

Drivers for the private healthcare industry in india



Conclusion: In context of the above report we can conclude that the healthcare industry in india is poised for a quantum growth. The key drivers being the favourable Political environment, regulatory framework, shift to lifestyle related diseases, growing middle class and their preferences for healthcare, Health insurance awareness and reach, advancement in technology and last but not the least medical tourism. The concept of medical tourism is also catching up very fast and is posing a huge challenge for the players in terms of delivering quality healthcare services and also meeting international safety standards in order to compete in the international market. The players are standing up to the challenge and are developing medical cities where world class cutting edge healthcare services shall be provided meeting and exceeding International standards. This has also attracted private equity funds and foreign investment in this sector.

The two leaders of this sector are building their growth strategy based on a hybrid model where they are using differentiation for their goods and services alongwith either base cost minimization or generating low cost no frills services to generate trial among the potential target market. Industry Overview

The healthcare industry in India is primarily divided into Indian government run Public healthcare system, private healthcare systems and a wide network of unregulated informal healthcare providers. There is another category of not- for- profit organization including charitable institutions, missions trusts etc. This irregular and unregulated system has caused wide inconsistency in gaining access, particularly in the distribution of healthcare infrastructure at the regional and rural level.

The public healthcare system is highly inadequate and overburdened to cater to the needs and requirements of the Indian population. It also lacks technological support and infrastructural base to meet the demands of the Indian market.

Indian Healthcare a US\$ 34. 2 Billion Market

Indian Healthcare market currently estimated at US\$ 34. 2 billion

Healthcare delivery and pharmaceuticals account for nearly 75% of the total healthcare market.

Private healthcare is estimated to be the largest component of the healthcare sector by 2012 expected to double to US\$ 38 billion b 2012

The Indian Healthcare market has grown from US\$ 22. 8 billion in the year 2005. At a CAGR of 16%

Market is expected to grow to US\$50. 2 billion and US\$ 78. 6 billion by 2011 and 2016 respectively.

We would be focusing our report on the Private Healthcare Sector in India. The emphasis will be Hospital services which will include services provided at the specialty, super specialty and other hospitals being operated and managed by the two companies.

The two companies on which we have based our report are:

Apollo Hospitals.

Fortis Healthcare

Apollo Hospitals

Apollo hospital manages a network of 50 specialty hospitals and clinics with a bed capacity of over 9000 across the country and abroad.

Apollo has launched a concept of Health City in Hyderabad and will launch similar in all over India.

To attract foreign patients Apollo has tied up with insurers like BUPA (UK), Vanbreda (Belgium) and Mondial (France).

Management Agreement with Singapore based Parkway Group Healthcare PTE Ltd.

To start pharmacies at Petrol station Apollo has done agreement with Indian Oil Corporation.

It has touched 18 million lives and has conducted 4 million preventive health checks, has conducted more than 90000 cardiac surgeries- one only 10 hospitals in the world to achieve these volumes. Has also performed over 7, 50, 000 major surgeries and a million minor surgical procedures with exceptional clinical outcomes.

In its enterprise to bring world class healthcare services to semi-urban and rural India it has initiated Apollo reach hospitals which will set up 25 hospitals across India within the next two years with an initial bed capacity of 100-150 with an ability to ramp-up to 200 bed specialty hospital.

The Chairmen has given a new slogan of ' Touch a Billion Lives' reformulating the old slogan of ' Touching Lives.'

FORTIS HEALTHCARE

Fortis has numerous hospitals under its umbrella with 1800 beds capacity

Fortis has its operations in Delhi, Noida, Mohali, Amitsar, Faridabad, Raipur and Srinagar

They are planning to do mergers and acquisitions as an expansion plans

It is planning to set up new hospitals with an investment of about US \$ 1. 5 billion by doing join venture with DLF

Forties has started pharmacy “ Health World” in all over India with an investment of US\$ 195 million.

Has announced pre-IPO agreement for the allotment of 67, 000 equity shares to VASCO Inc. with investment worth US\$ 2. 6 million.

Apart from this Fortis has also forayed into telemedicine and has built a network which connects each of its facilities so that the expert care is always within reach. Fortis Healthcare provides services covering ICU Management, ER Management, OPD Management, Radiology Reporting, Pathology Reporting as well as Training and Education Opportunities. Fortis is using HIS (Hospital Information system) to store patient data and ensure confidentiality.

Strategy for Apollo

The Business Model at Apollo Hospitals has been successful as it has been able to generate profits even though the operations are capital intensive.

The mission is to keep on improving the quality of healthcare services provided to the segments and strive to bring healthcare services of international standards within everyone's reach.

The focus is also on generating strong financial performance and delivering appropriate returns through disciplined and balanced execution of comprehensive business strategy which reinforces both quality of care and financial strength.

It has a strategy to position itself as a leading healthcare service provider by successfully differentiating their service offerings and increasing the scale of operations.

The strategy is to dominate the healthcare space by increasing the bed strength in the cities where they are already present and commissioning of new hospitals in Tier 2 and Tier 3 cities through the "Reach Initiative". The Reach Model is a "no-frills" model, which will provide cost effective quality healthcare.

The facilities shall be providing higher secondary and acute care, capable of developing into a tertiary care centre. Each facility shall be providing for nursing colleges to augment the shortage in the nursing infrastructure.

Further to leverage the intellectual property and domain knowledge has laid emphasis on creating "Centre of Excellence" of high end medical care services in global healthcare at the new and existing facilities. To share best practices across all the locations to enable increase occupancy at newly launched hospitals. Maximize asset utilization across all hospitals.

The company will make significant investment in human capital to meet in-house needs as well as the needs of the consultancy services business through establishing nursing schools, medical colleges and hospital administration colleges.

It will drive the Pharmacy revenue by new store rollouts as well as maturity of existing stores. To adopt the Strategy of providing ‘ across the healthcare spectrum services’ and adding new service lines in the existing markets.

They will invest in new technologies desired by physicians and patients to demonstrate sustained quality. Will drive the cost benefit and penetrate the healthcare tourism segment. To use management contracts with hospitals overseas as an expansion strategy.

STRATEGY FORTIS HEALTHCARE

Operating multi specialty hospitals providing healthcare in key specialty areas.

Initiating boutique style hospitals, Fortis La Femme, focusing exclusively on the women’s health and maternity care.

Differentiation strategy by adopting unique hospital design, services and programs that comply with international standards.

To tap the opportunity provided by the demographic shift and higher longevity of Indian population the company has adopted a hub and spoke model.

To blunt competition the company has adopted a strategy to acquire other hospitals.

It also has a strategy to integrate backwards and set up medical colleges, nursing colleges and research labs.

PESTEL ANALYSIS FACTORS

NOTES

IMPACT

Political

Government policies, Funding, grants and initiatives

Government/ Political Stability

ECONOMIC

National Growth rate (GDP)

Market size

Lack of Government spending

Medical Tourism

SOCIAL

Consumer attitudes and opinions.

Increasing demand in speciality healthcare

TECHNOLOGICAL

Advancements in technology

Technology access, licensing, patents

History of medicine in India

Associated/dependent technologies

Information and communications

Internet

ENVIROMENTAL

Sanitation and Pollution

Extreme climate changes and natural disasters due to global warming.

Emergence of Superbug.

LEGAL

Deregulation of the healthcare industry.

Relaxation in merger and acquisitions.

Increase in budgetary allocation

Focus on rural healthcare

Health Insurance for Below Poverty Line families

Exemption/concessions in duties and taxes for import of medical equipment.

Relaxation in FDI norms.

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Encouragement to private enterprise for investment in healthcare.

Extension of visa periods for medical tourists

The union government which is driving economic reforms is popular and stable.

The GDP growth rate in 2010 is 8.6% in comparison to 6.7% in the year 2009.

Per capita income is growing and was at US\$ 2946 for the year 2010 leading to increase in disposable income.

The value of Healthcare sector in 2007 was \$34 billion which is expected to grow to \$77 billion by 2012 and to \$190 billion in two decades.

Requirement of additional 450000 hospital beds by 2010, which is an investment of \$25.7 billion.

Opportunity for private enterprise.

Is expected to touch \$1 billion mark by 2012.

Increase in urbanization will lead to a rise in stress and lifestyle related illnesses.

Boom in Indian population which is currently at 1.1 billion and is increasing at an annual rate of 2%.

By 2025, an estimated 189 million Indians will be at least 60 years of age, thanks to greater affluence and better hygiene.

The women workforce in India is also growing which is further boosting the purchasing power of Indian households.

With growing disposable income Indians will start living more affluent lives giving rise to lifestyle related diseases such as hypertension, cancer and diabetes.

There are rapid improvements in technology being used in the healthcare sector.

New treatment technologies being developed.

Access to new and better diagnostics and allied technologies.

Use of healthcare Information management system to record, store and retrieve patient information and hospital management.

Development in telemedicine

India is well known for alternative medicine like Ayurveda, Pranic Healing, Aroma Therapy, Music Therapy, Meditation and Yoga internationally.

Alternative medicine therapies could attract medical tourists.

Drinking polluted water and poor sanitation leads to death of 1 million children below the age of 5.

Increasing pollution is adding to the healthcare problems.

Extreme weather conditions recurring frequently. Rise in natural disasters.

Frequent advent of New Diseases.

Regulatory conditions eased to encourage growth.

t Origin of new superbug from India due to excessive prescription of antibiotics and its resistance.

High

Medium

Medium

High

High

High

High

High

Medium

High

Medium

High

High

High

Low

Low

Low

The key drivers of growth in the sector:

One driver of growth in healthcare sector in India is India's booming population which is currently at 1.1 billion and is increasing at an annual rate of 2%.

India's booming economy is creating an ever expanding middle class with more disposable income to spend on healthcare. Working class population to grow to 36% by the year 2016 from 32% in the year 2006. Enhanced general awareness, increased literacy rates will also boost demand for better healthcare.

With growing disposable income Indians will start living more affluent lives giving rise to lifestyle related diseases such as hypertension, cancer and diabetes. It is estimated that by the year 2025 the diabetic population will reach 73.5 million and the estimated cost of treatment would be \$30 billion.

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The emergence of India as a hub for medical tourism to provide best in class treatment in fields such as cardiology, joint replacement, orthopedic surgery, gastroenterology, ophthalmology, transplants and urology at substantially cheaper price.

The emergence of health insurance which is projected to grow to \$5.75 billion by 2010.

Growth of telemedicine, as only 3% of the specialist physicians reside in rural areas and 25% in semi urban areas the telemedicine is a fast emerging trend in India, supported by the exponential growth in information and communication technology sector and low telecom costs.

Need for healthcare infrastructure expansion, currently India has approximately 860 beds per million population which is one-fifth as compared to the world average of 3960, according to World Health Organisation. It is estimated that an additional of 450,000 hospital beds will be required by 2010- an investment estimated at \$25.7 billion. The contribution from the government is expected at 5-20%, opening an gigantic opportunity for the private sector to bridge the gap(CRISIL)

With a rejuvenated healthcare infrastructure, together with the emergence of medical tourism and telemedicine, there will be a surge in demand for medical equipment.

The increase in disposable income and surge in life style related diseases, there will be an opportunity for global pharmaceutical firms.

With amendments in legislation and according to a study by Rabo bank finance, a subsidiary of the Netherland based Rabo Bank, the huge patient population of vast genetic diversity making the country ' an ideal site for clinical trials.

SWOT Analysis:-

SWOT Analysis – Apollo Hospitals

Competitive Advantage by virtue of Strategic Capabilities

We are using the Bowman's strategy clock to analyse the Competitive position in comparison with the products and services offered by the competition.

Bowman's Strategy Clock

Apollo's Competitive position

The Company is trying to build a reputation as a provider of premium quality healthcare of International standards. It has adopted a concept of creating Hospotels in which the hotels are included within the hospital campus. The endeavour is to differentiate on the basis of quality of the services provided in a five star environment. They want to do this at a lower cost in comparison to any other service provider.

As per the Bowman's strategy clock we can see they are following a hybrid model to differentiate at a low cost base.

Fortis 's Competitive position

The Company is trying to build a reputation as a provider of health services in key speciality areas such as cardiac care, renal care, neuro-sciences, orthopaedics etc. It has adopted a strategy of acquisitions for growth. The path is to differentiate on the basis of being identified as the leading provider of cutting edge healthcare technology in the area of critical diseases. They also want to enter the tier II and tier III cities and provide no frills basic healthcare and to generate brand awareness for their main super speciality hospitals.

As per the Bowman's strategy clock we can see that they are following a hybrid model to differentiate on the basis of leadership in critical diseases healthcare serves and also to provide a low cost option for creating trial opportunities for the potential customers.

Porter's Five forces framework:

The five forces framework is used to analyse the attractiveness of an industry. It helps to assess the current strength of the competitive position and the strength of the position an organisation is planning to attain.

porters-five-forces-model

1) Potential entrants

Threat of new entrants depends on entry and exit barriers. Since the healthcare industry requires huge investments and core competencies are hard to acquire, therefore threat of new entrant is low hence the industry attractiveness is high.

2) Industry rivalry

Industry rivalry denotes the intensity of competition among the existing players in the market. Rivalry in private healthcare industry is low as there is no cut throat price competition amongst competitors hence the industry attractiveness is high.

3) Bargaining power of Buyers

Bargaining power of the buyer means the amount of control buyer has over the products price. In this industry there are lots of options available to the customers and the switching cost is almost negligible. Hence the bargaining power of the Customer is high. This creates a focus area for the companies operating in this industry.

4) Bargaining power of Suppliers

It signifies how strong the position of the seller is. In this sector the bargaining power of the suppliers is low as there are lots of available options for the customers. Also the cost of switching between the suppliers is low thereby increasing the industry attractiveness.

5) Threat of substitutes

If the customers can easily switch between the competitors product, then the threat of substitutes is high. This threat is low as there is a low probability of an alternative medicine procedure being acceptable for super specialty healthcare. This will make the industry attractive.

If we apply the Porter's five forces framework in this case, it can be ascertained that the two companies have a strong competitive advantage and they are following a hybrid strategy to gain and sustain differentiation and also focusing on costs. This is giving them a sustainable competitive advantage in the industry. They will be advised to focus on the areas of providing possibly unparalleled healthcare services so that the switching cost in the psychological mind set of the customer increases which will reduce the bargaining power of the buyer and will become an opportunity area instead of a problem area.

SWOT Analysis – Fortis Healthcare

Helpful

To achieving the objectives

Harmful

To achieving the objectives

Internal Origin

(Attributes of the organisation)

Strengths

Weaknesses

Lower delivery cost.

Well placed to tap growing potential of healthcare industry.

World class facilities.

Costly curative medical services.

Limited health benefits to employees.

Limited number of quality medical institutions for Doctors of high quality for specialised services.

External Origin

(Attributes of the environment)

Opportunities

Threats

Investment of more than \$80 Billion to get 1. 85 Beds per 1000 persons in India.

Booming medical tourism.

Lack of quality resources – In India for every 1000 persons 0. 3 doctors and 0. 8 nurses are there while rest of world it is 1. 23 doctors and 2. 56 nurses.

Highly competitive industry

Ever upgrading medical equipment.

Highly capital intensive.

Threat from US to provide low cost medical treatment will result in lower revenues from Foreign Medical Tourists.

Recession

Spread of superbugs due to lax pharmacy rules in India.