Market Receptiveness To Franchise Systems In The Health Care Industry

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Abstract

In this study, cluster analysis is used to identify two consumer segments that differ in responsiveness toward franchised health care systems. These receptive and unreceptive clusters are differentiated in terms of the importance of health care constructs as well as in demographic characteristics. Younger, male respondents who live with a larger number of residents in the household may be the most receptive to franchise options, while the majority of all respondents seem open to the idea of franchised services. Further, results from this sample support the importance of competence, accessibility, empathy, and pricing to consumers in selecting health care providers, with less emphasis on local ownership.

Introduction

A successful positioning strategy establishes a distinctive image in the minds of prospective customers (Lovelock 1991). "It may take years to achieve the desired position" (Reddy and Campbell 1993, p. 41) or to remedy a problem in a profitable market segment. Many health care providers have such securely established positions that institutional identities are difficult to alter (Goldsmith 1996). "Categorization or organization of brands is based on attributes that have perceived value" (Bahn, 1986, p. 382). The seller must "distinguish its offerings from competitors' offerings by being distinctive on some element of the marketing mix that is important to target customers" (Woodside and Wilson 1994, p. 133). Options that possess undesirable characteristics may be eliminated from consideration before consumers

receive information about the benefits of the offering. Indeed, understanding the needs of patients and families is critical to the success of health care organizations (Habsburg 1995).

The success of franchising systems depends upon individual beliefs in the benefits of joining and remaining a part of that system (Strutton, Pelton and Lumpkin 1993). Franchising has been successful in such health care services as dental care (Bush and Nitse 1992), physician services (Willen 1992), eye and ear care and home health care (Habsburg 1995), to note a few. This success is due in part to reactions to pressures from payers in the health care industry to increase the cost efficiency of care and to reduce excess capacity, duplicate services and unnecessary diagnostic services (Rosenstein 1993). The trends toward the development of multihospital systems, chains, and integrated networks continue at a rapid pace producing new arrays of

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health care systems and marketing strategies (Oddis and Zellmer 1996) that could only be imagined in prior decades (Longest 1980). Changing dynamics within the health care industry may also result in losses as hospitals in urban and rural areas fight to avoid closure from occupancy rates that average below 40 to 60 percent (Heischmidt, Hekmat and Gordon 1993).

Mummalaneni and Gopalakrishna (1997) found that customers remain more satisfied with traditional health care plans in contrast to less expensive, integrated systems. In the race to develop more efficient distribution channels that expand the boundaries of services and reach larger numbers of customers (DeMuis and Miaolis 1988) at lower costs, has the position of an integrated system decreased the likelihood of acceptance by segments of consumers?

The purpose of this research is to assess consumer acceptance of the concept of franchised health care options and to describe characteristics of health care services that are important to these consumers. The focus is intended to differentiate consumer segments that seem receptive to the idea of health care franchises from those who may actively avoid this option. Thus, the questions posed are basic to the concepts of developing effective positions for quality health care in the minds of prospective customers.

Background

A consumer's accumulated experiences affect expectations of a firm as well as the extent to which the consumer focuses on specific aspects of the company (Alba and Hutchinson 1987). Expectations are consumer standards of performance that are compared to current experiences with a service provider (Zeithaml, Berry and Parasuraman 1993). Attitudes are a function of each individual's past comparisons and are thought to grow stronger over time (Bolton and Drew 1991). "Perception and behavior are functions of previous learning and experience, which may or may not be based on factual evidence" (Augustine, Long and Pantzallis 1992, p. 16).

Thus, inaccurate or negative perceptions of an attribute of a service may persist if not identified and targeted by a firm or industry.

Reddy and Campbell (1993) emphasized the comprehensive nature of successful hospital positioning. Whether the intention is to strengthen a current position, fill niches, reposition or develop a truly prestigious image, the provider must present a cohesive image. Consumers tend to perceive a higher risk in such service choices and search for characteristics that help them make inferences about such intangible attributes as the quality of care provided (Parasuraman, Zeithaml and Berry 1985; Bitner 1990). For example, store name alone can influence perceptions of quality and intentions to buy from retail stores (Dodds 1995).

Augustine, Long and Pantzallis (1992, p. 16) describe the case of a small regional hospital that adopted an international name for its affiliates, warning that "perceptual distortion may result when consumers associate big hospitals with impersonal, uncaring services and excessive profits in contrast to perceived normative roles of compassionate care for the infirm." A basic question for this research reflects this concept that some consumers respond negatively to the "bigger, integrated" image that franchised systems may represent. The first hypothesis tests the idea that segments may react differently to the concept of a franchised health care facility, while the second hypothesis suggests that the services expected of facilities will then vary between these segments.

H1: Perceptions of the care provided by franchised health care facilities will vary among consumer segments.

H2: Segments that are differentiated by their reactions to franchised health care facilities will vary in the attributes considered important for quality medical care.

Directional expectations are not supplied due to the very limited evidence available. The

task involves one of assessing initial reactions to the franchising concept and then profiling any characteristics that may assist a provider in differentially reaching segments of interest.

Methodology

Measurement

A questionnaire was developed to assess initial reactions to the franchising concept (items shown in Table 1), expectations of health care services (items shown in Table 2) and demographic characteristics of respondents (summarized in Table 5). Instrumental attributes, such as cost or location, and affective attributes, such as friendliness, are both used to evaluate health care providers (Gilbert, Lumpkin and Dant 1992); thus, cost and competence were selected to assess perceptions of franchised health care systems with a five-point Likert scaling format.

To measure the importance of aspects of services, attributes were selected to assess an array of issues while also respecting the limitations of the telephone survey approach. A review of the health care and service quality literature provided a basis for generating and selecting questions (e.g., Parasuraman, Zeithaml and Leonard 1985, 1988; John 1991, 1992; Gilbert, Lumpkin and Dant 1992). Questions concerning aspects of reliability (i.e., same service each time), competence (i.e., management, quality control, up-to-date), credibility (i.e., reputation), responsiveness (i.e., easy check-in, accessibility, operating hours), the physical environment (i.e., visually appealing) and empathy (i.e., friendliness, sympathetic, personal attention) were augmented with questions concerning local ownership and pricing. Respondents indicated the level of importance for each of twenty-eight attributes on a five-point scale that ranged from very important to not at all important. The questionnaire concluded with demographic characteristics.

Sample

A systematic random sample was con-

ducted of the phone listings for residents of Lafayette county, Mississippi. A three call-back procedure was used to attempt to reach as many selected residents as possible. Further, random digits were added to the last number of non-respondents in a basic attempt to include some residents not listed in the directory. All interviews were completed by research students during the late afternoon/early evening hours of a three-day period in the Fall at a central telephone bank, monitored by two supervisors. Interviewers were provided with pre-formed lists of numbers that excluded respondents' names or addresses. Two thousand households were selected with the systematic, random procedure, and interviewers attempted calls to 1,919 of these numbers.

Of the total of 1,919 attempted calls, 66 were eliminated as business or fax lines and 722 were unreachable, leaving 1,131 households contacted. Of these, 583 declined to participate in the study leaving a sample size of 548, or 30% of the study population (attempted calls minus business and fax lines eliminated from the study).

Results

Cluster Identification

Two distinct groups emerged from the Cluster analysis (see Table 1). Based upon the greater disagreement that franchised health care facilities provide competent, low cost care and a stronger perception that franchising is not appropriate for health care services, the first cluster was labeled as "unreceptive" and represented about 21% of the respondents. The second cluster tended to agree with the concepts of franchised systems as competent, low cost and appropriate for health care services, and was defined as the more "receptive" group in this sample.

Differences between cluster responses were all statistically significant ($p = .00$). Thus, the first hypothesis is supported in that varying reactions to the competence, cost and appropri-

Table 1
Differences in Reactions to Franchised Facilities by Cluster Groups

	Cluster 1: Unreceptive	Cluster 2: Receptive	p-value
A franchised health care facility would provide:			
Competent care.....	3.44	2.01	.00
Low cost care.....	3.29	2.09	.00
Health care is too sensitive a service for franchising to work*.....	2.60	3.14	.00
*Reverse Coded; Means based on a five-point scale where 5 = strongly disagree and 1 = strongly agree; Cluster 1, n = 112; Cluster 2, n = 424.			

ateness of franchised health care systems defined two distinct clusters or segments of respondents.

Construct Descriptions

Five distinct factors emerged from the exploratory factor analysis (see Tables 2 and 3). Two variables had multiple loadings and were eliminated from the analysis, leaving twenty-six items. Based on criteria of factor loadings exceeding .50 and alpha values reflecting reliability of .70 or more (e.g., Hair et al. 1992), the five factors seem to reflect issues related to competence, access, empathetic interactions, ownership and price (see Table 2). The Varimax rotation produced a solution where the first factor accounts for 40% of the variance, and together the factors account for approximately 60% of the variance. Eigenvalues of the retained factors exceed one.

The first factor, Competence, reflects issues of up-to-date equipment, quality control, accurate records, competence, reputation, consistency, timeliness and personal attention from the provider. In this sample, instrumental and affective attributes combine as a set of surrogate cues that seems to represent competence. The second factor, Access, includes accessibility, convenience of location, ease of paperwork, admittance procedures and operating hours. Interactions, the third factor, encompasses friendliness of the staff, appearance of employees and the facility and personal attention. Ownership isolates the questions related to the importance of

the health care facility as locally owned, and Price includes the two questions on that topic.

The scale reliabilities (see Table 3) support the efficacy of using each of these constructs to assess differences between cluster groups. Items were averaged within each construct to provide scores on the same scale ranges to assess differences between cluster groups. For example, Competence scores were computed by summing the rating for each of the items within the construct, then dividing by twelve (the number of constructs) so that the resulting mean score is still interpreted with the five-point scale used in the study.

Differences across Cluster Groups

Respondents who were receptive to the concept of franchised health care systems placed significantly greater importance on the constructs of Competence, Access, Interactions and Price than did their non-receptive counterparts (see Table 4). The importance of local Ownership of a facility did not differentiate the two groups. All consumers, regardless of receptiveness to franchising, considered each aspect of health care to be important, exhibited by mean scores less than three for both clusters on all constructs. Further, the relative importance of the five factors is also consistent across the groups. Competence is reported as most important, followed by Access, Interactions, and Price, with Ownership exhibiting the least importance of this list of attributes.

Table 2
Factor Analysis Results for Attribute Importance Ratings

Constructs/items	Factor Loadings
Competence	
Necessary equipment & supplies are readily available.....	.744
Facility has strict quality control standards.....	.734
Provider uses technologically up-to-date techniques.....	.724
Accurate records are kept.....	.710
The Provider is competent and knowledgeable.....	.710
The Health Care Provider has a positive reputation.....	.704
Equipment used is up-to-date.....	.706
Provider has the patient's best interests at heart.....	.700
The same quality service is provided each time you visit.....	.646
Facility is competently managed.....	.645
Services are provided at the time promised.....	.583
The Health Care Provider gives you personal attention.....	.521
Access	
Facility is easily accessible.....	.728
Facility is conveniently located.....	.709
Easy check-in and check-out.....	.619
Paperwork is minimized.....	.595
Facility has convenient operating hours.....	.585
Interactions	
Staff is friendly.....	.688
Employees are well dressed and neat.....	.678
Facilities are pleasant and visually appealing.....	.636
The Staff is sympathetic and reassuring.....	.543
Employees give you personal attention.....	.439
Ownership	
Facility is locally owned.....	.834
Facility is locally managed.....	.756
Pricing	
Knowing ahead of time what the price will be.....	.831
Services are reasonably priced.....	.698

Demographic characteristics presented in Table 5 profile members of the two clusters. Three significant differences emerge between the clusters. Though receptive customers live in households with more members than do unreceptive customers, no significant difference is uncovered in the number of children in the household nor in marital status. Second, receptive customers are also younger than their unreceptive counterparts. Finally, gender differences emerge

between the two clusters. Men are significantly less likely to be unreceptive to health care franchising than are females.

While limited in scope, the second hypothesis also receives partial support. Potential customers who are basically receptive to the concept of franchised health care systems can be differentiated from their less receptive counterparts in terms of the importance of attributes of care as well as demographic characteristics.

Discussion, Implications and Suggestions for Future Research

As health care providers design organizational formats to maximize efficiency, consumer responses to changing dynamics must also be considered. Positioning the firm depends

upon consistent messages over time. This research focused on a very specific aspect of a firm's position, consumer reactions to a franchise affiliation for health care services. The majority of respondents (79%) were receptive to the concept of franchised health care. These same respondents rated Competence, Access, Interactions and Price as important selection criteria. In general, the response seems to suggest basic acceptance of integrated and efficient services as-

Table 3
Construct Correlations and Reliabilities

	Competence	Access	Interactions	Ownership	Pricing
Competence	(.933)				
Access	.667	(.816)			
Interactions	.680	.634	(.777)		
Ownership	.283	.422	.385	(.773)	
Pricing	.454	.502	.440	.332	(.710)

Reliabilities are shown in parentheses and in bold on the diagonal line.

sociated with the concept of franchising.

The finding that slightly younger consumers seem more receptive to franchising may not be surprising. Using Murphy and Staples' (1979) modified lifestyle groupings, Reese and LaForge (1995, p. 46) concluded that "consumer decision making appears to be moderated by age and the presence of an adult companion and/or children, with age being the primary moderating factor." Younger lifecycle groups are more actively involved in media-based gathering of information for decisions but less likely to share that information with others when compared to older groups. Younger consumers may simply be more accepting of the concept of franchising and less bound by stronger relationships with traditional health care providers. Further, nontraditional lifestyle groupings should continue to be

considered as potential moderators of consumer response.

Though the findings of this study provide initial support for the hypotheses, several limitations should be noted. Since a telephone survey was used, households with unlisted numbers and residences without a telephone were excluded from the study population. Second, the selected attributes for importance ratings should be expanded in future studies. Following a published scale in its entirety would allow for cross-study comparisons of reliability coefficients, and use of multiple scales would allow for a more comprehensive assessment of attributes. Next, this study surveyed consumers only; perceptions of health care providers are an important consideration that deserves scrutiny in future studies. With growing diversity of medical care options

for consumers, responses to franchised services as opposed to affiliated providers and other managed care options need to be explored in greater depth. A final limitation arises from the sample frame of this study; generalizations to the general health care market require additional studies broader than the sample frame used here. Given the limitations of this study and the volatile nature of the industry, the findings presented here should be viewed as exploratory only.

Implications from the findings include the blending of affective and

Table 4
Mean Differences between Clusters for Constructs

Constructs	Mean Scores *		
	Cluster 1: Unreceptive	Cluster 2: Receptive	p-value
Competence	1.67	1.56	.034
Access	2.11	1.99	.032
Interactions	2.16	2.01	.016
Ownership	2.91	2.83	.259
Price	2.29	2.05	.004

*Mean scores based on a five-point response format, where 1 = very important and 5 = not important. Constructs consist of the average response across all items.

Table 5
Cluster Differences by Demographic Characteristics

Characteristic*	Cluster 1: Unreceptive	Cluster 2: Receptive	p- value
Mean Number of Residents	2.4	2.6	.044
Mean Number of Children	.5	.7	.080
Mean Age	37	33	.030
Gender			.014
Marital status			.183
Education			.094
Income			.104

*t statistics were computed to assess differences in the first three characteristics; Chi-square was used to assess differences across the latter four characteristics.

instrumental attributes of care as well as the acceptance of the franchising concept within health care. At first glance, the correlation between some of the items that comprise the Competence factor (up-to-date equipment, reputation, accurate records and quality control standards) seem far removed from other items also included, such as the timely provision of service and personalized attention. Yet consumers are thought to search for surrogate cues to judge intangible qualities of services (Bitner 1990). These results show the interdependent nature of consumer perceptions of a variety of factors with such intangible attributes. It is thus important for service providers to monitor reactions to the comprehensive scope of items that consumers may choose to evaluate.

The positive response toward the idea of franchised health care systems seems to mark a change in acceptance of integrated and efficient delivery options, despite the desire by some segments to retain the traditional fee-for-service plan. If the first task of positioning is to identify important characteristics for distinctly different groups, then franchised health care systems have succeeded with a large proportion of consumers and certainly have the additional insight to successfully target more reticent prospects.

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