



Creating Customer Value Propositions

By David P. Tarantino, MD, MBA

The flagship hospital of a large multi-hospital system decided to purchase an electronic medical record (EMR) module for anesthesia documentation. Three vendors submitted proposals for the project. The hospital's decision depends on the value proposition put forth by each company.

Both Company A and Company B are large vendors of EMRs looking to enhance market share in intra-operative documentation. Both offer discounted pricing on the module, with the hope of gaining additional business from the system.

Company C is a smaller, more specialized vendor. The price for its module is 10 percent higher than its two competitors for the project. Despite the higher price, the hospital purchases the Company "C" module.

How did Company C's value proposition differ from the other companies to allow it to win the project?

Businesses frequently will talk about their "value propositions," but as recently reported in *Harvard Business Review*, there seems to be little agreement as to what constitutes a value proposition, and more importantly what makes one persuasive enough to resonate with a customer.¹

In our example, Company A in its proposal highlighted the benefits of its documentation module. These benefits included improved billing capabilities for anesthesiology services, as well as enhanced charge capture of supplies for the hospital. These benefits provided the basis for its value proposition.

This approach, while very common, has a major downside since it focuses only on convincing the customer why they should purchase a product or service.¹ Hospitals frequently have been known to purchase a new clinical device, with proclaimed benefits to its patients and medical staff, only to have it not succeed.

A recent example is the daVinci robot. While the benefits of the device in prostate surgery have been lauded, its widespread use has not been realized, with many hospitals losing money on their investment despite the proposed benefits.

Company B's module also will improve billing capabilities and charge capture. In addition to these benefits, its module allows for the development of individual, customized templates based on the equipment, drugs and techniques most often used by the individual anesthesia providers. This point of difference forms the basis for its value proposition.

This approach requires knowledge not only of a product or service, but that of competitors' products, as well. While better than the benefits-only based value proposition, its pitfall lies in its value presumption.¹

Company B made the presumption that individualized, customized documentation templates are highly valued by all anesthesia groups, including those of the hospital in our example. But, how do you know if the value presumption is correct? Too many times, products and services have failed because companies have presumed to know what their customers truly value.

For example, a hospital undertook a project to improve patients' post-operative pain scores. After instituting new protocols to ensure better evaluation and treatment of pain, it found it continued to be dissatisfied with their post-operative pain care. The reason was the initial value presumption was incorrect.

The patients expected to have some pain after surgery. While they appreciated the greater attention given to their pain scores with the new initiative, what they truly valued was the ability to get sleep while in the hospital. While lack of pain control attributed to lack of sleep for some patients, other factors such as noise, lighting and early morning rounds also kept patients from sleeping.

Company C takes a different approach. It sends anesthesiologists and operating room nurses to operating rooms of potential customers to discover where value is needed. They discover the current paper-based systems to capture anesthesia billing and supply charges work well for the majority of operating rooms. They also find that most anesthesia groups have customized their paper anesthesia record documentation to suit their needs.

Most importantly, they discover the greatest amount and most inefficient use of time takes place with

pre-operative documentation, both for the anesthesia providers and the operating room nurses. There is frequent duplication of effort, since there is no means to utilize each other's documentation.

The surgeons are frustrated by delays caused by incomplete pre-operative documentation. Based on its research, Company C decides to focus its value proposition not just on the benefits or differences from competitors of its module, but on how it can provide seamless, coordinated pre-operative and intra-operative documentation to prevent operating room delays.

The result is more revenue-producing time for the surgeons, anesthesia providers and the hospital. This doesn't mean it ignores the benefits of its product, however. On the contrary, its value proposition also included points of parity with the offerings by Company A and Company B, including customized templates and improved documentation.

However, by discovering the job the customer needed to be done, namely, pre-operative documentation, Company C was able to create a value proposition with a resonating focus.¹ The result was its module was chosen despite its initial higher cost, since its value proposition would prove to enhance and sustain revenue well beyond either A or B's offering.

Company C won the contract because it made the effort to discover and articulate those elements valued by its customer. So, the next time your hospital or practice proclaims the "value" its new equipment or service will provide to patients, ask yourself whether it is merely expounding on the benefits of its new offering, or if it is truly articulating what is of value to patients. That is what creating a customer value proposition is all about.

**Deciding among Company A,
Company B and Company C.
Which would you pick?**



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Reference

1. Anderson AC, Narus JA, vanRossum W. "Customer value propositions in business markets." *Harvard Business Review*. March 2006.

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