



Eye on the Indian Market

By Ratan Jalan and Vinay Kumar

Healthcare franchises
find success in an
emerging market.

Healthcare delivery in India presents many unique challenges for healthcare professionals. The country's lack of regulatory framework in quality results in a cottage industry-like scenario. Nearly two-thirds of healthcare spending is on outpatient care, and lifestyle diseases are beginning to emerge. Low insurance penetration has resulted in a high proportion of self-pay. Therefore, a dramatically different approach is required to address the gap in domiciliary healthcare segment.

Apollo Hospitals, as the premier healthcare group in India, set about the task of creating a network of primary healthcare centers to meet this huge requirement and also create a hub-and-spoke model. To encourage the vast pool of entrepreneurs in the country and the demands of a more discerning middle-class population, franchising was chosen as the business format, which also facilitated a speedier rollout.

Franchising, especially in the healthcare context, comes with its own challenges, which Apollo Hospitals has addressed. Today, the Apollo Clinic has the largest network of primary clinics throughout India, all of them established on a franchised basis.

Starting with a single hospital in the early 1980s in Chennai, today Apollo Hospitals Group has emerged as the largest network of secondary and tertiary care hospitals in India, with more than 8,000 beds in 41 hospitals across all major cities in India. It has treated more than 14 million patients from more than 55 countries during this period.

Because of the increasing importance in the global market, hospitals in South Asia have started seeking accreditation by international agencies such as Joint Commission International (JCI). Of the seven hospitals accredited by JCI so far in India, four are Apollo Hospitals.

The group also enjoys leadership status in virtually all domains of healthcare including pharmacy chain, health insurance, medical business process outsourcing, nursing education, clinical research and corporate wellness programs. It has strategic alliances with some of the well-known international players such as Johns Hopkins International, Tenet Healthcare and Munich Re.

In early 2000, with a view to cater to the large domiciliary healthcare market, Apollo Hospitals started a new initiative, the Apollo Clinic. Apollo realized that while such a clinic has an important role to play in the context of a hub-and-spoke model, it is equally critical to ensure its success as a stand-alone business entity.

Understanding Indian Healthcare

In India, there are 16,000 hospitals with about 1 million beds. The average size of a private hospital is 22 beds, much lower than developed economies. The provision of healthcare in India varies by state, with private healthcare accounting for more than 50 percent of all inpatients and more than 80 percent of all outpatients. Healthcare funding is primarily sourced from private out-of-pocket funds and accounts for more than 75 percent of the total healthcare spending.

The development of organized private sector healthcare is a relatively recent phenomenon in India and focuses primarily on large super-specialty hospitals in urban locations. According to an industry report by McKinsey, outpatient care constitutes nearly two-thirds of the total healthcare spend by patients. And the domiciliary healthcare market, even in large cities, is extremely fragmented and unorganized.

At the same time, urban Indians are subject to an increasing number of lifestyle diseases, and India is often cited as the world's capital for diabetes and cardiac ailments. Less than 5 percent of the population in India is covered by health insurance, resulting in almost 65 percent of healthcare spending being out of pocket.

The Concept

The Apollo Clinic offers an integrated model for day-to-day healthcare delivery through a single facility set up in about 4,000 square feet of space. It has facilities for specialist consultations, diagnostics, preventive health screening programs and a 24-hour pharmacy, all under one roof. The Clinic also provides a range of value-added services such as second opinions from a panel of leading experts through telemedicine and counseling on various lifestyle parameters.

The Apollo Clinic is staffed with doctors from various medical fields. The Clinic has 25-30 full-time employees including a full-time internist and a senior pathologist. All other doctors from various medical disciplines in the clinic are empanelled as visiting consultants on a fee-for-service basis.

The clinic also offers a comprehensive range of diagnostic services, which include a laboratory equipped to handle inves-

tigations in the areas of biochemistry, hematology, clinical pathology and microbiology. It also has an imaging and radiology department and a cardiology department. The Apollo Clinic also offers a range of preventive health screening programs to facilitate early detection and prevention of diseases.

Based on a study conducted by Accenture, the feasibility of creating a nationwide chain of primary healthcare clinics was established. Several factors had to be kept in mind when designing the clinics:

- Utmost functional efficiency to drive resource utilization, staff productivity and customer satisfaction
- Reassuring and pleasant ambience through judicious use of colors, lighting and other elements to convey a heightened sense of comfort in an elegant (not opulent) manner
- Economy of scale to drive down costs and a clear strategy to drive profits through volumes, not margins
- Focus on cost to ensure overall economy and help growth in the bottom line
- Ease of replication and maintainability—a key criterion in selection of materials

Franchising

Having established the model, the next challenge was to replicate this model across cities all over India without compromising its integrity. Rolling out the model on an all-India basis requires an in-depth knowledge of the local healthcare market as well as local regulatory requirements. It was also evident that Apollo had managerial expertise relevant to large hospitals, but not smaller outpatient facilities.

After careful consideration, franchising was chosen as a business format because it leverages the entrepreneurial abilities of some like-minded promoters in these locations. It would also facilitate a speedier rollout of the concept.

Persons or entities from the locality were selected after initial screening, based on their conviction about healthcare as a business segment, their proven professional competence, commitment levels and, more importantly, their focus on service quality. Typically, a potential franchisee is expected to have prior experience in successfully running a small- to medium-sized business, adequate knowledge of the local market conditions and an interest in making a success out of the Apollo Clinic as a franchised business model. While funding requirements for the Clinic are not significant, financial strength is an important criterion when selecting a franchisee.

Franchise selection process. The process of selection of franchisees typically starts with an advertisement in national or regional newspapers soliciting inquiries for franchisees. Advertisements are followed up with a review of applications received from prospective franchisees.

Short-listed candidates are called for an interview where

Exhibit 1

An Apollo Clinic ad

The end of
"You have to take Neha
for the blood test,
I'll take maa
to the cardiologist."

Now put an end to running from place to place for your family's health. Because complete healthcare is just around the corner. At the Apollo Clinic. Here, under one roof, you'll find many specialists, a wide range of diagnostics, health check packages, and the quality that you expect from Apollo. So, the next time your family needs any care or cure, you don't need to look beyond the Apollo Clinic.

Complete Healthcare. Under One Roof.
www.theapolloclinics.com

The Apollo Clinic

Specialize | Diagnostics | Health Check-ups | Dentistry | Pharmacy

BANGALORE Andheri (East) 2826 2741 / 42 | Karolvyli 2861 7416 / 17 | Vashi 2786 1323 / 24 | Thane 2547 9011 / 9056 | **MUMBAI** 3462 155 / 57 | **HYDRABAD** 2552 081 / 02

Franchise enquiries welcome.

they are presented with the details of the franchise model. These details would typically include a brochure about the clinic, a compilation of previous success stories and detailed financial plans for a typical clinic.

Potential franchisees are encouraged to ask questions and seek clarifications. The process of finalizing the candidates is a two-stage process. In the first stage, all information is made available to the candidate, and in the second stage they are interviewed by a senior panel from Apollo. Potential franchisees are also encouraged to visit existing clinics and interact with other franchisees to understand the reality of the healthcare business.

Typically, it takes a review of about 80 short-listed candidates to finalize one potential franchisee for a territory. A selected franchisee is required to sign an agreement expressing his intent to set up a franchised clinic.

Interestingly, less than 10 percent of the franchisees have healthcare education or prior experience in healthcare. Most franchisees come from a very diversified background ranging from computer software and real estate construction to soft-drink bottlers and spice merchants.

Developing the nuts and bolts. With the backing of years of established practices available from within the group,

an internal team developed standards and manuals. These standards included both clinical and non-clinical practices and encompassed areas such as logo, branding, selection of material for construction of the clinics, dress and stationery design and standard operating procedures.

Software has been commissioned specifically to meet the requirements of the clinics so that it could be implemented easily. All medical equipment is selected after a thorough process of review and negotiation to ensure that the clinics have the best of equipment while being relevant to the local market needs. Continuous vendor development and relationship is a critical central function that is the backbone of the standard specifications of the clinic.

The basic architecture plan for the clinic was initially developed by renowned architects bearing in mind the need to create a pleasant ambience and facilitate ease of patient flow. Even more important was the need to ensure ease of replication across a vast geographical network.

Training is imparted to the franchisee and his team partly through renowned academic institutes such as the Indian Institute of Management in Bangalore and partly through internally developed training programs.

A rigorous quality review program has been established for continuous monitoring and improvement of both clinical and non-clinical quality in the clinics and to ensure that, no matter where a clinic is established, there is no deviation from established norms.

Rollout. It was critical to ensure that the first franchisee had confidence and the ability to make a success of the Clinic. Therefore the process of selection of the first franchisees was slow and deliberate. The first few franchisees were identified for rollout in Delhi, the capital of India.

With the implementation of each clinic, there was new learning for Apollo, so minor modifications were continuously made to the model. Some of the emerging understandings from the experience included the following:

1. Duration and rigor of the training on various aspects such as product knowledge, operations and software as well as pre-commissioning assistance was found inadequate and needed to be significantly enhanced.
2. Clinics put in relatively inadequate efforts in creating awareness about various services and quality as product differentiators in their catchment areas and didn't build a sufficient referral network through family physicians. In certain locations, the clinic revenues were skewed with greater reliance on corporate clientele.
3. Availability of specialists in certain disciplines with the desired credentials proved to be a significant hurdle to the rapid rollout of clinics. In certain cases, the Apollo Clinic model was modified to allow certain key members such as a radiologist and a pathologist to operate on a part-time basis.

4. In larger cities, real estate prices played a much more significant role in the selection of an ideal location for a clinic. Therefore, even when the process of selection of a franchisee was completed, delays in identifying appropriate premises delayed the rollout plans.

The rollout plan was accordingly modified, and at present 50 Apollo clinics are operating inside and outside of India. All Apollo Clinics together have treated more than 1 million patients. The laboratories of a few of the Apollo Clinics have been recognized by a National Accreditation Board, which is a significant achievement for a clinic chain. And Apollo has been recognized as the best franchiser in India across various industry segments for two consecutive years.

The Marketing Plan

As the franchiser, Apollo is responsible for developing overall marketing strategy and product design and providing creative inputs. The marketing plan is typically implemented by the local team.

In addition to this marketing assistance provided to the clinics, Apollo also does advertising campaigns (print, television and radio) that act as “booster doses” to accelerate increases in awareness levels. Since the Apollo clinic is a new category, it suffers from some ambiguity in terms of comprehension. The communications developed for the booster doses are essentially category descriptors and are designed to highlight the fact that all services are available under one roof.

A typical marketing package pre-launch and the first few months post-launch involve planned PR initiatives, awareness drives through fliers, billboards and prints ads in local newspapers. The initial market package is focused around price promotions, outreach programs in neighborhoods, creating physician networks for referrals and addressing corporate and insurance clients.

Since the Apollo Clinic concept is relatively new in India, the focus of the initial marketing plan is to generate footfalls and encourage trial. Consequently, the marketing plan is more top-line rather than bottom-line oriented.

As a typical example, against a first quarter revenue target of \$60,000, the total marketing spend is around \$10,000 during the first three months after the launch of the clinic.

In the past, a number of clinics initiated marketing only at the time of clinic launch, not taking any subsequent marketing action. Marketing staff were taken on board only after the clinic was launched, resulting in loss of precious time in reaching out to the customers in the neighborhood. As a result, clinic sales in the first few months post-launch naturally suffered. Clinics have now started to invest in marketing resources and efforts at least two months prior to launch.

Clinics that have been launched some time ago build up a database of customers that provides for excellent data mining opportunities.

On an ongoing basis, the clinic’s marketing plan consists of a mix of generating word of mouth based on superior quality, continuous promotions in the neighborhoods, effective PR activity and managing physician relationships. Physician relationships play an important role in generating referrals to the diagnostic facilities of the clinic both from visiting physicians as well as others. CME programs conducted in the clinic premises are one of the tools used to engage physicians.

Key learning from the past shows that, unlike in the other retail sectors, in healthcare, reliance on conventional mass media advertising does not have the same effect on revenues. Moreover, given the relatively lower prices charged for healthcare in India, mass media advertising is not affordable on a sustained basis. Word of mouth plays a much bigger role in sustained promotion.

Increasing reach to the neighborhood through localized promotional programs and engaging effective PR are also required to be taken up on a sustained basis to ensure outreach to new customers.

The physicians play an important role in ensuring that customer stickiness is high; repeat visits to the clinic by a customer are typically high and rely to a large extent on the relationship developed by the physicians with the customers. Physicians also play a significant role in ensuring referral business to the clinic. The ability of a franchisee to involve the physician in the day-to-day decision-making in the clinic and to increase their internal networking within the clinic creates increased referrals and generates a sense of ownership and responsibility among the physicians.

However, over-reliance on the celebrity status of the physician does not help in generating sustainable revenues for the clinic, and the franchisee must generate sales on its own.

Clinics that have been launched some time ago build up a database of customers that provides for excellent data mining opportunities, both for the purposes of cross-selling as well as deepening of relationships. Individual clinics have been too involved in day-to-day operations and have de-prioritized database-based selling. With over 1 million customers, Apollo has now initiated plans to centralize this database and suggest opportunities for sale as well as design of focused, customer need-based programs.

Patient Satisfaction

Patient satisfaction is routinely measured at the clinics through patient feedback forms. The data for each clinic is periodically analyzed to compare its historic patient satisfaction trends as well as compare the patient satisfaction levels against a benchmark across all clinics.

In addition, each clinic maintains guest books, which are

Exhibit 2

An Apollo Clinic



meant to record the comments of top corporate executives and other well-known personalities visiting the clinics. These comments are periodically shared across all the Apollo staff as a source of encouragement and feedback.

Customers' expectations are rationalized based on the current healthcare standards in India. Given the superior quality standards that Apollo Clinics have set, feedback results have typically shown higher levels of satisfaction as compared to the market.

In order to ensure that there is no compromise on service quality levels, Apollo conducts periodic service quality audits at each clinic, with follow-up by the local teams to ensure that deficiencies on clinical and non-clinical quality are removed.

Repeat patient visits are a good indication of the levels of customer satisfaction. As a benchmark, nearly 70 percent of the patients have made a repeat visit during the year. In the context of a primary care facility, this can be considered as a fairly good record.

Lessons Learned

The Apollo Clinic model is not an unmitigated success; while there has been some measure of success, there have also been a number of challenges. The biggest achievement for Apollo is to establish a unique business model—that of franchised healthcare in the face of innumerable challenges.

For example, the healthcare industry in India is unorganized and there are no established standards and practices. Establishing standards and ensuring that the franchisees remain committed to them, especially when competition gets away with lower standards, is a challenge.

There's also the challenge of ensuring the availability of affordable healthcare while still ensuring profitability for the franchisee and the franchiser. Profitability can be achieved only with higher emphasis on volumes and not necessarily through price increases. Volume growth also needs to be balanced so that there is no over dependence on any one revenue stream.

A significant factor to ensure the success of a clinic is that the profile of the franchisee includes the franchisee's commitment to the success of the business. The role of a franchisee as a manager therefore assumes greater significance than his role as an investor. Formal research conducted by a leading agency through in-depth interviews with a number of franchisees across clinics has confirmed this. On the other hand, franchisees that have relied excessively on the magic of the brand to carry the burden of success have typically fallen short.

However, prior knowledge of the industry is not necessarily an ingredient for the success of the clinic. Past performance records show that doctors who have taken up franchises are not necessarily more successful than non-doctors.

Unlike other franchised models, conventional advertising as a means of creating brand awareness plays a limited role in the case of healthcare. Healthcare brands cannot be built through aggressive mass media advertising or conventional promotional tools, normally employed by FMCG or other service industries. Service quality and word of mouth are the key drivers for growth in business. Clinics which have focused on employee retention, service quality and community relationships have exhibited sustainable success patterns.

Service quality, along with its two critical determinants of customer and employee satisfaction are as important, or perhaps more important, in the franchised healthcare context than in other service contexts. With only one service opportunity being available to the service provider (it is not possible to predict a repeat visit of a patient/customer in healthcare, unlike in other service environments), it is critical that customer expectations are consistently exceeded.

To accelerate growth, Apollo has invested in software that allows features such as electronic medical records to be shared, with adequate security measures, across the entire network. Also, a brand-building mass media campaign using a broad spectrum of vehicles including print, TV, radio and outdoor media highlighting the nature of services offered is being launched to boost awareness levels and comprehension of the concept among the vast target audience. Apollo has also developed a few product variants, which provide for a limited range of ambulatory procedures through an expanded model.

Running a franchised business has its challenges, and running a healthcare business has a different set of challenges, so Apollo has taken on multiple challenges by creating a franchised healthcare network. It has also proved that it's possible to create such a model even when the environment is not necessarily conducive to this creation. **MHS**

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