

Policy

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Do You Make This Mistake Concerning Customer Value?

All about the ‘experience monopoly’:

Mark F. Weiss, JD



I read an op-ed piece in which a celebrity economist was stymied by the fact that a medical procedure, a hip replacement, for example, costs an insurer \$X if performed at one facility, yet \$X + \$Y if done at another. His assumption was that some providers are just better at negotiating than others—and that that was somehow “unfair.”

My guess is that he’d be happy if the government simply deemed the price, and happier still if he were the czar appointed to do the deeming.

I’m sure that I’m not the first to point out that economics is not a science and that celebrity economists are simply a subset of entertainers, but I’m left to wonder whether the guy ever thought about why one fast food place sells a mediocre burger for a dollar or two, while a few blocks away, Chez Whatever prices a slightly larger one at 13 times that price and sells them like, well, hotcakes. We’re talking the same beef, too, not some exotic breed that’s fed craft beer twice a day and regularly attended to by licensed massage therapists.

Getting back to hip replacement—certainly, some facilities might deploy better negotiation techniques than a multibillion-dollar insurer. But there are several larger, and more likely, things going on here, such as location and reputation—the carrier simply has to have those facilities and its associated providers on its panel.



For physicians, the lesson to be drawn is the importance of developing what I call an “experience monopoly,” providing such a valuable experience to patients, referral sources

and facilities that they deem you their preferred partner, one that they can't see themselves doing without.

You've deemed many businesses with this status yourself—perhaps the dry cleaner who always greets you by name and helps you carry your clothes to your car, or the restaurant with the wonderful outdoor heated patio (heated floor, large wood-burning fireplace and radiant heat lamps), delicious cuisine and incredibly attentive service, that you both frequent and recommend to everyone (contact me, I'll give you its name).

Although an experience monopoly is a “soft” concept, for the economists in the crowd there's a way to describe its strength in the language of math:

E + Phe + PQenv = strength of unique experience

where E is the actual level of medical expertise and skill; Phe is the strength of the perceived human experience and PQenv is degree of the perceived quality of the environment.

Although I said I was writing in math, be warned that this is not a formula like $2+2 = 4$. Unlike our economist friends, I am not pretending that fluid circumstances and subjective determinations can lead to an actual equation that can be proven and repeated with scientific accuracy.

Rather, it's just the view from another perspective, describing the relationship among the factors that lead to an experience monopoly in your practice.

For example, a physician with a very acceptable level of expertise, say, 7 on a scale of 10, who delivers a fantastic experience from a bright, cheery, modern office, may have a far more successful practice in terms of patient satisfaction than an extremely competent physician, a 10 out of 10 in terms of expertise, who delivers a dismally perceived human experience in an unwelcoming atmosphere.

Particularly important is an understanding that the environmental factor does not refer simply to the physical environment, over which, in some settings, you may have little to no control—it also refers to the relationship environment in which you provide services.

Years ago, I developed a bump on my right wrist. I asked several physician-clients to recommend a hand surgeon. They all suggested Dr. X.

I made an appointment with Dr. X. When I arrived to see him, I was shown into a small exam room, really only enough space for two simple chairs and a small table in between.

After sitting for at least 20 minutes twiddling my thumb (the other one hurt too much to twiddle), with not a single magazine to read in sight, not even a six-month-old issue of *Good Housekeeping*, I walked Dr. X.

Without introducing himself, he sat down, manipulated my wrist, and said, “*Our opinion* is that you have a ganglion cyst.” Never one to be shy, I pretended to look all around the minuscule room and then asked him, “Excuse me, but do you see anyone else in here?”

I did have the surgery and, although it’s been more than 20 years, I have not had a problem with my wrist since. But have I ever recommended Dr. X to anyone? No way! Professional expertise: excellent. Perceived quality of the environment: low. Perceived human experience factor: dismal. Strength of unique experience: zero, or perhaps even negative.

Of course, the goal is for you to increase the level of performance within your medical group across each of the components. Note especially that you must focus on the human experience and environmental factors—all physicians understand the importance of medical expertise, yet that expertise alone, and, certainly, that expertise tamped down by the impact of a poor environment and an even poorer experience is worthless in terms of creating relationships with patients, referral sources and facilities that over a career will prove extremely valuable.

And finally, there’s the issue of price, the element that attracted the economist’s comments in the first place. Experience monopolies do not exist in a vacuum. They are dependent on the value that your customer, whether that’s a hospital, a referral source or a patient, places on them. In other words, pricing, or value, is determined at the customer level.

Simply put, some customers will not place as much value on your offering as others. The challenge is providing the level of experience that your targeted customers value. Chevrolet and Ferrari don’t target the same customer, and neither should you.

Mark F. Weiss is an attorney who specializes in business and legal issues affecting physicians and physician groups, and served as clinical assistant professor of anesthesiology at USC Keck School of Medicine. The Mark F. Weiss Law Firm has offices in Dallas, Texas and Los Angeles and Santa Barbara, California, and represents clients across the country. His email: markweiss@advisorylawgroup.com.
