A Pathway to Scale in Emerging Markets

Achieving both growth and broad-based consumer access hinges on funding and operations choices.

In 2012, China launched a series of reforms aimed at incentivising growth in the private sector of the country's healthcare system. Like many emerging economies, China faces a host of challenges in delivering high-quality healthcare access. An ageing population combined with a high prevalence of chronic conditions has imposed a significant burden on public hospitals. The result has been long wait times and shortages in care that the government has been unable to address on its own. Consequently, private hospital chains such as China's Aier Eye Hospital Group have seen rapid growth in recent years: Aier currently operates more than 100 hospitals across China, with plans for continued investment to expand its reach.

Although the private sector in emerging markets has often been successful in alleviating the strain on public healthcare systems (particularly against the backdrop of a rising middle class), firms in this sector face significant challenges as they approach the process of "scaling up". Growth and access are often intertwined objectives in an emerging market: More than half of the population in China, and nearly 70 percent in India live in rural areas with limited or no access to healthcare.

How can private healthcare delivery organisations in emerging economies simultaneously scale up while at the same time meet the challenge of ensuring access to the rural poor?

The cross-subsidisation approach

We examine the scaling-up issue in a recent case study on Sankara Eye Care, a chain of specialty eye hospitals in India. In the case, "**Double Vision: Making Eye Care Accessible through Cross-Subsidization**", developed with INSEAD Professor **Stephen Chick**, we explore Sankara's business model, which relies on a cross-subsidisation approach where revenue from the 20 percent of its patients who can afford the market price for services is used to fund services for the remaining 80 percent of customers, who are generally poor and non-paying.

Sankara's network includes some urban hospitals run strictly for profit, as well as community hospitals that offer free and heavily subsidised care for the poor. This allows Sankara, where appropriate, to operate within easy access of affluent, convenience-seeking patients in big cities, like Bangalore and Mumbai. However, the rising urban middle class can choose from a wealth of eye-care options, necessitating competitive pricing even as Sankara tries to raise enough profit from paying customers to fund its outreach work.

Sankara's altruistic aims have limited marketing appeal because the cross-subsidisation model has become so familiar in India. Other healthcare delivery organisations there have adopted similar

Copyright © INSEAD 2019. All rights reserved. This article first appeared on INSEAD Knowledge (http://knowledge.insead.edu).

models in cardiac care (Narayana Health hospital group) and maternity care (LifeSpring Hospitals). In addition, other Indian organisations in eye care have adopted such models (Aravind Eye Care System and the LV Prasad Eye Institute), with the key focus, like Sankara, of eliminating avoidable blindness caused by cataracts.

Where Sankara differs from their direct competition is in its aggressive plans for scaling up. Sankara's ten community hospitals – eight of which are less than a decade old – currently span the north, south and west of India, with further expansion planned.

Operational focus and funding model

Our work with Sankara pointed us to two key dimensions that influence the degree to which organisations in emerging markets are able to scale up, while at the same time improving or maintaining overall healthcare accessibility: the scope of operations and the funding model.

Sankara operates a lean service in which operating rooms are organised as an assembly line, accommodating anywhere from eight to ten non-paying patients at any given time. Physicians can perform up to eight cataract surgeries per hour. Apart from the cost differential (relative to the West) associated with running a hospital in India, efficiency is derived from having multiple patients in the operating room, with nurses setting up and processing two patients per station to the left and right of the doctor at any given point. Strict procedures are maintained for monitoring patient clinical outcomes. Surgical complication rates are lower than those in developed countries.

A second dimension influencing Sankara's ability to scale up is its funding model. Whereas both Sankara and Aravind are organised as non-profit trusts, only Sankara utilises a dedicated fundraising arm, the **Sankara Eye Foundation**. As of 2013, the U.S.-based foundation was raising about US$3.5 million annually. Sankara's grant-based approach enables the organisation to reduce the percentage of patients paying above cost (as compared to Aravind and LV Prasad), with operational deficits and hospital expansion costs covered over the short run through donations. Established Sankara hospitals are driven to reach financial self-sufficiency; two have already achieved this. In the meantime, grants allow for the creation of new hospitals alongside those that are financially sustainable.

Multiple goals, multiple pathways

Scaling up is indeed a key challenge in emerging economies, where the goals of accessibility and sustainability must be pursued simultaneously while keeping costs low. Emerging markets across Asia, Africa and Latin America face similar challenges, which firms address in various ways. On the funding dimension, for example, in 2015, Brazil's largest hospital provider, Rede D'Or São Luiz, agreed to an investment deal with the Carlyle Group, the global private equity firm, which should provide Rede with the capital necessary to expand its locations across the country.

The particular ways in which private sector healthcare delivery firms manage the scaling-up process to provide access to large population groups, particularly those at the **bottom of the pyramid**, will be important over the next decade. Within this context, healthcare organisations will have to make a set of important choices across the operations and funding dimensions that will shape how the objectives of growth and access can be pursued in tandem.

Ridhima Aggarwal *is a Research Programme Manager with the* ***Healthcare Management Initiative*** *at INSEAD.*

Follow INSEAD Knowledge on ***Twitter*** *and* ***Facebook****.*

Find article at
https://knowledge.insead.edu/entrepreneurship/a-pathway-to-scale-in-emerging-markets-6021

Download the Knowledge app for free

Copyright © INSEAD 2019. All rights reserved. This article first appeared on INSEAD Knowledge (http://knowledge.insead.edu).