Evolving Healthcare Ecosystem in Kerala: Survival Strategy for Small Hospitals

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Fierce competition from large / corporate hospitals is leading to slowing down of business or closure of small hospitals. Small hospitals are critical to ensure affordable and accessible healthcare to all classes of people. This study aims to understand the innovative business practices adopted by small hospitals in Kerala that helps them not just to stay relevant but increase patient visits. Data collection was through experience surveys and secondary research. The study was conducted in August 2019. The study was limited to allopathic hospitals as they form the major chunk of healthcare providers in Kerala. Results: Competition from professionally run large / corporate hospitals, aided by their aggressive marketing, creates a challenging business environment for small hospitals. However, these hospitals are rising up to the challenge. A 'co-operative model' network of small and medium hospitals is taking shape in the state. Strategies include referencing patients within the small hospital network, data sharing by hospitals in the network, extending offers and discounts to patients of hospitals registered in the network, collective procurement of medicines and medical equipment and collective medical waste disposal. Small hospitals are also trying to effectively manage the 7Ps of service marketing to attract and retain patients. Conclusion: These business practices can be replicated in other states also as a survival strategy for small hospitals.

Keywords: Healthcare, Small Hospitals, Corporate Hospitals, Kerala Healthcare

1. Introduction

The hospital services market in India is estimated at US $ 61.79 billion (FY 2017) and is expected to reach US $ 132 billion by 2023 growing at a CAGR of 16-17% (IBEF 2019 data). One of the characteristic features of Indian healthcare delivery system is the dominance and growing role of the private sector. India's engagement with IMF and World Bank in the 1990s lead to the country embracing Structural Adjustment Program (SAP) that is based on the idea of neoliberalism. Neoliberalism promotes free market capitalism by encouraging privatisation, deregulation and reduced public spending in social sectors (Harvey, 2005). Direct effects of structural adjustment program in the healthcare sector include cutting down of government spending with a consequent rise in investment and spending by the private sector. Government of India have been actively promoting private investment in healthcare delivery since 1990s. Today private sector accounts for 75 percent of healthcare expenditure (India Brand Equity Foundation Healthcare report 2015). According to the report of the Steering Committee of Health, Planning Commission, Tenth Plan, private hospitals account for 82% of outpatient visits and 52% of hospitalisations in the country. Majority of private sector hospitals are small establishments (Rao, 2012; Planning Commission Report, tenth plan). Indian private health care sector is dominated by 'own account enterprises', usually run by one doctor (Hooda 2015).

However**,** a trend noticed in the healthcare sector is the emergence of large hospitals some of which are part of corporate hospital chains. The number of private hospitals, especially corporate chains like Apollo, Fortis, Max among others, has increased significantly in the last couple of decades (Rao, 2012). The Indian private hospital sector is shifting towards corporatisation (Hooda 2015). One of the major factors that contributed towards this shift is that in the year 2000, the government allowed 100% foreign direct investment in the hospital sector through automatic route facilitating investments with less restrictions. According to data released by the Department of Industrial Policy and Promotion (DIPP) hospitals and diagnostic centers have attracted US $ 6,342.40 million (Rs. 38,415.82 crores) from April 2000 to June 2019.Financial concessions offered to corporate hospitals in the form of subsidized sale of land, reduced import duties and tax concessions for medical research (Baru, 2000) also helped in their growth. These large / corporate hospitals are run just like any other corporate and they create a very competitive environment for small hospitals. Corporatisation of healthcare poses difficulties for small hospitals and make them weak (Anand Kate, 2015). The share of own account enterprises (usually run by one doctor) declined during 2001-2011 period. This indicates that large hospitals are increasing at a fast pace replacing small hospitals (Hooda 2015).

If corporate hospitals replace small hospitals healthcare consumers can be at a disadvantage. If a large number of small hospitals get to be replaced by a few large hospitals it can lead to concentration in healthcare delivery system. Concentration can lead to higher healthcare costs. A 2010 analysis found that the cost for inpatient hospital stays in San Francisco (a highly concentrated market) was about 75 percent higher than in the more fragmented Los Angeles market (David Wessel, 2018). Corporate hospitals are largely foreign funded. Healthcare costs in such hospitals tend to be higher than that of small and medium size hospitals due to greater capital intensity (Rupa Chanda, 2015). Higher healthcare costs will lead to income determining access to medical services or in other words, inequity in access to healthcare. This can adversely affect the health of people who cannot afford the higher healthcare costs. Patients, faced with a cost barrier, may respond by using fewer services (Peabody, 1996). And it is not just about financial inaccessibility to patients. It is no secret that doctors working in corporate hospitals are given financial targets that lead them to prescribe expensive and at times unnecessary tests and

surgeries that can put the health of patients at risk. With corporate hospitals dominating the sector, quality of healthcare services delivered by small hospitals may also suffer. Because of the high salaries they offer foreign funded hospitals could attract medical personnel from other hospitals including small size hospitals thereby lowering the quality of healthcare delivery in small hospitals (Rupa Chanda, 2015). Since small hospitals are spread across a district / state they are important to ensure geographical access to healthcare as well. Survival of small hospitals is critical not just to the doctors who own them or practice there but also to the patients who seek quality healthcare that is accessible financially and geographically.

2. Research Objectives and Methodology

The objective of the study was to understand the innovative business practices adopted by small hospitals, in the context of evolving healthcare ecosystem in Kerala, that helps them not just to stay relevant but increase patient visits.

Data collection was through experience surveys and secondary research. Experience surveys were conducted with office bearers of Indian Medical Association, Kerala branch and Kerala Association of Small Hospitals and Clinics (KASC), a member of Kerala Medical Council, proprietors of small hospitals and an ex McKinsey healthcare sector consultant. Twelve depth interviews, each lasting thirty minutes to one hour, were conducted in total. Secondary research was used to get a wider understanding of the subject area. For this, a systematic review of available literature including research journal articles and reports published by government bodies and consultancy firms was carried out. The study was conducted in August 2019.

2.1 Operational Definitions

Small hospitals: Establishments of private medical practitioners, clinics, hospitals with 0 to 50 beds (in line with the definition of Small Healthcare Organisation as given by National Accreditation Board for Hospitals and Healthcare Providers – NABH – that defines a SHCO as those health care organizations having a bed strength up to 50 beds and are in possession of supportive and utility facilities that are appropriate and relevant to the services being provided by the organization).

Large hospitals: Hospitals with 50 beds or more.

Corporate hospitals: Large hospitals that are run like a corporate firm.

2.2 Scope

Geographical scope is limited to Kerala. The study covers only allopathic hospitals as these hospitals comprise more than three quarters of the healthcare delivery system. 83.6 percent of people seeking health care utilizes allopathic medical service in Kerala (Levesque et al 2006).

3. Findings and Discussion

3.1 Evolving Healthcare Delivery Ecosystem in Kerala

In Kerala, like in the rest of the country, healthcare delivery ecosystem consists of public and private sectors with the latter dominating the system. Public sector delivers mostly preventive care and to some extent, primary and secondary curative care and comprises primary health centers, community health centers, maternal and child welfare centres, maternity homes, community welfare centres, family planning centres, taluk hospitals, general hospitals (district hospitals) and medical colleges. Private sector focuses more on curative care and comprises a large network of private practitioners, small and medium hospitals / clinics and, in recent times, large / corporate hospitals. Kerala has the highest density of government healthcare providers and private providers among the major states in India (Levesque et al, 2006). There is one allopathic government medical institution for every 31 kilometers and one allopathic private hospital every 9 kilometers. Considering both, there is one hospital every 7 kilometers. There are 4 allopathic hospitals for every 100000 population. (Sankar Deepa, 2001). Thus public and private providers coexist to give easy access to affordable health care to the people in the state. This is a major reason for Kerala championing the Niti Aayog Health Index scores for 2017-18 among the larger states in India with an overall score of 74.01. Many of the private providers in the state are small hospitals. According to IMAGE (IMA Goes Ecofriendly - Indian Medical Association's waste management scheme) the number of private hospitals with 0 to 50 beds (small hospitals) in Kerala is around 80 percent of the total number of private hospitals in the state. Thus small hospitals play a critical role in ensuring easy access to healthcare to the people of the state. But of late large / corporate hospitals are fast expanding in the state. The number of allopathic hospitals with in-patient facility increased from 1864 in 1986 to 1958 in 1995 and then decreased to 1405 in 2004. Average number of hospital beds in the private sector in 1986, 1995 and 2004 were 26, 34 and 41 (Bureau of Economics and Statistics, Government of Kerala, Report on Private Medical Institutions in Kerala, years 1986, 1995, 2004). Given that the number of hospitals decreased between 1995 and 2004, but the average number of hospital beds increased, it can be concluded that smaller hospitals were replaced by large hospitals (T R Dilip 2010). According to Kerala Association of Small Hospitals and Clinics (KASC) close to 750 small private providers closed down in the state since 2005. Large / corporate hospitals are run professionally just like any other corporate and it is the business strategies adopted by them for their expansion that is deemed to be a major factor in closing down of small hospitals.

Corporate hospitals provide many medical services under one roof. They usually do not see money as a constraint in acquiring manpower and machinery and hence they usually provide quality service mostly at par with global standards making healthcare delivery market highly competitive. These hospitals market their services aggressively. Marketing includes awareness generation of (the hospitals and the services they offer) and brand building exercises through conventional and digital media. They organise medical camps in organisations, educational institutions and residential areas. They try to get

publicity by attracting celebrities and newsworthy individuals to their hospitals. They operate on a hub and spoke model whereby they will have clinics and diagnostic centers in the suburban areas or satellite cities. These 'spokes' act as feeder points for the 'hub' which is the main hospital that will be located in a metro or a major city. They offer 'continued medical education' (CME) to doctors. These CMEs are mostly about generating awareness in the doctor community about the technologically well advanced procedures that are offered in their hospitals. These doctors in turn would refer patients who are in need of such procedures to these hospitals. They also conduct CSR activities to generate good will among the public. Strategies of these hospitals are not restricted to marketing alone. They tie up with insurance companies to provide cashless treatment thereby attracting more patients. They tie up with corporates to provide healthcare packages for their employees. They have tie ups with the state government to provide treatment under various government schemes. All these strategies adopted by large / corporate hospitals make the environment highly challenging for small hospitals.

3.2 SWOC Analysis of Small Hospitals

Strengths: Small hospitals are known to provide quality healthcare affordably. Small hospitals are spread across the state, with an extensive geographical coverage. Though the density is more in cities, other areas are also adequately covered. Given that it takes time for a small hospital to establish itself the doctors are mostly experienced professionals. Since small hospitals are part of the community a personal rapport is there between the doctors and patients.

Weaknesses: The five dimensions of servqual (service quality) are: reliability (delivering promised service dependably and accurately), assurance (knowledge and courtesy and ability to inspire trust and confidence in customers), responsiveness (willingness to help), empathy (caring, individualised attention) and tangibles (includes physical facilities and equipment). Of these reliability and tangibles are the dimensions where there is scope for a lot of improvement for small hospitals. Reliability of service offered varies across small hospitals as no standard protocol is followed for healthcare delivery or quality assurance. Deployment of technology is very limited in small hospitals. Also, unlike large / corporate hospitals, small hospitals cannot afford to be equipped with the most updated medical equipment due to financial constraints. Small hospitals operate individually and as such lack collective bargaining power with stake holders as medical equipment manufacturers, government, insurance agencies etc. Currently they do not engage in marketing and this can be a serious handicap given that large / corporate hospitals aggressively market their services.

Opportunities: It is the middle class that forms the major chunk of customer base for small hospitals. Number of middleclass households in India is expected to quadruple by 2020 and Kerala would be no exception. Increase in incidences of lifestyle diseases and communicable diseases and increased health awareness among the people can lead to increased use of healthcare services.

Challenges: Biggest challenge for small hospitals is the threat posed by large / corporate hospitals. Also, unfriendly government policies (electricity at commercial rates even for a one room clinic, having to have STP facility in the premises, wage rates for nurses, norms pertaining to disposal of medical waste and so on) makes it tough for small hospitals to operate smoothly.

3.3 Survival Strategy for Small Hospitals

Fierce competition from large / corporate hospitals makes it inevitable for small hospitals to devise a strategy for their survival. Individually they may not be able to face competition, but working together they may be able to rise up to the challenge. This thought process has lead to a 'co-operative model' networking of small hospitals(imahospitals) which is done in such a way that these hospitals, while maintaining their independence, will function as part of a statewide network of small and medium hospitals. Main advantage of this network is the strength that comes with numbers. To survive, small hospitals also need to rethink certain operational aspects in running their establishments. To begin with, two important operational aspects - purchase of medical equipment and disposal of medical waste – are being addressed. IMA Kerala has conceptualised a system for collective purchase of medical equipment that would make commonly used medical instruments available to registered members at rates cheaper than otherwise available. Small hospitals are taking advantage of the economies of scale that comes with such an arrangement. IMA Kerala has also devised a collective disposal system for medical waste which again the small hospitals are making use of. Small hospitals are also having a fresh approach towards managing the 7Ps of service marketing.

3.3.1 Co-operative Model Networking of Small Hospitals

'IMAhospitals' is a network of small and medium hospitals in Kerala. Through this co-operative model networking, small and medium hospitals provide mutual assistance in working towards a common goal – their survival. Currently the network is piloted in three districts in the state viz. Thiruvananthapuram, Kottayam and Trissur and soon will extend to other districts as well. When it is completed, the network will be like a huge hospital spreading over the state and small and medium hospitals will be like departments of the hospital. The stated aim of the network is to provide quality and affordable care to the patients with a humane, personal and ethical approach. The unstated aim is to ensure survival of small and medium hospitals.

Website of imahospitals (imahospitals.com) maintains a database of all small / medium hospitals registered with them and give information about the specialty and services offered, doctors available at the facility, timings and contact details. Patients can also book appointments through the site. Network of imahospitals offer many benefits to the patients that include priority consultation in the referred hospital, waiving of registration fees in the referred hospital, 10% discounted rates in all network hospitals, doctors' home visit, home nursing (on request), sample collection services and special offers by participating

hospitals. There is also a helpline that patients can use for booking or voicing grievances. The venture introduces the concept of 'parent doctor', in line with the concept of 'family doctor' of earlier times. The parent doctor can act as the first contact point for treating ailments or referring to the right doctor for treating the ailment. The parent doctor would take care of the healthcare needs of the individual and his/her family adding a personal touch to patient care which is very much lacking in large / corporate hospitals. All the networked hospitals are expected to share medical information of their patients so that the medical history of the patients will be easily accessible to all doctors. This would mean that a patient going for treatment in a small or medium hospital anywhere in the state will have his or her medical history available with the doctor. This will be an unmatched advantage over corporate hospitals.

3.3.2 Collective Procurement of Medical Equipment

PEPS MED is an initiative by Indian Medical Association, Kerala which aims at distribution of commonly used medical supplies and equipment among registered hospitals / practitioners at very low rates (the slogan of PEPS MED is 'power of buying together'). Manufacturers / suppliers extend discounted rates because of increased purchasing power arising from high volume purchases. All orders are placed through a common channel and PEPS MED charges 0.5 percent of the total amount of purchase for the assistance they offer. The scheme gives choice of manufacturers, dealers &distributors from whom medical supplies can be purchased. Through this scheme members are extended such benefits as free delivery (from Rs. 1000 onwards), 365 days for free return, customisation if required, online purchase with secure payment gateway, coordination for after sale service and 24/7 customer service. Though this is not a scheme exclusively for small hospitals, it is small hospitals that stand to gain the most from this scheme as otherwise they will be purchasing individually in small numbers and consequently, higher prices. Small hospitals thus are taking advantage of economies of scale that comes with high volume purchases thus mitigating one of the advantages corporate hospitals have over small hospitals.

3.3.2. Collective Waste Disposal

IMA Kerala branch established IMAGE (IMA Goes Ecofriendly) a waste disposal program for hospitals. Currently 1474 private hospitals subscribe to this waste management program. Combined bed strength of these hospitals is 64,114 making an average of bed strength of 44. In other words most of these private hospitals are small establishments. Under the scheme bio-medical waste collection bags & needle burners according to the quality parameters specified by the pollution control board is supplied to all member hospitals. Hospital wastes are collected and disposed off in a centralised facility. Membership is not limited to small hospitals, but as in the case of PEPSMED small hospitals stand to gain maximum benefit from this collective program for disposal of bio medical waste.

3.3.3. Management of 7Ps of Service Marketing

Small hospitals in Kerala are effectively managing all 7Ps of service marketing. 'Product' (healthcare service offered) is designed to provide maximum relevant services under one roof. They offer consultation by specialists in their clinics on specific days, comprehensive health checkups, special consultancy services for relevant target customers etc. Some of them have laboratories and pharmacies too so that patients don't have to go elsewhere for diagnostics and medicines. As an additional source of revenue generation, they also sell health related items as special footware for diabetes, insulin pens, BP apparatus, thermometer etc. Promotion is done subtly and is focussed on customer retention and relationship building rather increasing customer base. Small hospitals rely mostly on word of mouth. Generally small hospitals do not advertise using print media or outdoor media, though exceptions are there. However, many of them have a small but definite place in the digital space mainly because the belief is there that it is required to create a certain 'tech savvy' image. Many of these small hospitals have their own websites and facebook pages. They enlist their establishment in sites like justdial which ensures that their names come up in google searches. They use the services of sites such as Practo to make it easy for patients to take appointments. Informal tie ups with local medical laboratories and pharmacies is another method that works both ways in attracting patients. Doctors of small hospitals strive to create visibility and build credibility as a part of their marketing strategy. For creating visibility for themselves they participate in various medical programs aired by regional channels. Also, in case of medical related social issues (as spread of dengue fever, nippa scare etc.) doctors of small hospitals address medical concerns during news programs or special programs aired by regional channels. Credibility is usually built by displaying the doctors' medical degrees and awards and recognitions won. Being part of professional bodies also help in building credibility. Pricing decisions are taken based on affordability of healthcare consumers in the locality. Lower overheads enable small hospitals to charge way less than large / corporate hospitals giving them an obvious advantage over corporate hospitals. Placement (location) focuses on accessibility. Small hospitals are generally located in residential areas giving easy geographical accessibility to patients. When it comes to 'People' recruiting staff from the locality helps these hospitals to connect with the community. 'Process' and 'Physical evidence' are areas that leave a lot of scope for improvement for small hospitals. Though technology is used to book appointments and manage crowds it is not exploited enough to improve processes. Infrastructure can best be described as basic in comparison to the swanky set up of corporate hospitals.

4. Suggestions and Conclusion

In the healthcare ecosystem of Kerala one aspect that needs to be looked into is whether the various medical institutions can coexist by differentiating their value propositions. While government hospitals focus on curative care and large / corporate hospitals focus on tertiary care, small and medium hospitals can provide primary and secondary care to patients. This way all

MIs can coexist as an important and relevant part of the healthcare ecosystem. But till such a system takes shape in the state small hospitals will have to continue on their current networking, adding new dimensions to the existing frame of operations. Network of small and medium hospitals is in the nascent stage of operation. Once all small hospitals are integrated into the system the network can help further the cause in many ways: One of the weaknesses of small hospitals is that there is wide heterogeneity in quality of service delivered. If there is a system to prescribe a protocol for healthcare delivery and quality assurance it can help in reducing this heterogeneity and improve reliability dimension of servqual. The system should also ensure monitoring of quality of healthcare delivery by small hospitals and offer suggestions to improve service. Small hospitals lack in effective deployment of technology that can help them further their business. IMAhospitals can explore the possibilities of using advancements in technology to their advantage. For instance the network can tie up with pharmacy apps in a mutually beneficial way. Currently small hospitals do not market their services and this can be suicidal given that corporate hospitals resort to aggressive marketing. The network of hospitals can take up collective marketing based on a common theme ('parent doctor' / personal care / quality care at affordable rates) to create preference for small hospitals. One weakness of small hospitals is that they operate individually and as such lack collective bargaining power with stake holders as medical equipment manufacturers, government, insurance agencies etc. This weakness can be overcome if imahospitals coordinates with the stakeholders on behalf of all small hospitals. For example imahospitals can coordinate with the state government and private organisations for availing healthcare services of small and medium hospitals for their employees. It can also coordinate with insurance companies for insurance coverage for treatment in hospitals in the network. Insurance companies also will be at an advantage as cost of healthcare delivery will be comparatively cheaper than in corporate hospitals. Tangibles is another weak servqual dimension for small hospitals. The network of small and medium hospitals can look into the possibility of collectively running healthcare centers, one in each district, that are run on cooperative model. These healthcare centers can be equipped with technologically advanced medical equipment for diagnostics and treatment. These equipment can be jointly purchased, owned and maintained.

Small hospitals on their own are helpless in the face of competition from professionally run corporate hospitals. However, collectively they can ward off competition and stay relevant. The cooperative model for small and medium hospitals that is taking shape in Kerala seems to be a viable solution. If successful, this model can be replicated in other states as well as survival of small hospitals is critical to ensure affordability of and accessibility to quality healthcare.

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