

# Stopping Outshopping

## SNAPSHOT

**Institution:**

Scarlet Hospital, a 350-bed, not-for-profit provider of general medical and surgical services

**Locations:**

Walnut Grove (population 25,454), a small community located in the Mountain region of the United States

Salem (population 187,452), a large metropolitan area located approximately 50 miles to the east of Walnut Grove

**Character:**

Mr. Timothy Rogers, President and Chief Executive Officer, Scarlet Hospital

**Context:**

In this case, transportation infrastructure improvements force the top executive of a once-isolated hospital to consider the impact of patients opting to receive medical care in a neighboring, larger city.

Timothy Rogers, President and Chief Executive Officer of Scarlet Hospital, has a dilemma. His institution is facing an interesting and potentially threatening situation which ironically is the result of something beneficial occurring in the community. Specifically, an interstate highway is being extended from Salem, a large metropolitan area of 187,452 residents, to

Walnut Grove, a small community of 25,454 residents located approximately 50 miles away, which serves as the home of Scarlet Hospital.

This new transit route, located in the Mountain region of the United States, will reduce the travel time between Salem and Walnut Grove from just over 1 hour via a winding two-lane local highway to approximately 40 minutes via the modern four-lane interstate highway, dramatically improving the accessibility between the two cities and beyond. While this development has the potential to yield many benefits for Walnut Grove, it also will usher in a new set of challenges to every business in the city, as Walnut Grove will become less distant—at least in terms of travel time—to the larger city of Salem and its burgeoning pool of competitors eager to attract new business from outer-lying communities. Needless to say, this has Timothy concerned, knowing that Scarlet Hospital will face challenges associated with retaining its patient population, given improved access to Salem and its four major medical centers.

Timothy has served in his current position at Scarlet Hospital for the past 14 years and he has witnessed many challenges over that time period. Dealing with competition, however, has not been much of an issue in recent years, making the threat associated with the new interstate an especially challenging matter. A 350-bed, not-for-profit medical care provider, Scarlet Hospital is the only hospital in Walnut Grove, the result of a merger between two competing hospitals over a decade ago, and is the largest healthcare provider within a 50-mile radius. The distance between Scarlet Hospital and the larger metropolitan areas teeming with healthcare institutions has benefited the facility in that consumers in the marketplace historically have been inclined to look to Scarlet Hospital for delivery of healthcare services, viewing more distant facilities simply to be out of reach.

In fact, the only competition in the marketplace has been in the area of outpatient care, as Walnut Grove is the home of several medical practices that compete with Scarlet Hospital on several service fronts. All in all, Scarlet Hospital has enjoyed delivering medical services in a highly insulated market, softening its competitive prowess, but not its commitment to quality, thanks to Timothy's philosophy of delivering the highest quality medical care possible.

Whereas some institutions would use this isolation to provide second-rate services, taking advantage of the captive market, Timothy has always believed in delivering the best and striving to outdo past efforts at every opportunity. He, too, demands this commitment from all employees.

For this reason, Scarlet Hospital has maintained standards of excellence in care delivery that rival those of institutions in much larger cities, giving him confidence that the hospital will be able to compete in the quickly approaching, more competitive environment.

When the highway extension was announced 1 year ago, Timothy called a meeting with Scarlet Hospital's senior management team and outlined the situation, stating that the team would need to devise a defensive plan for deployment no later than 6 months in advance of the opening of the highway. He also advised everyone to keep a watchful eye on the marketplace, reporting any indication of competitive activity immediately. He noted that, just as in any market, some outshopping will occur, with patients looking to external markets for institutions to address their healthcare wants and needs, but that the increased accessibility to Salem would likely hasten such. Their job, Timothy insisted, was to ensure that outshopping did not become epidemic.

Timothy's points were well taken by all. Scarlet Hospital's senior managers each knew the risks of doing nothing as many hospitals in smaller cities over the years have watched their patient bases dwindle at the hands of more aggressive competitors in larger cities, effectively skimming given communities of their most valuable and profitable patients. Those patients with few or no resources are left, as they simply do not have the means to look to other markets for healthcare services. As a result, cost shifting opportunities become more limited, with threatened financial viability and closure being worst case scenarios. The team dedicated themselves to ensuring that this did not occur.

At the 6-month point, Scarlet Hospital's senior management team had developed a defensive plan that primarily increased the hospital's advertising efforts, securing more billboards than it had in previous years, introducing radio advertisements for the first time in many years, and bolstering other forms of marketing communication. Scarlet Hospital was fortunate in that its commitment to quality over the years meant that the physical plant, clinical and administrative staff members, and quality of care rendered all were top notch, meaning that upgrades, other than those that naturally occur within any progressive entity, were not necessary to gain parity with larger institutions. The team felt confident that their actions would protect Scarlet Hospital's market share and the plan was immediately initiated.

Three months prior to the opening of the highway, Timothy and his staff members began noticing local advertisements—mostly billboard

and newspaper ads, and a few radio spots—promoting healthcare institutions in Salem. Much as they anticipated, Salem’s healthcare institutions viewed Walnut Grove’s population as a source of growth, given upcoming improvements in accessibility. The advertisements generally stressed that Salem would soon be within easy reach of Walnut Grove. That was troubling enough to Timothy and his senior managers, but perhaps the most disturbing aspect pertained to overtones in the advertisements that health care delivered in the “big city” is better.

Timothy’s greatest concern was that the advertisements were creating the perception that care is perhaps less effective at Scarlet Hospital. Given this, it was very clear that Scarlet Hospital, whose advertisements served primarily as reminders of the excellent quality and care delivered by the hospital, would need to be more aggressive in its marketing communications, as it was apparent that the battlefield would be one of perception. Waging war on this front would no doubt require intensive planning, something Timothy vowed to initiate immediately in an effort to address the most significant threat that Scarlet Hospital has witnessed in many years.

## DISCUSSION

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1. Courtesy of Timothy’s philosophy of continually striving for excellence, Scarlet Hospital was well prepared to compete with establishments in Salem even before the highway improvements mandated such. What lessons does this case teach healthcare executives about never becoming complacent, despite being in environments that might permit such luxuries?
2. It appears that the healthcare institutions in Salem are making strong moves to attract patients from Walnut Grove, threatening Scarlet Hospital. Timothy indicated that, given the competitive advertisements’ suggestions that “big city” medicine is better, the battlefield will be one of perception. What do you believe he meant by this statement?
3. Timothy notes that the nature of competitive advertisements placed by Salem-based healthcare institutions in Walnut Grove calls for Scarlet Hospital to be more aggressive in its marketing communications efforts. Based on your knowledge of marketing and the information supplied in the case, how would you go about addressing these advertisements and why would you take such steps?

4. The case provides a reasonable amount of detail regarding Scarlet Hospital's defensive plans. Based on your knowledge of marketing and the information supplied in the case, provide a critical review of Scarlet Hospital's defensive plan. If you were an employee of Scarlet Hospital and Timothy asked you how you would go about shoring up the plan, what would you suggest and why?
5. Although the case provides limited information, it seems that Timothy is completely discounting a potentially very positive outcome resulting from the new interstate highway, namely that it might provide a chance for Scarlet Hospital to attract patients from the Salem marketplace. Outshopping, therefore, might be a real concern for healthcare establishments in both Walnut Grove and Salem. Timothy outlined his defensive strategy, but did not address an offensive one. Think deeply on the possibilities, given the scenario provided in the case, and formulate an offensive strategy that could be deployed by Scarlet Hospital to turn the tables on Salem-based healthcare providers.