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THE EXCELLENCE EDGE

CRACKING THE HEALTHCARE CODE IN INDIA'S SMALLER CITIES

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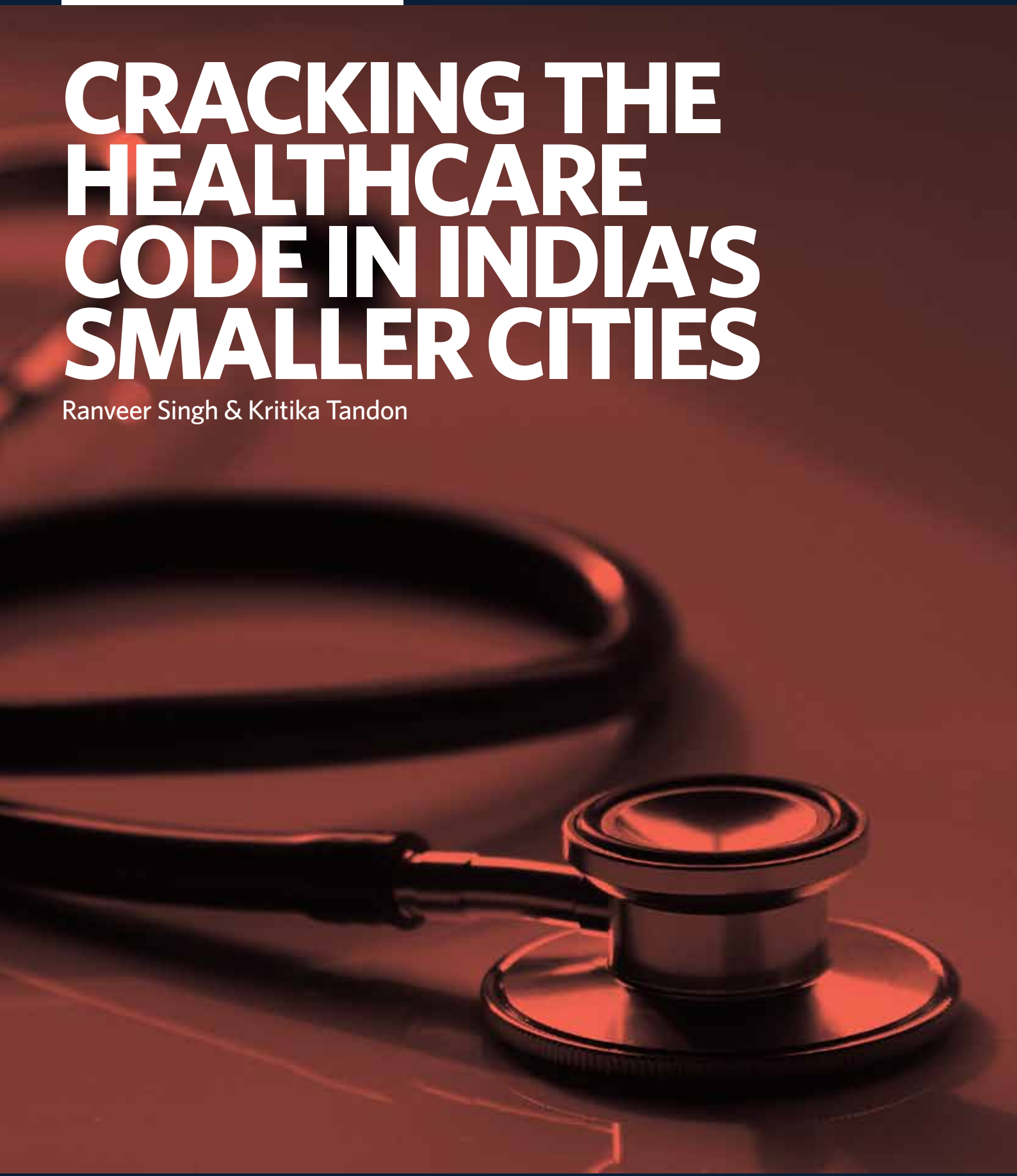

Housing 27% of India's population, the country's 8 Tier-I cities have grown rapidly over the last decade. While this growth has brought focused development, capital infusion, and migration of skilled and unskilled manpower to these hubs of opportunity, it has created immense pressure on the resources and public infrastructure. Public infrastructure and services including healthcare are operating at saturation levels. Hospitals in these cities not only serve the local population but also the inflow from adjoining states. Waiting times at government hospitals may extend months even for tertiary and urgent care, while leading private hospitals are operating at over 70-80% occupancy levels.

Tier-II towns have largely remained below the radar of private sector, especially healthcare. Current supply is largely dominated by doctor-owned small to mid-sized centres offering a few basic specialties. Availability of medical care is further skewed by absence of good quality tertiary care medical offering in most small cities. Private sector healthcare delivery has limited to negligible presence of quality corporate hospitals especially in the northern and central parts of the country

These markets offer tremendous business potential with large and growing catchment population and increasing affordability levels. First movers like CARE (Raipur, Bhubaneshwar), Apollo (Bhubaneswar) and Sahara (Lucknow), have shown attractive growth and volume build-up, and have exceeded projections within 1-2 years of commissioning. However, there are also numerous examples of new market entrants not meeting expectations having failed to replicate the business models that worked so smoothly in Metro / Tier-I cities. The difference between the two largely driven by careful selection of markets, a significant value-add proposition brought in by the market entrant and better mitigation and management of risks and challenges.

Successfully delivering and managing healthcare facilities in these non-metro towns presents a unique set of challenges. Potential challenges a healthcare delivery player needs to carefully account for, can be categorized across the following:

1. Limited availability of skill
2. Low revenue realization
3. Consumer behaviour
4. Management bandwidth for effective implementation

1. LIMITED AVAILABILITY OF MEDICAL AND SUPPORT SKILL

Availability of super-specialist skill in tertiary care is limited thereby making it particularly difficult to recruit, as well as retain, consultants. Willingness of super-specialists in larger cities to relocate is limited. Their availability in smaller towns is limited to a visiting basis - primarily as feeders to their practice / base. This fails to create a strong market perception on availability and quality of treatment.

Consultants across secondary care specialties have an established presence in the market. Engagement with key local doctors is critical to a rapid volume build-up in the initial phases. However, a suitable value proposition needs to be provided to attract such consultants – both in terms of the clinical support provided and an attractive engagement proposition. The consultant will seek a tangible benefit to forego his individual benefit and join a corporate set-up.

Availability of clinical support staff - those responsible for providing round-the-clock patient care – is also limited. There is a dearth of MBBS qualified junior residents further accentuated by a large share opting to prepare for post-graduate entrances. Hospitals are now increasingly training BAMS and BHMS doctors to replace part of the resident work-force and support consultants in patient care. Nursing is another skill short in both supply and quality. Most Tier II hospitals have only 40%-50% of the required staffing levels and a large share comprises manpower with limited formal clinical training. While this issue of recruitment and retention of qualified nursing skill is addressable through offering competitive compensation, increased manpower costs – including those of acquisition of consultants – are likely to significantly stress profitability of the venture.

2. CONSTRAINTS ON REALIZATION

Revenue realization is constrained given that markets are typically priced at a significant discount to metros. Tier-II towns are typically priced at c.50%-70% of regional metropolitan cities, driven by – limited willingness and ability to pay, increased price competitiveness in a fragmented and price-sensitive market and limited insurance penetration

Majority consumers in Tier-2 towns are value-for-money buyers. Price sensitivities are very high, given that most consumers pay out-of-pocket as insurance penetration is less than 5%. Pricing is driven by established doctor-owned centres. While cost of overheads, infrastructure and patient care services is lower in these centres – they also offer much greater flexibility and adaptability in pricing on a per case basis to suit patients' requirements. This limits a new market entrant's ability to significantly enhance market prices. However, while prices for basic care remain subdued, players have been able to charge a premium for high-end or value-added services. These typically include areas as critical care, advanced life support, and tertiary care treatments – pricing at times being at par with metropolitan cities. Services that are not otherwise adequately available in small towns.

In the early years of operation, realization would also be depressed by a sub-optimal case mix. This is due to a secondary care dominated case-mix including specialties such as general medicine, general surgery, and obstetrics-gynaecology. Revenue realization per patient for such cases is lower as compared to tertiary care cases in cardiac, neurosciences and critical care. Historically, such tertiary care treatments have been available and sought in the larger metros. Based on a patient survey undertaken at key referral hospitals' in Delhi and Chandigarh, there is high willingness amongst patients to get treatment in local cities subject to availability of such services. Pricing is not a concern, given that most patients are anyways paying significantly higher in the metros and there is the added cost of travel, relocation for treatment and absence of an extended support system so critical to the Indian social fabric.

3. MARKET MIND-SET

Consumer behaviour in smaller towns is vastly different from that in metropolitan cities. This is driven by a close connect with the doctors, where 'consultant brand' is paramount and limited awareness and exposure to high-end healthcare services leading to a strong tendency to travel outside for high-end secondary care and tertiary care treatment.

For years, people have been treated by the local family physician or consultant and have built trust in him/her. It is therefore, critical for any new market entrant to associate with established local consultants and general physicians to ensure volume build-up, especially in the initial years.

Advancements in technology, clinical protocols to manage care and patient hospitality are terms relatively new to these markets. Given limited exposure to quality comprehensive healthcare, it will involve considerable word-of-mouth marketing over time to create awareness about the advantages of a comprehensive, quality care hospital. It is imperative for the new entrant to generate trial in the facility – multiple players have successfully initiated trial through various initiatives including social marketing, entry pricing and networking with family physicians – the first point of diagnosis. It provides an opportunity for the hospital to showcase its facility and service offering while building upon the consumers' awareness with respect to healthcare possibilities. As is commonly believed in healthcare, 'word-of-mouth' marketing is the most effective – it is also, however, the most challenging and critical to a successful venture

The political and socio-economic state of these areas may also create issues with regard to expectations on discounting for the poor, local administrators and political class. A corporate player must also be mindful of additional investments required to manage law and order situations which may arise due to patients or otherwise in these towns.

4. MANAGERIAL BANDWIDTH REQUIREMENT

Given multiple layers of challenges, setting up a corporate hospital in Tier-2 and 3 towns will require commitment and deep involvement of the corporate management team. Given the limited management skill available, with requisite experience, in these smaller towns – it is necessary for corporate players to ensure adequate systems and protocols are developed and implemented to ensure uniformity of care.

Successful players have also been able to ensure that management people, with reasonable experience in the organization, spend time in stabilizing operations in these markets. This ensures that good management skill is available during the formative period to ensure expectations of locally consultants and customers – the two critical stakeholders – are adequately managed.

Tier-2 and Tier-3 towns have a severe gap in availability of quality beds. The gap is more pronounced in tertiary and critical care services. The absolute lack of good critical care facilities in these areas, assures a new player with comprehensive critical care facilities of a good occupancy in critical care areas from initial days itself – as evident in numerous centres as Sahara (Lucknow) and Apollo and CARE (Bhubaneswar). To succeed in the higher-secondary and tertiary care segment, it requires identifying the right market and the right business model for it. It is therefore critical to evaluate key drivers of performance and risks – including current service gap, availability of skill, current price points of operation and competitive intensity - prior to entering the market, While Tier II markets offer numerous opportunities across the country, an individual market may not be able to sustain more than 2-3 good quality hospitals, a careful evaluation of the market therefore becomes critical to the success of any venture.

Areté Advisors LLP (Areté) is a boutique, sector-focused management consulting firm with offices in New Delhi and Mumbai, India. Areté works with corporate clients in the Agriculture & Foods, Construction, Healthcare, Logistics, Real Estate and Retail sectors.

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