

To focus or not to focus (on patients, that is)?

As I am preparing for a teaching session in a couple of weeks in Moscow, I realized that we had not written about one of the older but even more relevant today innovation. Some months back I blogged about a very cool startup Diapers.com which was founded by my former students in 2005 and which was recently acquired by Amazon.com.

The company created an impressive business model by focusing on a very narrow segment of the market and by eliminating lots of risks/uncertainties associated with diversification. As it turns out, the same concept can and has been applied to services, and not just any services: to healthcare. Given all the recent buzz about high costs and poor quality of healthcare in the USA, it is fascinating that somewhere very close (in Canada) there exists a hospital which is much closer to a country club than to what we usually expect to see in healthcare. The hospital is called Shouldice Inc. and, although the case that I teach about it dates back 20 years, the company is very much alive and well, and it still provides much higher quality of care, better experience and faster recovery while requiring fewer doctors and nurses and much cheaper facilities than any competitor. How is this possible? This is yet another clean example of the Renaissance Innovation.

Just like in the case of Diapers.com, Shouldice created a novel Business Model by focusing on a very narrow subset of the market: just the hernia surgeries. Hernias are nasty little protrusions of the abdomen which are not considered to be life-threatening and are often operated by just about any general surgeon. Shouldice operates hernias and nothing more. It created a perfect production line which spits out patients very quickly and efficiently. Why focusing on a single surgery is better in this case? If you know how a big General Hospital looks like, it is typically quite a mess: patients of all sorts come and go, some require emergency care and some come for a routine visit, some require expensive equipment and some a simple procedure. Predicting demand and matching it with supply is a pain in this case, and most hospitals face huge risks in having under-utilized equipment or patients waiting with life-threatening illnesses. But not Shouldice. Because it only services one type of patients (and it is picky even with them: no overweighted patients, complicated cases etc.), it does not own any costly equipment and it does not need

doctors for all possible contingencies: there is just one procedure, and it is standardized the way Ford standardized car assembly 100 years ago. And because the procedure is standard and each doctor performs hundreds of procedures every year, quality is extremely high and customer loyalty is high too. With no advertising whatsoever, the company manages to keep a 6-month backlog of patients. Certainly, there are some disadvantages in this business model which I will save for class discussions, but the approach which dramatically limits the risks through focus certainly seems to produce results in an industry where high costs and poor quality of service became an oxymoron.

Is Shouldice alone in the healthcare universe? Did nobody copy it? Of course many companies tried, and a few succeeded. But not nearly as many as one would think and not as quickly as seems natural. Just as recently as in 2011, the winner of The Economist innovation award in the “Business process” category was “Devi Shetty of Narayana Hrudayalaya Hospital in Bangalore, for reducing health-care costs using mass-production techniques. His hospital performs more heart operations at a lower cost and a lower mortality rate than leading American hospitals.” Another example is the Coxa Hospital in Finland which is proudly featured in Calyton Christensen’s latest book “The Innovator’s Prescription”. This hospital focuses solely on joint replacement surgeries. In addition to the advantages of focus as a risk-reduction strategy to innovate business models, these two examples illustrate a couple of interesting points about Renaissance Innovations which we will discuss in more details separately. One is that such innovations are transferable across countries and another is that they are not as easy to copy as one might suspect originally: even 20 years after Shouldice, recent examples of a similar approach still win innovation awards!

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