1.0 Executive Summary

The Veterans Health Administration (VHA) operates the largest integrated healthcare system in North America providing healthcare services to 3.6 million armed forces veterans. Three targeted markets/stakeholders that influence the VHA's strategic direction are eligible beneficiaries, VHA employees, and members of congress. The VHA's patient population is considerably older, sicker, and socioeconomically disadvantaged compared to the civilian sector. Healthcare across the country (both private and public) continue to experience a significant rise in cost due to new medical technology, increasing chronic diseases, higher life expectancy, and an increased incidence as well as prevalence of end of life care. Primary competition comes from private sector healthcare. Therefore, all levels of care of the VHA program should seek to attain high patient satisfaction, good patient access to care, and low-cost care. Non-enrolled veterans may opt for private services seeking better quality, access, and customer service. The keys to marketing success are transforming the organization to meet customer needs while maximizing patient satisfaction and extending services to a greater number of veterans not currently utilizing the VHA services. The decisive positioning will be achieved by promoting the transformation from centralized control of the organization's operations to the regionally focused VISNs. The VHA will demonstrate its capability to adapt and innovate to meet the patient's needs to ultimately provide more personalized and higher quality care experience to expand beneficiary enrollment.

2.0 Situation Analysis

The Veterans Health Administration (VHA) operates the largest integrated healthcare system in North America providing healthcare services to 3.6 million armed forces veterans. In October 1995, the VHA began transforming its leadership and organization structure,

performance rating systems, and from a centrally led organization to a community-based network of VHA and non-VHA providers. After four years of transformational experimentation, the GAO (1999) identified several remaining problems including, how to restructure aged capital assets, and hospital closures, each of which could cost billions of dollars in unnecessary expenditures over several years. During this same year, many congressional representatives felt the VHA's transformation momentum lacked political support in part because projected savings (1.4 billion) from changes made to the system seemed very unlikely. Three targeted markets/stakeholders that influence the VHA's strategic direction are eligible beneficiaries, VHA employees, and congress. Each market will be investigated within this marketing plan in turn.

2.1 Marketing Summary

Although the VHA has good information regarding the perceived needs of stakeholders, effective communication that clearly articulates its vision and values is critical for it to meet its strategic goals. Additionally, the VHA leadership will need to keep its eyes on trends occurring in the civilian sector to compete effectively in a constantly evolving marketplace.

2.1. Market Demographics

Geographic

VHA hospitals are spread all throughout the continental United States, Alaska, and Hawaii. Among the VHA's key stakeholders, there are 25 million veterans residing in the United States, 180,000 employees, and the United States government. Geographically, the VHA is structured into 22 veterans integrated service networks (VISNs) spread out over the United States. Each VISN is led by a network manager who answers to VHA headquarters and is responsible for all basic budgetary and planning for health-care delivery activities in a specified geographic region.

Demographics

The VHA's patient population is considerably older, sicker, and socioeconomically disadvantaged compared to the civilian sector. The following are selected demographic characteristics of the VHA:

- Approximately 33% of eligible veterans are sixty-five years or older.
- 25.4% of VHA patients are non-Caucasian, 35.7% are unmarried, and 26% have less than a high school diploma.
- 70.5% of VHA patients report incomes of less than $20,000 annually and 38.5% had an income of less than $10,000 annually (Exhibit 1, pg. 13).

Behavior Factors of Targeted Markets

Customers. VHA fails to capture those veterans with a higher propensity to pay as 70% of its total patients have incomes reported of $20,000 or less. Additionally, 59.3% of those using VHA services are unable to work for pay and experience limited activities of daily living compared to 14.9% of veterans not using VHA services.

Employees. Generally speaking, VHA employees are resistant to innovation and risk averse. They considered Dr. Kizer's attempts to reshape the VHA as a fad that would eventually fade. Many VHA employees failed to understand that Dr. Kizer's plans would significantly change the status quo.

Government. Some elected officials remained skeptical of the VHA's strategic aims, and questioned the effectiveness of enacted changes. For example, in a 1999 meeting, Senators John Kerry and Ben Campbell expressed concerns to then VHA director, Dr. Kizer, about ongoing VHA hospital restructuring occurring in their respective states.

2.1.2 Market Needs

The VHA is a national healthcare system that provides multiple levels of care to veterans and non-veteran users in a variety of settings including outpatient/inpatient clinics, long-term care and rehabilitative care facilities, as well as social services and specialty care clinics. No matter the care rendered, all levels of care share three overarching goals; high patient satisfaction, good patient access to care, and low-cost care.

2.1.3 Market Trends

Healthcare across the country (both private and public) continue to experience a significant rise in cost due to new medical technology, increasing chronic diseases, higher life expectancy, and an increased incidence of end of life care. To keep pace with the market, the VHA will need to shift its emphasis from inpatient tertiary and secondary care to outpatient primary care by emphasizing managed-care principles within community based clinical settings. As the cost of providing health services continues to increase and the government faces significant fiscal constraints, the organization will need to focus on efficient delivery of preventative healthcare services.

2.1.4 Market Growth

Although the number of veterans in the US has decreased by 2 million (27 million to 25 million) in the last five years, the VHA increased the percentage of veterans served from 10% in 1994 to 14% in 1999, resulting in an increase of 1 million eligible veterans served. This low percentage of eligible veterans served indicates an opportunity to gain greater market share. Moreover, the VHA outpatient care services grew in the 1990s because innovative technology facilitated a shift in some inpatient procedures to ambulatory settings and prospective payment systems reduced incentives for long inpatient stays. The portion of elderly population continues

to dominate the patient population, requiring a greater need for care in all aspects: chronic disease management, long-term care, pain management, rehabilitative care, etc.

2.2 SWOT Analysis

2.2.1 Strengths

The VHA has several strengths that are worthy of mention. The following are selected strengths:

- An IT system widely viewed as one of the best systems from a clinical, patient-management point of view; VistA
- VHA provided substantial health-professional training within its hospitals.
    - 85% of VA hospitals were associated with medical schools,
    - 50% of medical students rotated through VA hospitals each year.
    - 33% of all post-graduate medical residents rotated through the VA each year as part of their training.
    - VHA's emphasis on biomedical science, rehabilitative medicine, and health-services delivery research had produced many seminal studies in a variety of fields. Over 70% of VHA physicians hold appointments with universities.
- VHA homeless programs is the largest integrated network of homeless assistance programs in the country and offers a wide spectrum of resources to helps homeless veterans live self-reliantly and as independently as possible.
- VHA Customer Satisfaction Scores vs. Private Hospitals were 9% higher (79% vs 70%)

2.2.2. Weaknesses

The VHA has many weaknesses. A few selected examples are mentioned below:

- Educational and training gaps in marketing, capital investments, and contract negotiations.
- Organizational resistance to change and risk aversion make transformational change difficult to achieve.
- Patients experience access difficulties especially in rural areas where some may travel hundreds of miles for routine care and endure long wait times for routine appointments.
- Difficult to access- patients travel hundreds of miles for routine care / endure months-long backlogs for routine appointments
- VHA remains a large and cumbersome organization not oriented toward flexibility and innovation and its leadership style remains rooted in a command-and-control, military-style mind-set.
- The VHA does not adequately demonstrate best practices with its inpatient care, in part because outdated regulatory codes perpetuate out-of-date service delivery models.
- Deeply entrenched labor unions make it difficult for manager to jettison unproductive workers.
- VHA employees were generally resistant to change and had difficulty believing that meaningful changes would alter the status quo with a change in leadership.

2.2.3. Opportunities

The VHA has many opportunities to shore up support from its key stakeholders. The following are the most critical opportunities:

- The VHA's national presence in each state enables it to reach a broad audience of beneficiaries.
- 86% of the beneficiary market stands to gain access to VHA systems

- The VHA can continue its momentum from recent successes over the past 4 years.
- Window of opportunity exists for the VHA to:
    - Modernize the structure and delivery of its healthcare delivery system and organizational construct.
    - Change culture from a risk averse disposition to an innovative one that accepts mistakes as a natural part of the process of innovation.
- The VHA's has the ability to work with congress to simplify eligibility requirements and
- Improve care and reduce costs by sharing resources within networks and across networks (network directors).

2.2.4. Threats

The VHA's dependent relationship on congress for funding and eligibility policy control poses the most significant threat to its ability to maintain operations. Additionally, the culture of the VHA threatens the institution from adapting to new healthcare environments and its ability to stay competitive with private healthcare markets. In essence, if the private sector can provide better quality and access to care as well as more affordable care than the VHA, then the VHA may find it difficult to justify its existence.

2.3 Competition. Primary competition comes from private sector healthcare. Non-enrolled veterans may opt for private services seeking better quality, access, and customer service.

2.4 Product Offering. The VHA offers the following services: hospitals, outpatient clinics, nursing homes, home healthcare programs, residential care programs, counseling services, and state veterans homes.

2.5 Keys to Success. The keys to success are transforming the organization to meet customer needs while maximizing patient satisfaction and extending services to a greater number of veterans not currently utilizing VHA services. Exhibit 4 (Dr. Kizer's Strategic Goals).

2.6 Critical Issues. The most critical issues the VHA must manage are fiscal constraints, an aging population, employee risk aversion and resistance to change, government bureaucracy, low population enrollment, communication to key stakeholders, and the adequacy of data sets for key performance indicators.

3.0 Marketing Strategy

The key to the marketing strategy is focusing on all eligible beneficiaries. The VHA is able to retain its current enrolled eligible beneficiaries by offering subsidized affordable healthcare to those enrolled. Additionally, the VHA has been newly enrolling an increasing number of the eligible beneficiary population through an expansive outpatient and managed care network organized around a newly minted regional command nodes or VISNs. The decentralized command and control structure of the VHA in the form of the regional VISNs is better positioned to reach a greater number of eligible beneficiaries.

3.1 Mission

The Veterans Health Administration primary mission is to provide a seamless continuum of consistent and predictable high-quality, patient-centered care that is of superior value for its beneficiaries.

3.2 Marketing Objectives

- Increase accessibility to a greater portion of its veterans (25 million)

- Provide a steady increase in market penetration resulting in an enrollment increase of 1.5% compared to previous years of 1.0%
- Customer satisfaction improved from 80% to 90% in the next year
- Continue instilling a cultural change and a belief that the changes will work

3.3 Financial Objectives

- Reduce per patient costs by 15%
- Eliminate underutilized services, maximizing value of existing service lines
- Continue closing large VHA hospitals in the same geographic location

3.4 Target Markets

Given the purpose of the VHA, Veterans residing in the United States establish the market. As of 1999, there were 25 million veterans residing in the US. See Figure X for the targeted breakdown of veteran population by region and state. In addition, our secondary target market is the 180,000 VHA employees.

3.5 Positioning

The VHA will position itself as the premier healthcare organizations of choice for veterans by raising awareness of the size and reach of its facilities and services in the medical community. The decisive positioning will be achieved by promoting the transformation from centralized control of the organization's operations to the regionally focused VISNs. The VHA will demonstrate its capability to adapt and innovate to meet the patient's needs to ultimately provide more personalized and higher quality care experience.

3.6 Strategies

The VHA's primary objective is to position itself as the premier healthcare organizations of choice for veterans by raising awareness of the size and reach of its facilities and services in

the medical community. The marketing strategy will strive to achieve this positioning through creating customer awareness of its responsive structure through promotional efforts and media including television, newspapers, magazines, and town hall meetings in the communities. The VHA will reach its patients and internal employees by updating its website and intranet to provide widest access to most up-to-date information and improvement initiatives. Messages provided through these outreach methods will focus on eligible veterans, employees, and external political stakeholders.

3.7 Marketing Program

The VHA's marketing program consists of the following methods to reaching its target audiences, both internal (staff) and external (veterans, public, and government stakeholders):

- External: The VHA will primarily focus on these efforts to increase enrollment is through increasing brand awareness, communicating the ability to deliver value, increasing access, and improving satisfaction. This will be accomplished through several different marketing methods.
- Internal: VHA and VISN leadership will focus on staff awareness and commitment to goals, efficient use of limited resources, emphasizing education and training, the importance of employee satisfaction, and continuing to foster a culture where failure and innovation is acceptable.

3.8 Marketing Research

The VHA operates decentralized in areas of market concentration across the United States and is able to collect data through patient-performance and stakeholder SCORECARDS. The VHA also gleans performance and market trends through patient surveys and questionnaires and by leveraging patient and employee focus groups. Analysis of market data collected will be

used to identify market gaps and problem areas of the care and services provided by the VHA. The market data will also be used to compare VHA healthcare and services to established civilian performance benchmarks.

4.0 Financials

For fiscal year 2000, the VHA marketing department has submitted a request for $8.5 million of appropriated funds to establish a marketing campaign that will promote our initiatives through the following fiscal year. In accordance with the projected population growth, marketing budget increases will be requested by the expected served population growth rate, year over year. To maximize marketing resource, funding will be allocated on a per capita basis by VISN. VISNs will be expected to tailor marketing plans to their respective networks and demographics, to better connect with the veteran populations in its region. The new marketing effort is projected to increase the user population by 1.5% year over year. At the same time, the average expenditure per patient is projected to remain constant (except for inflation) due to staff and business optimization efforts. Although forecasted operational expenses may increase as the user population grows, annual budgets will be properly managed by the regional VISNs. Along with expected increases to the base appropriation, the VA is expected to remain fiscally solvent into the foreseeable future.

5.0 Controls

VHA marketing controls will include accurate and transparent reporting at the local, regional, and headquarters level. The following areas will be monitored to assess performance:

- VISN will report quarterly expenditures to the VHA HQ.
- VISN will report quarterly capitation numbers to VHA HQ.
- Regional VHA facilities will measure and report customer satisfaction metrics to VISN.

- Regional VHA facilities will measure and report employee performance metrics to VISN.

5.1 Implementation

- VISN Directors will be responsible for regional operations
- VISN Directors will plan regional VA Medical Center budgets and report to VHA HQ
- VISN Directors will leverage information technology and community resources
- VHA leaders and employees will be promoted according to performance metrics.
- The VHA will hire candidates that are flexible, representative of the population, align with the values of the VHA, and have the quantifiable attributes of education and job experience.

5.2 Marketing Organization

VISN Directors are responsible for all marketing activities, facilitated through the VHA public affairs office. Additionally, the Marketing and Business and Relations Team at VHA HQ provide guidance and assistance to the VISN Directors.

5.3 Contingency Planning

Difficulties & Risks.

- Congressional budget constraints pressure cost control and demand top quality.
- Political risk of losing support key leaders within Congress and funding
- Impatient Congressional leaders pressure swift changes from appointed VA Directors
- VISN Directors need active supervisor and employee support for success
- Bad press and lack of customer confidence to seek care within the VHA

Worst Case Risks

- The VA is abolished and all veteran health care is outsourced to the private sector.
- The MHA and VA merge.

- Executive law bans employee unions within the VA.

Figures

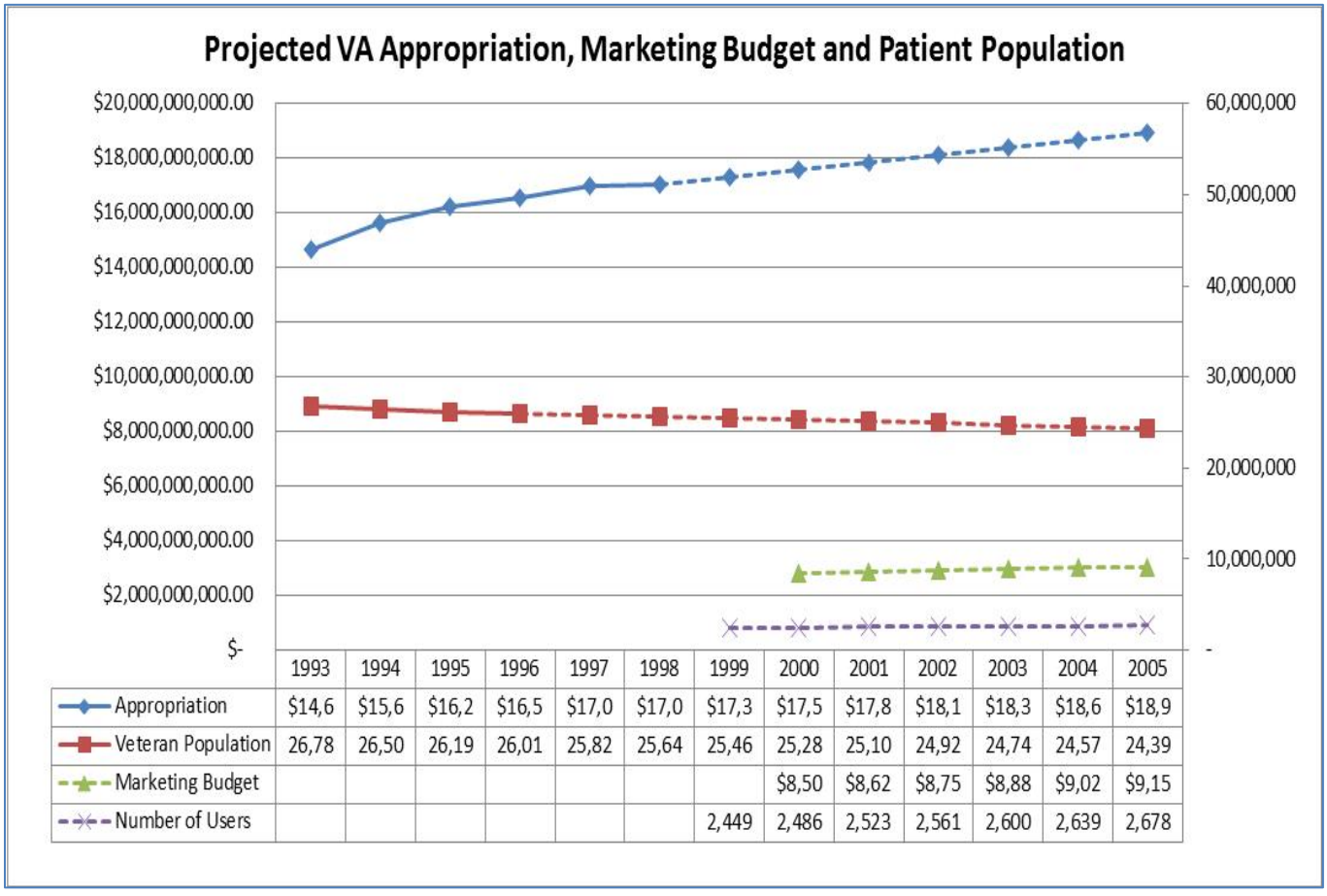
Table 2: Number of Enrollees and Users and Associated Costs by Priority Group, October 1998 Through March 1999

Priority group	Total number of enrollees	Number of users	Cost per user[a]	Total costs
1	443,134	362,240	$4,514	$1,635,117,425
2	297,480	205,256	2,394	491,465,728
3	532,913	329,059	2,216	729,292,271
4	120,398	94,786	11,733	1,112,088,333
5	1,378,924	1,047,098	2,679	2,805,336,809
6	58,678	27,095	1,542	41,767,687
7	486,260	243,080	2,629	316,213,510
Unprioritized	685,921	141,253	1,991	281,186,735
Total	**4,003,708**	**2,449,867**	**$3,026**	**$7,412,468,498**

[a]To determine the cost per user, VA divided the total costs by the number of users.

Source: VA's Office of Policy and Planning.

United States Department of Veterans Affairs (2000). *Expenditures*. Retrieved from http://www.va.gov/vetdata/Expenditures.asp



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Appropriation	$14,6	$15,6	$16,2	$16,5	$17,0	$17,0	$17,3	$17,5	$17,8	$18,1	$18,3	$18,6	$18,9
Veteran Population	26,78	26,50	26,19	26,01	25,82	25,64	25,46	25,28	25,10	24,92	24,74	24,57	24,39
Marketing Budget								$8,50	$8,62	$8,75	$8,88	$9,02	$9,15
Number of Users							2,449	2,486	2,523	2,561	2,600	2,639	2,678