

Marketing Cost in Medical Schemes in the Country South Africa

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Description

Marketing initiatives and their cost-related factors should focus on targeting specific markets. Any misaligned strategies will not achieve the desired results. Studies argue that marketing strategies should be aimed at providing customers with quality products, at an affordable price. Marketing costs in medical schemes are currently not reported in terms of key attributes such as advertising and customer acquisition activities to clearly assess the value to customers. Furthermore, distribution fees, marketing and advertising costs are currently not regulated. Due to these reporting limitations and the lack or the regulatory oversight, it is difficult to understand the major cost factors that impact the increase in marketing costs and the association with membership growth [1]. Marketing and advertising services and interventions provided in medical schemes should be coupled with clearly defined Key Performance Indicators (KPIs) between schemes and the entities that provide such services, and these should also ensure that payment for performance indicators are delinked from the costs involved with moving members from one scheme to another.

Studies of Targeting Specific Markets

Understanding customer needs, value added for customers and the product offered by the organization ideally makes the product appealing to them. Marketing initiatives and their cost-related factors should focus on targeting specific markets. Any misaligned strategies will not achieve the desired results. Studies argue that marketing strategies should be aimed at providing customers with quality products, at an affordable price. Vendors offering an effective promotional strategy should interact with their distribution outlets and ultimately, they should create value for customers and increased performance.

Gbolagade, Adewale and Oyewale argued that properly defined marketing strategies targeted at specific market segments and properly allocating resources to support enterprises yields a competitive advantage. These strategies potentially drive growth in the traditional business sector where the most consumed product is usually a commodity. However, in the health sector, the product that consumers purchase is a public good and not a tradable commodity [2]. Thus, creating and deploying effective health insurance marketing strategies

and consumer engagement plans can be difficult for payers in today's complex purchasing landscape.

Medical Schemes Marketing Costs Data

Medical scheme membership is used as a proxy for assessing medical scheme performance, in terms of enrollees into the schemes. An increasing membership is primarily driven by new enrollees who potentially imply a higher contribution income for the scheme and thus a possible increase in the bottom line of the scheme. Membership in medical schemes has been stagnated in the region of eight million for the past decade. Non-health care costs include broker fees, marketing and distribution [3,4].

Marketing costs in medical schemes are currently not reported in terms of key attributes such as advertising and customer acquisition activities to clearly assess the value to customers. Furthermore, distribution fees, marketing and advertising costs are currently not regulated. Due to these reporting limitations and the lack or the regulatory oversight, it is difficult to understand the major cost factors that impact the increase in marketing costs and the association with membership growth. Mazak argued that the current accounting practices contribute significantly to the declining influence of marketing within organizations and the rise of myopic management.

In the overall cost, broker service fees account for ninety-five percent (95%), distribution fees for five percent (5%), marketing and advertising fees account for less than half a percent of the total brokerage costs. Broker costs are largely seen in open schemes who freely admit beneficiaries and where marketing costs form a significant portion of non-healthcare costs. In many instances, the increase in broker costs is not correlated to the growth in membership.

Studies have shown that poor marketing strategies lead to poor organizational performance. Rodriguez, Peterson and Vijay Kumar noted that most companies have failed to record an increase in their sales revenue due to poor marketing strategies. Marketing costs and advertising fees, although these form a minimal portion of total brokerage fees, are still not regulated and there are no standards in place to monitor this. However, there is still a need to assess the value offered to members.

below depicts the average marketing and advertising fees per member per annum, by scheme size and sector [5].

The data depicts that there are no significant differences at industry level (5.5% and 5.6% for open and restricted schemes, $p\text{-values}=0.911$). However, there seems to be a size effect where the average costs are inversely proportional to size; thus, indicating potential strategies to increase the penetration in the market, in terms of membership.

Traditionally, there is a strong association between sales and marketing, particularly where targeted market segmentation is used to understand the behavioral needs of the customers. Mazak depicts the long-term impact of marketing activities on sales and profits. Insurance companies must focus on building strong brands, offering clear messaging, and effective customer outreach that makes a company's offerings stand out in a market filled with competition. The health sector, particularly the medical schemes sector is completely different from the mainstream, where health is viewed as a public good rather than a commodity.

Key observant trends that have been observed in the health sector focus on targeting specific demographic profiles of members. However, these initiatives do not seem to have impacted the performance of the sector in terms of membership and the characteristics of some schemes. Previous research has explored the link between marketing initiatives and consumer growth. Gbolagade et al., argued that marketing is a vital prerequisite of the industry's ability to strengthen its market share and to minimize the impact of the competition. Other studies have explored the potential impact of marketing to businesses bottom-line [6,7].

What is concerning about the brokerage fees associated with broker services by medical schemes is that they do not seem to be aligned with the members' needs; similarly, with regard to advising and training members on the product and other related services. The HMI report revealed that consumer information was incomplete, and that the role of brokers and other agents in directing consumer choice was questionable. Thus, there is a need to assess the value of brokerage services to members; similarly, to marketing fees, as in some instances where these fees are significantly higher than twenty rand (R20) per member

per annum. It is recommended that the marketing and advising fees charged for members is to be kept below six rand (R6) per member per year. Furthermore, these should be transparent to members in that members should have a choice to approve such services and that this should be disclosed to members.

Marketing and advertising services and interventions provided in medical schemes should be coupled with clearly defined Key Performance Indicators (KPIs) between schemes and the entities that provide such services, and these should also ensure that payment for performance indicators are delinked from the costs involved with moving members from one scheme to another. Reporting of Marketing and advertising services in financial statements should be improved in medical schemes and these should be value and performance based [8-10].

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