

Examining the impact of a hospital's portfolio strategy on patient demand

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Researchers from Indiana University and Texas Christian University published a new *Journal of Marketing* study that examines the impact of a hospital's portfolio strategy on patient demand.

The study is titled "[Hospital Portfolio Strategy and Patient Choice](#)" and is authored by Sarang Sunder and Sriram Thirumalai.

Structural changes in the health care industry (e.g., the institution of the Affordable Care Act) over the past decade, as well as advancements in technology and care delivery, have resulted in an unprecedented shift toward patient-centric care. This means that marketing is now a critical differentiating factor in the health care industry. While hospitals have tried a number of marketing strategies with varying degrees of success, one aspect largely ignored is a hospital's organization of its service offerings or its portfolio strategy.

This new study assesses the impact of a hospital's portfolio strategy on patient demand. A growing trend in health care in recent years has centered on hospital portfolio strategy—hospitals making key portfolio decisions such as expanding or contracting emphasis on care delivery within select departments.

For example, Sanford Health, one of the largest rural health systems in the U.S., expanded its emphasis on cancer care services with an allocation of a new dedicated center with specialists, facility, and technology. Orlando Health recently opened an entire hospital unit just for Orthopedic care. These portfolio decisions call for significant resource investments, often running into millions of dollars.

But do these portfolio decisions pay off? This is a common dilemma that hospital CEOs face. Should they invest toward specializing in an area? Or diversify across other areas? If so, which areas should they invest or divest in? Through a series of empirical analyses involving secondary data on inpatient discharges, coupled with experiments, the researchers shed light on these questions.

Effect of portfolio strategy on demand

Sunder explains that "we define a hospital's portfolio strategy across two dimensions. The first is focus, which is the depth of expertise within a category. The second dimension is the related focus, which is the breadth of expertise across related categories." Hospitals with a high focus on a department may be regarded as "specialists" with a high depth of expertise in that category (e.g., Shouldice Hospital for hernias).

Hospitals with a high related focus in a department (e.g., cardiology) are selectively focused on multiple other categories (e.g., endocrinology, respiratory, and digestive systems) that are clinically relevant to that department (e.g., Cleveland Clinic).

A hospital's portfolio strategy can shape patient preference in important ways. There is value to specialization or focus. An increase in a hospital's focus in a department leads to a significant increase in [market share](#). However, some patients prefer hospitals that are able to signal breadth of expertise (i.e., focusing in related areas has a positive effect on market share). The results strongly suggest that patients do pay attention to hospital portfolios.

While the effects are significant and substantive, it is also important to know why they are so. "We demonstrate that portfolio strategy can act as a strong signal of clinical quality, which patients care deeply about. Put differently, our results highlight the value of reputation/competence signaling by hospitals through their service portfolios, in particular for patients with complex needs," says Thirumalai.

Lessons for Chief Marketing Officers

This study offers guidance to executives in health care, especially those in management roles at hospitals.

1. The revenue implications of portfolio strategy are sizeable. While the portfolio effects are indeed positive on average, the effect varies a lot across [hospital](#) departments. In other words, where you focus matters! For instance, while a 1% increase in focus on the kidney and urinary tract department translates to a 0.9% increase in market share (about \$181,000 in annual revenue), a corresponding increase in focus on the ear, nose, and throat department is associated with a 0.8% increase in market share (about \$84,835 in annual revenue). Thus, there may be larger benefits from focusing on some departments than others, rendering it suboptimal to follow a one-size-fits-all approach to portfolio growth.
2. Organize your portfolio based on its effects on demand. For some departments (e.g., kidney and urinary tract), patient preference for both focus and related focus is high. These departments stand to gain the most by building depth of expertise in the focal category and breadth in related areas of care. In contrast, for departments such as cardiology and endocrinology, the benefits are higher for pursuing only one of the portfolio strategies, which thus calls for a nuanced approach to portfolio strategy across departments.
3. Potential for targeted positioning. The research indicates that patients' preference for focus and related focus is higher when their care needs are more complex. The study's results show that patients may find greater value in focus and related focus capabilities when faced with complex needs, indicative of an upside market potential of focus that perhaps remains untapped. In other words, while portfolio decisions have largely been a supply-side decision, the study points to the demand-side potential by highlighting its relevance among the complex patient population.

In summary, the research indicates that hospitals have the opportunity to

leverage [portfolio](#) strategy to target specific patient populations, further enhancing their patient-centric capabilities.

More information: Sarang Sunder et al, Hospital Portfolio Strategy and Patient Choice, *Journal of Marketing* (2023). [DOI: 10.1177/00222429231204247](#)

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