Co-opetition: An Alternative to Competition

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Like dogs and cats, physicians and executives differ in their social and personal characteristics. Mistrust and misunderstanding typically cloud their relationship. In 1999, The Advisory Board conducted a research with hospital chief executive officers (CEOs) and physicians to find out what about healthcare that they considered important to themselves and to each other (The Advisory Board Company 1999). The CEOs said that quality of care is their primary concern, but they thought physicians are mostly concerned about their own incomes. Physicians, on the other hand, believed the exact opposite: they care about quality care, while CEOs mostly worry about money. With such perceptions, is it any wonder doctors and managers do not trust one another?

MISTRUST = COMPETITION

This mutual mistrust is unfortunate, especially because to survive in today's healthcare climate medical staffs and management teams must work interdependently and collaboratively. Often, the result of mutual mistrust is physician dissatisfaction with management, and a likely product of such conflict is market competition. In recent years, hospital physicians have been leaving to build their own freestanding operations. Services offered at these centers compete with the hospitals' most lucrative businesses. In addition, because most physician businesses only deal with people who have health insurance, they do not help relieve hospitals from uninsured/underinsured patient loads. Carefully structured to avoid violating federal and state laws, these freestanding centers usually have physicians as both customers and partners.

Competition leads to duplication of services, capital spending, and marketing efforts, and it diffuses scarce resources such as nurses. Duplication is costly for all involved, and higher expenses without commensurate increases in revenues results in less profit overall. Parties involved in competition not only face financial disadvantages, they are also likely to fall behind industry leaders in patient/physician satisfaction and in market share.

Collaboration is possible, as evidenced by hospitals (through their executives) and physicians who come together to offer services that meet the community's medical and service needs. However, the rallying cry often is not for cooperation but for increased competition between hospitals and physicians, particularly in outpatient services. Both collaboration and competition are possible through co-opetition.

THE CONCEPT OF CO-OPETITION

The idea of competitors working together to open new markets, develop new products, or improve the market position of all parties involved was named "co-opetition" (cooperation combined with competition) in the 1980s by Novell founder Ray Noorda. At the time, co-opetition was used by technology companies, which agreed to remain competitors in certain areas while partnering in other pursuits. This agreement yielded benefits for both. The book *Co-opetition*, by Adam Brandenburger and Barry Nalebuff (1996), introduced the concept to the business world.

In healthcare, the proliferation of physician-led businesses, such as surgicenters, endoscopy centers, imaging centers, and sports-medicine facilities, has given more choice to patients. At the same time, however, they have also added to the financial stresses of hospitals. Co-opetition in healthcare, which is discussed in *Seven Strategies to Improve Your Bottom Line* (Gee 2001), aids market, service, and revenue growth as well as lessens the impact of competition.

The Pie

Brandenburger and Nalebuff (1996) use the pie analogy to explain co-opetition. The pie is a representation of a market. Everyone (organizations/businesses within a market) wants a piece of it, but there are those who want bigger pieces or all of the pie. Co-opetition allows those who want the pie to make a bigger one so that everyone can have a nice share. Partners in co-opetition contribute their skills, knowledge, and resources into creating the service and providing the quality that the market demands. The quality and products are what give these partners an advantage over those who do not partner or merely compete in the market.

The pie analogy resounds in healthcare, highlighting the limited pie size that must be shared by different entities, including hospitals, physicians, and pharmaceutical companies. This small pie adds to the mindset that competition is the key to staying afloat in the business. After all, collaboration means sharing, and sharing divides the pie even more.

Let us consider an example. Hospital A and Hospital B are competitors in the area. Each has 50 percent of the inpatient cardiology market, and each has a group of dedicated cardiologists who compete against the others to provide outpatient cardiology imaging services. To ease this competition, Hospital A and its cardiology group joint ventures with an outpatient center that has new cardiac CT/MRI equipment. This equipment streamlines the work of cardiologists by allowing on-the-spot reading of the imaging so that more tests can be ordered if needed. As such, the center provides convenience for patients and their families. This patient-centered approach shifts business from Hospital B and other service providers in the area. Although Hospital A and its cardiologists still compete on providing echocardiograms, they are generally ahead of others because of the inpatient and outpatient business they pull in from their co-opetition.

Relationship Requirement

Co-opetition requires a certain amount of trust between partners. Agreeing to collaborate despite competition involves a great deal of negotiation and pre-work so that all parties mutually understand and agree on the business parameters. As such, it is time consuming and can be very costly if there is lack of trust. This expense is often carried by the partner (usually the hospital) that has more resources than the other (usually the physicians).

As mentioned, lack of trust leads to dissatisfaction. Because physicians are the primary giver of care, they often control the flow of patients into the hospital. If they become dissatisfied with hospital management, they can shift business away. In addition, physicians typically have more than one choice of facilities to which they can refer or direct patients or with which they can partner. Although changing hospitals is not easy, it is an option that physicians can explore if they believe another facility can better meet their practice needs. Without physician support, hospital executives are unsure about the hospital's ability to attract patient volume. Therefore, if executives are considering co-opetition or collaboration, they should first strengthen or improve their relationship with their medical staff.

In the next column, I will discuss strategies for building relationships and the principles for successful partnering.

References

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For more information on the concepts in this column, please contact Barbara LeTourneau at *Barbara.C.LeTourneau@HealthPartners.com.* Dr. LeTourneau also welcomes suggestions for topics and comments on her opinions.