize and organize their resources to focus on the product, but have a host of barriers to overcome.

A shift to **product line management** may be the answer for those healthcare organizations that are willing to accept the enormous challenge of radically altering the organizational structure and function toward a market-driven, product focus. The implication of such an organizational transformation - from a departmental basis to a product/customer priority- results in changes in roles, relationships, and perceptions among all management levels in an organization.

Product line management is a business technique that focuses management on all of the product components, its market requirements, and its competitive advantages. The terms "service line management" or "program management" are often used interchangeably with "product line management" (PLM) in healthcare to downplay the "product" as a commodity, versus the "service or program" as an intangible good.

This management model has been common in the manufacturing industry for decades. Proctor and Gamble successfully introduced the concept in 1928 to compete in a rapidly changing pre-Depression market. By the mid- 60s, most large manufacturers adopted this management model and branded new products as distinct and different with each major introduction or improvement.

The central goal of product line management is to produce a quality product in the most cost-effective manner. Rapid decision-making and responsiveness to the customer are hallmarks of a product line approach. It is a relatively new management concept for the healthcare industry.

No one can argue that healthcare experiences a rapidly-changing market. The indications for a change in management methods that stress customer needs and a competitive product are very apparent. But the transition to a cost-competitive, customer-driven approach in an industry that has been market- and price-protected will take time and effort. For the healthcare organization, the need to change to survive will need to outweigh the basic organizational need to conduct business as usual.

To further complicate the issue, healthcare continues to have difficulty identifying exactly who the customer is. The third party payment system and the "art of medicine" have distorted the customer focus. Is it the patient? The doctor? The payor? The health system? The network? The employers? The community? Consolidations and acquisitions that are reported on a daily basis further confuse the customer's identity. This market turbulence makes a customer-driven focus both a necessity and a near impossibility.

Hospitals have traditionally been organized along functional reporting lines. That is, similar departments or services have been organized to report as business units for organizational expediency. For example, in most hospitals the Pharmacy, Radiology, and Laboratory Departments report as "ancillary" services through a Director to a Vice President. Likewise, patient care units throughout the hospital often collectively report as "nursing services" to the Nurse Executive, regardless of the product or service particular to each specialty nursing area. This traditional structure promotes esprit de corps within each discipline and supports the pre-DRG cost-based reimbursement model. Further, the departmental model complies with standard hospital budgeting

procedures and the "all things to all people" approach generally assumed by most hospitals.

However, the traditional reporting structure will not be effective for healthcare organizations that are seeking to compete and differentiate products on quality or price in a changing market. The conventional structure focuses management on the departmental or functional issues, rather than on product cost or quality. Further, this "internal" approach has lacked a direct relationship with the customer to gain continuous feedback on the product and make immediate improvements.

Allocation of resources, budgeting, and interdisciplinary teamwork in hospitals are often defined by the traditional reporting lines. Developing program- or product-focused initiatives are often undertaken through parallel means, and often run cross-current to the organizational platform. Often, a product is introduced and managed according to market influences "in spite" of the organizational boundaries.

A product line management approach in healthcare is based on the premise that the hospital is a business enterprise with multiple service lines. The PLM planning and management system coordinates and facilitates the services within each product line to provide comprehensive and cost-effective care to each patient. Patients can benefit from a higher level of accountability from persons who see themselves as responsible for their full continuum of care—the "product."

Although the market advantages of this approach are many, its application and long term usefulness in health care remains controversial. Product line management assumes a free marketplace wherein buyers and sellers are well informed. First, with so little accurate published data on quality in healthcare available, there is scant information to compare or access by the consumer in making decisions on the quality of the "product." Second, with the third party payment system still in place, the healthcare purchaser is not usually the consumer of the product and therefore, price is not immediately tied to the product. Third, with the patient consumer influenced by several intermediate buyers—the employer, the doctor, the hospital—product choice is often pre-determined and not a free market arena.

In spite of the organizational obstacles and the questionable fit with the market features of the healthcare industry, product line management (*by whatever name you call it*) continues to offer organizations an effective means to refocus management on the market need (*although it is changing daily*) and the customer (*whoever that may be*) to deliver the "highest quality product at the lowest possible price." This is a tried and true business principle that never fails—even in healthcare.



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Corazon combines business planning, market and financial analysis, feasibility studies, clinical operations, Heart Hospital design, best practice benchmarking, and staff education for newly established or existing cardiovascular programs.

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