

CASE STUDY: ARAVIND EYE HOSPITALS

'We Set Prices not on our Costs, But on who can Afford to Pay how much'

*Though Aravind Eye Hospitals group conducts 75% of surgeries free of cost, it runs profitably. Even 65% of the outpatients are offered free consultancy. Last year, doctors performed 2.70 lakh surgeries and treated over 23 lakh outpatients. Starting on rental with 11 beds in Madurai in 1976, today the group founded by Dr G Venkataswamy runs hospitals in Theni, Tirunelveli Coimbatore and Pondicherry with a capacity of more than 3,500 beds. Executive director **RD Thulasiraj** outlines the business model in an interview with **Rajiv Tikoo**. Excerpts:*

How do you rate your success?

We look at it from two perspectives. From an internal perspective, we rate ourselves to be quite successful when we use indicators like number of patients treated, number of people trained, level of capacity utilisation, financial sustainability, etc.

However, when we look at it from the community perspective we are far from being successful. This comes from our vision—'Eliminate Needless blindness'—which makes us feel responsible to reach out to a larger community in the immediate surroundings of Aravind and its service area, our country and beyond our country.

Is it only a matter of scale?

While we have made reasonably good progress and have been successful in treating cataract, we are nowhere near being successful in handling other eye conditions including refractive errors. We estimate that less than 10% of those who can benefit by a pair of glasses are wearing them.

Similarly for many other conditions like diabetic retinopathy, glaucoma, etc, very little has been done. In addition, there are many parts of the country where the level of eye care is a very small percentage of what it needs to be. From this perspective we can't claim to have been successful (yet) in eliminating needless blindness.

How does your model make business sense?

Our model makes very sound business sense because it's fundamentally built on a few core principles. The first one is in terms of market development and through that demand generation. This is a process of converting a need in to a demand and in the process we get a significant percentage of this to our own facilities.

The second core principle is excellence in execution of ensuring a high level of efficiency in providing the treatment, including outpatient services and surgeries.

The third core principle is one of quality. The aim is to ensure that the patient regardless of whether he is a free or a private patient gets value for his investment in money or time.

The fourth principle is of sustainability wherein we set the prices not so much based on what it costs us but on how much the various economic strata of the community can afford to pay. We then work backwards to contain the costs within these estimates. This leads to not just financial viability but a higher order of management, as well as inculcating a certain culture in the organisation.

The combination of these four principles builds a sustainable programme as we have demonstrated over the last three decades and replicated with similar results in over 200 other eye hospitals. We feel this approach makes a lot of business sense in many such areas.

What is your spontaneous reaction when you see private healthcare facilities?

In private healthcare facilities the focus is essentially on paying patients and more on the financial bottomline. Since this approach drives the systems, policies and procedures, patients feel that they are manipulated and there is an erosion of trust and a feeling of helplessness when the options for care are limited. This mindset also leads to investments being made on the physical infrastructure to make it attractive and on technology, which may or may not have direct impact on the quality of care.

What is your prescription for tapping the poor market?

In India, as in most developing countries, the level of healthcare is far from where it needs to be. This is especially true in poorer communities where it is not reaching them and we often tend to blame the community in terms of health behaviour, awareness, etc. So our advice would be that we take the approach of market development and be outwardly focussed. Design the services with a deeper understanding from the patient perspective in terms of understanding their barriers, issues, paying capacity, etc. With one billion people, the healthcare needs are huge. We really need to demystify the healthcare process and become a lot more patient-centric in what we do.

Assembly line approach to cataract surgery

Henry Ford standardised and streamlined automobile production to lower the cost of his cars enough so that everyone could afford one. Aravind Eye Care Hospitals has done the same for cataract surgery in India. The Aravind system relies on intensive specialisation in every part of the workflow to generate efficiencies. A surgeon, for example, typically performs 150 surgeries every week, six times the number common among Western specialists. To further lower costs, Aravind has created a sister organisation, Aurolab, to manufacture intraocular lenses locally at prices one-fiftieth of US prices, as well as the sutures and drugs used in surgery.

Aravind screens millions of people each year to identify those whose eyesight is threatened by cataracts and performs nearly 2,00,000 surgeries a year. An important part of its business model is multitiered pricing or cross-subsidisation: fee from paying patients ranges from \$50 to \$330 per operation, including the hospital stay, but it performs 65% of its operations free of charge, including patients from most BOP (the base of the pyramid) households, who can't afford to pay. Through its fee income, Aravind is self-supporting and generates enough profit to fund its expansion. With a 30-year record of world-class care, the Aravind model demonstrates that affordable quality healthcare for the BOP is possible.

—Source: *The Next 4 Billion: Market size and business strategy at the base of the pyramid* (World Resource Institute & International Finance Corporation)