



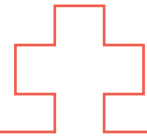
Areté Advisors
THE EXCELLENCE EDGE

HEALTHCARE PRICING IN INDIA - THE IMPACT OF DOCTOR- HOSPITAL DYNAMICS

Monika Sood & Dr. Rohan Desai

Pricing in healthcare is driven by a number of factors: local market dynamics, affordability and consumer behaviour. An interesting contributing factor has been the balance of power between doctors and hospitals – markets with predominantly an institutional model have seen higher pricing across hospital components resulting in better profit margins and greater private sector participation.

A WIDE GRADIENT IN PRICING¹ IS OBSERVED ACROSS METRO, TIER 1 AND TIER 2 MARKETS



Mumbai and Delhi are the most expensive healthcare centres with 40% to 50% higher pricing as compared to the national average

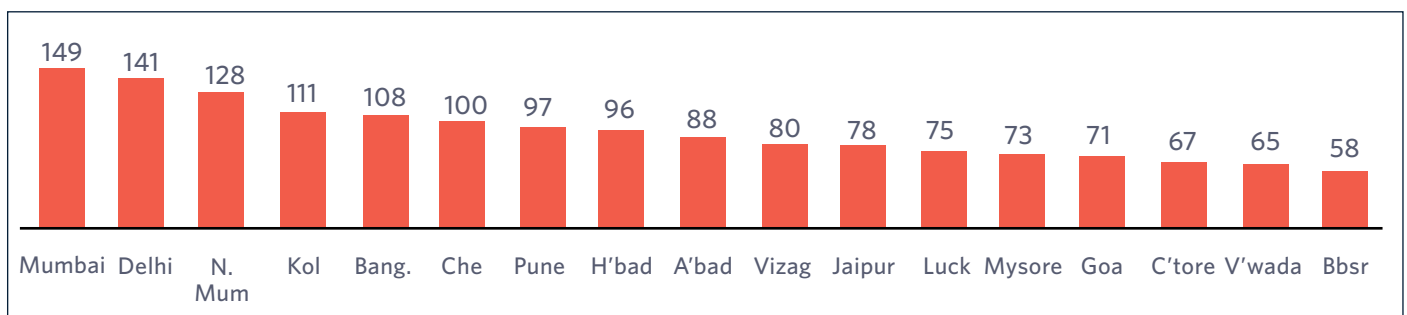


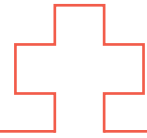
Figure 1: Relative pricing for cash patients across cities (with all India average at 100)

A wide gradient is observed in pricing across Metro, Tier-I and Tier-II cities. Pricing in Mumbai is 40-50% higher than other metro markets such as Bangalore, Chennai and Hyderabad whereas pricing in Tier-II markets is 30-40% lower than the metro markets. Cities that were studied can be classified into four cohorts:

- Mumbai and Delhi are leaders in overall pricing in healthcare in India. These markets are characterized by high real estate cost, high affordability and high willingness to spend on healthcare. Pricing in Mumbai is also driven by high professional cost in the city (visiting charges, OPD consultation fee, procedure charges) whereas Delhi which is home to a large number of institutional players has higher hospital charges - room and OT pricing.
- Metro cities such as Bangalore, Kolkata, Chennai and Hyderabad have comparable pricing; Pune and Ahmedabad are placed at the lower end of this group. These cities are characterized by high affordability and willingness to pay.
- Fast growth centres such as Vizag and Jaipur are priced c. 20% below Metro cities – both cities have a large number of corporate multi-specialty players and have developed as regional tertiary care hubs.
- Smaller cities such as Vijayawada, Coimbatore, and Bhubaneswar while attractive from a demand perspective have limited population with ability and willingness to pay and are priced at a 30-35% discount to Metro markets.

¹ Analysis was based on 3,700 price points collected across 120 hospitals in 17 cities by Arété Advisors.

DOCTOR DRIVEN MARKETS SUCH AS MUMBAI AND AHMEDABAD HAVE HIGH DOCTOR PROFESSIONAL FEE AS COMPARED TO OTHER COMPONENTS



Balance of power between consultant and hospital is a key influencer of pricing across markets

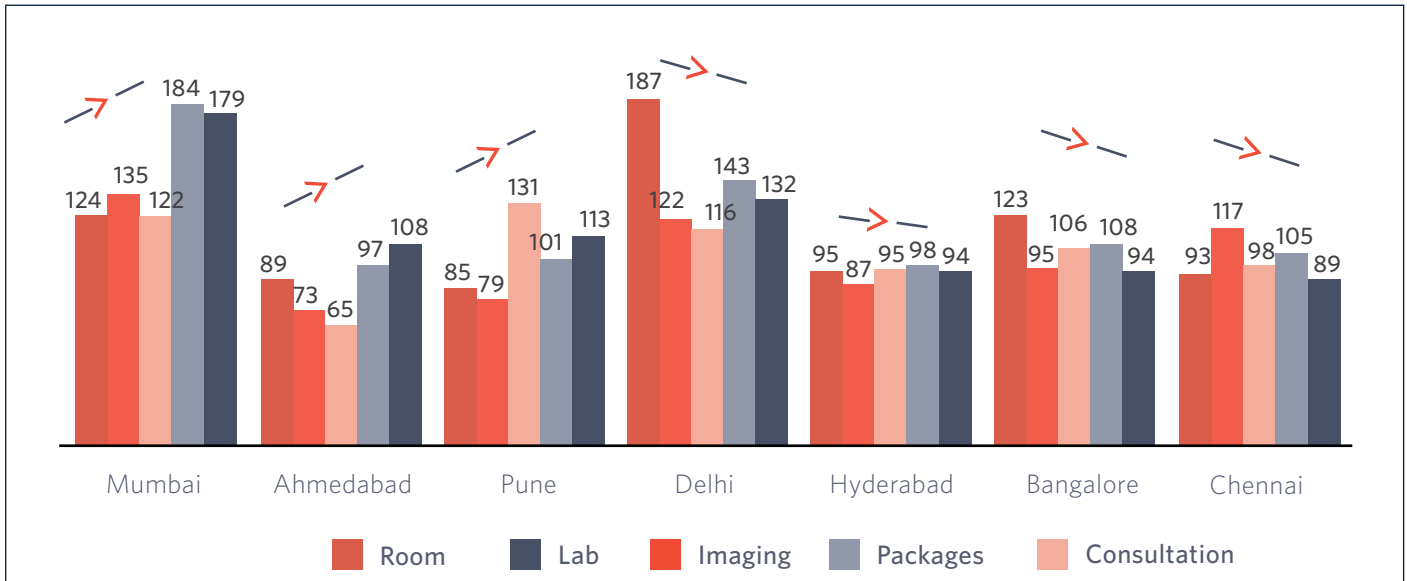
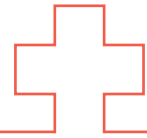


Figure 2 : Component pricing across cities (all India average as 100)

Key insights from above analysis:

- Component prices – pricing index for room rent and diagnostics was relatively higher than index for consultant related charges in markets with predominantly institutional models - Delhi, Hyderabad, Bangalore and Chennai. Presence of well-established corporate groups, full-time doctor engagement model and high insurance penetration has helped in the development of the Institutional model.
- Markets such as Mumbai and Ahmedabad with large share of Trust hospitals and nursing homes and an established part-time/visiting consultant engagement model have a significantly higher index for consultant related charges as compared to the index for hospital component prices. Doctors are believed to be the key drivers of patient choice in these markets and wield significant power in hospital operations.

COMPONENTS WHERE SUBSTITUTES ARE AVAILABLE (DIAGNOSTICS) HAVE SEEN LOWER VARIATION ACROSS MARKETS



Components such as room rent, packages and consultation have wide variation whereas lab diagnostics have much lower variation across markets

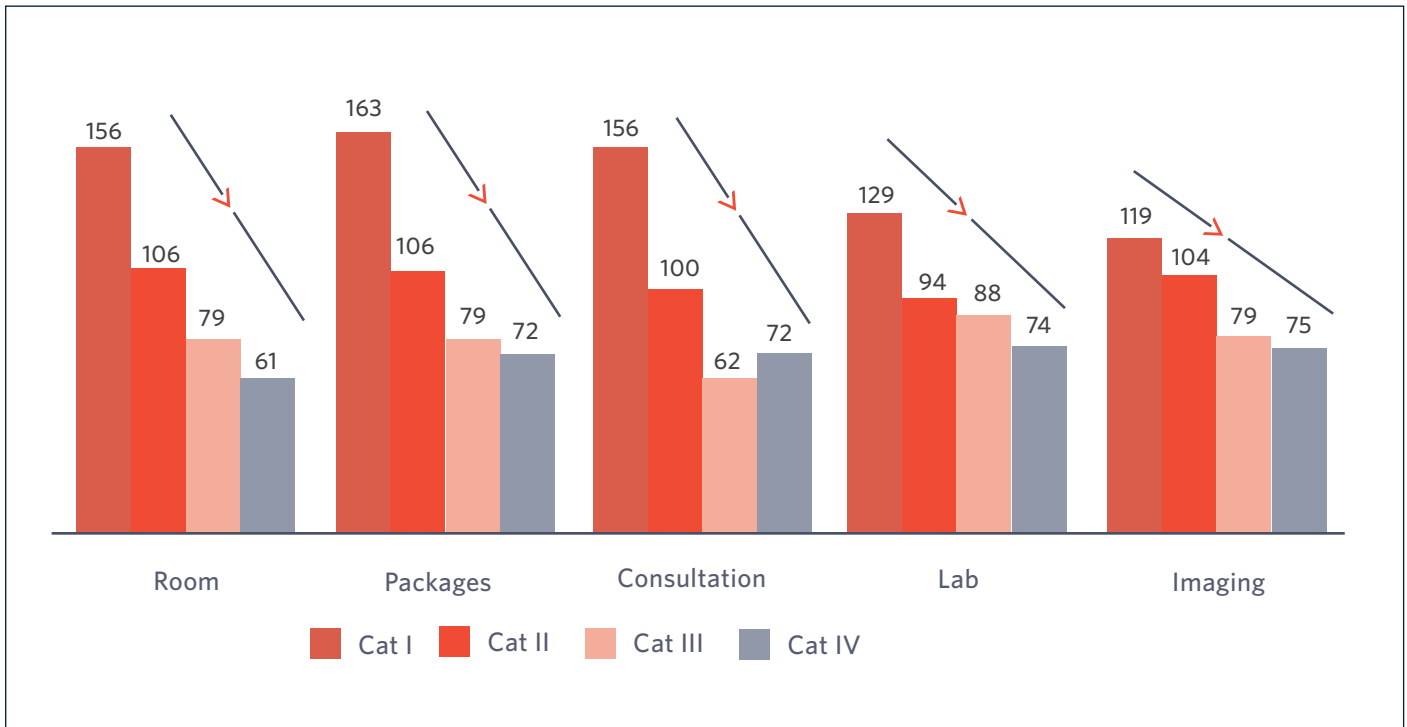


Figure 3 : Category wise component pricing²

Low variation in pricing is observed across lab and imaging as compared to variation in room, consultation and package pricing across cities.

- While a standard deviation of 41, 42 and 42 was observed for room, packages and consultation respectively, it was 23 and 21 for lab and imaging. This is driven by the prevalence of competing facilities in diagnostics. Established Lab (national as well as regional players) and Imaging (mostly regional players) diagnostic companies compete with the hospitals for out-patient diagnostics and set the benchmark for prices.

² Cat I: Delhi and Mum
 Cat II: Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, Navi Mumbai and Pune
 Cat III: Jaipur, Raipur and Vizag
 Cat IV: Bhubaneshwar, Coimbatore, Goa, Vijayawada, Lucknow and Mysore

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

Monika Sood, is a Partner at Arété. Dr. Rohan Desai, is an Engagement Manager at Arété.

For more information,
visit www.arete-advisors.com

Contact:enquiries@arete-advisors.com
