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# Robust management policies for positioning pharmacies as healthcare service providers

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## KEYWORDS

Health care service;  
Decision making;  
Cognitive limitation;  
Service innovation;  
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process;  
Retail services

**Summary** Building on service management, behavioural decision-making and social psychology literature, this article presents a framework for repositioning pharmacies as healthcare service providers in the healthcare service supply chain. The main tools for framework development are two polar-typed case studies on initiatives to develop healthcare services, and the development of a feedback model. The feedback model captures the rich interactions among basic structures for improving the service development process, decision-making processes and mental models. The exploration of these interactions leads to different types of decision problems during the formation and implementation of initiatives to develop healthcare services in order to reposition pharmacies. The management policies outlined here are not meant to be exhaustive but rather to highlight potential directions that can result in a management contribution towards advancing decision-making in the healthcare service sector. Because repositioning pharmacies as healthcare service providers represents a specific illustration on increasing the service orientation in typical retail companies, the findings can be transferred into the general retailer context. © 2008 Elsevier Ltd. All rights reserved.

## Introduction

Increasing market rivalry from new market players such as retailers, surgeries, internet pharmacies and other professional healthcare service providers is putting pressure on traditional pharmacies to rethink their strategic position in the health sector supply chain. Retailers such as Wal-Mart, ALDI or Tesco, for example, have already started to sell over-the-counter drugs. Migros has even gone one step further and established its own sales channel for both

over-the-counter and prescription drugs. New regulations in several European countries have broadened the responsibilities of surgeries in terms of self-dispensation of drugs that are only available on prescription. This means that instead of buying drugs in pharmacies, patients can now obtain their drugs at the surgery, leading to a further drop in pharmacy revenue. Internet pharmacies such as quick-pharma.de or budgetmedicines.com are also replacing traditional pharmacies, creating an additional loss of revenue. These few examples illustrate why pharmacies have to rethink their position in the health sector supply chain as sellers of pharmaceutical products.

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The need for pharmacies to reposition themselves in the health sector supply chain is a typical example of the challenges in today's retail environment. Augmenting products with services is a major way for retailers to gain differentiation in today's competitive marketplace. According to retailers, they often offer the same assortment in terms of prices and have identical operating hours and locations (Homburg *et al.*, 2003). The predominant way for retailers to differentiate is increasingly to pursue service orientation (Ellis and Kelley, 1993). The limited literature on retail services typically focuses on very specific areas such as quality issues (SERVQUAL scale) and store image (Homburg *et al.*, 2003). The latter shows that retail services are conceptualised as one component that constitutes the retail store image (Steenkamp and Wedel, 1991). Of course, the retail business is a service business. Unfortunately in the case of retailing, services are designed more to augment core offerings rather than to add value through supplementary service offerings.

Thus, one suggested way out of the explained strategic trap is for pharmacies to reposition themselves as providers of value-added healthcare services such as tests for blood pressure, blood cholesterol, blood sugar, and so on, rather than as mere sellers of pharmaceutical products. Such services do not simply augment the core offering of pharmacies; rather, they concentrate on the creation of supplementary value.

Despite the demonstrated benefit, however, pharmacies are making surprisingly little effort to systematically develop value-added healthcare services. Some customers would simply ask for these services and their requests would often be fulfilled. Thus, the range of services offered reflects a rather reactive activity and not a conscious strategic initiative to position themselves as healthcare service providers. Specifically, pharmacies fail to implement service development processes for value-added healthcare services because they find it difficult to cope with the complex interactions between the structures for improving the service development process, decision-making processes and mental models.

Unfortunately, existing literature is surprisingly reticent when it comes to describing how these complex interactions influence the success or failure of a pharmacy in repositioning itself. The design of service development processes has traditionally been in the domain of service management research. A common thread running through these frameworks is the focus on modifying the structure and activities of the service development process (Scheuing and Johnson, 1989; Edgett, 1993), while less attention is paid to the decision-making processes and mental models required to implement service development processes. In contrast, organisational scholars have focused primarily on the behavioural aspects of change. As far as the author can judge, there is a need for an interdisciplinary theory that will integrate the structure for improving service development processes with an understanding of human decision-making. Such a theory should explain the challenges and difficulties associated with initiatives to develop healthcare services with the aim of repositioning pharmacies as healthcare service providers.

The purpose of this paper is to develop a framework that will account for decision problems in initiatives to develop

healthcare services in order to position pharmacies as healthcare service providers. The framework includes the structure for improving service development processes, decision processes of managers and employees (pharmacists), and their mental models. The main tools for framework development are two polar-type case studies on initiatives to develop healthcare services, and the development of a feedback model capturing the rich array of various interdependencies between improving service development processes, decision-making and mental models. The exploration of these interactions leads to different types of decision problems during initiatives to develop healthcare services. The paper is organised as follows. Firstly, a conceptual framework is introduced and its implications for the development of healthcare services are highlighted. In section three, the research method is explained and both initiatives are outlined. In section four, the framework is developed by integrating the basic structure of service development processes, decision-making processes and mental models into feedback diagrams. Finally, section five contains a discussion of robust management policies to make the repositioning successful as well as concluding thoughts.

## Conceptual framework

### Repositioning pharmacies as healthcare service providers

Similar to Neu and Brown's (2005) and Mathieu's (2001) argumentation on service formation in product-oriented firms, repositioning pharmacies as healthcare service providers can be viewed as a strategic process through which managers create new competitive advantages (see Fig. 1). Pharmacies that only sell pharmaceutical products are positioned at the left end of the transition line (goods-service continuum). Profits and revenue are generated mainly through the core products, and the contribution of services is quite low in terms of revenue, profit and customer satisfaction. Healthcare service providers are positioned at the right-hand side. Pharmacies selling pharmaceutical products use customer service as one of the main differentiating factors in their product marketing strategy. At this point, an essential part of total value creation in terms of revenue, profit and customer satisfaction stems from healthcare services. The transition and/or repositioning is based on an extended service offering, starting with customer service (e.g. information, consulting and medical advice) and ending with a large number of value-added services such as testing of blood sugar and blood pressure, sharing of balanced diet concepts, support for smoker withdrawal, overweight advice, crippling stroke prevention and so on.

Contingency theory suggests that when pharmacies successfully develop a strategy for healthcare services, they will "align" this strategy with the above mentioned increased market rivalry and increased customer expectations in the healthcare sector. They will also adapt several organisational factors to align with the newly formed strategy on positioning themselves as healthcare service providers. Managers should devote considerable effort to implement a service development process. Specifically, they need to

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