

DISSERTATION ON
MEDICAL TOURISM IN INDIA: STRATEGY FOR ITS
DEVELOPMENT

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Executive Summary

The Medical Tourism Industry in India is poised to be the next big success story after software. According to a McKinsey-CII study the market size is estimated to be Rs.5000-10000 Crores by 2012. The key competitive advantages of India in medical tourism stem from the following: low cost advantage, strong reputation in the advanced healthcare segment (cardiovascular surgery, organ transplants, eye surgery) and the diversity of tourist destinations available in the country. The key concerns facing the industry include: absence of government initiative, lack of a coordinated effort to promote the industry, no accreditation mechanism for hospitals and the lack of uniform pricing policies and standards across hospitals. To realize the industry's full potential, a coordinated effort from the various players – government, private players and the associated sectors is very essential. The government should help in instituting an accreditation mechanism and device policies to facilitate private investment in the sector. An apex body should be formed for the industry in the lines of NASSCOM¹ and should focus on building the Indian Brand across the world and promote inter-sectoral cooperation. The private sector for its part, should invest more in infrastructure, horizontally integrate into related services and build joint ventures and alliances with overseas health institutions and insurance players. Finally establishment of MEDICITIES akin to STPI² as a public-private partnership model can also give a major fillip to India's quest for success in medical tourism.

1.1.1.1.1 _____

¹ Apex body for Software in India

² Software Technology Parks of India

1 Introduction

Medical Tourism refers to movement of consumers to the country providing the service for diagnosis and treatment. During the past few years, the number of people going out of their home country to consume health services has significantly increased. The size of this market is estimated to be \$40 billion based on a Saudi Report in 2000. During the past four years, the market grew at a whopping rate of 20-30% and is expected to grow further. Considering this growth the current market size is estimated to be \$100 billion.

Medical Tourism industry offers tremendous potential for the developing countries because of their low-cost advantage. The advantages of medical tourism include improvement in export earnings and healthcare infrastructure. No doubt a lot of countries— India, Thailand, Malaysia, Singapore, South Africa, Cuba, Jordan and Lithuania are fighting for a share of the market. In order to realize the full potential of the industry, it is imperative for these countries to develop a strategic plan for coordinating various industry players –the medical practitioners, private hospitals, policy makers, hotels, transportation services and tour operators. This report presents the strategy that needs to be implemented by India, one of the key destinations for Medical tourism, in order to achieve industry-leadership.

2 Medical Tourism in India – The Current Scenario

Medical Tourism is poised to be the next Indian success story after Information Technology. According to a McKinsey-CII study the industry's earning potential estimated at Rs.5000-10000 Crores by 2012.

Five years ago, hardly 10000 foreign patients visited India for medical treatment. Today India is a key player in medical tourism with 100,000 foreign patients coming in every year and revenue of Rs.1500 Crores. The current market growth-rate is around 30% per year and the country is inching closer to major players like Singapore and Thailand. The following sections discuss in detail the current state of the Medical Tourism in India:

2.1 Cost Competitiveness – The Key driver

The main reason for India's emergence as a preferred destination is the inherent advantage of its healthcare industry. Today Indian healthcare is perceived to be on par with global standards. Some of the top Indian hospitals and doctors have strong international reputation. But the most important factor that drives medical tourism to India is its low cost advantage. Majority of foreign patients visit India primarily to avail of "First World Service at Third World Cost".

Type of Procedure	Treatment Costs (\$)		
	United States	India	Thailand
Bone Marrow Transplant	400000	30000	62500
Open Heart Procedure	50000	4400	14250
Knee Surgery	16000	4500	7000
Eye Surgery	3100	7000	730
Facelift	8000-20000	10000-20000	2682

Table 1: Source: Business World India and Indian Brand Equity Foundation

As the table above shows, India has significant cost advantages in several health procedures making it a preferred destination.

2.2 The Service Spectrum

India offers a variety of services for overseas patients. The table below presents a classification of the service spectrum.

	Wellness Tourism	Alternative Systems Of Medicine	Cosmetic Surgery	Advanced And Life Saving Healthcare
Services Offered	Spas, Stress-Relief, Rejuvenation Centers	Ayurvedics, Siddha, treatment for diseases e.g. Arthritis, Rheumatism	Dental Care, Plastic Surgery, Breast Enhancement, Tummy Reduction, Skin Treatment	Organ Transplants, Cardio-Vascular Surgery, Eye Treatment, Hip Replacement, In-Vitro Fertilization
Profit Margins	Low	Low	Medium	High
Key Competitors	Thailand, South Africa	----	South Africa, Cuba, Thailand	Singapore, Jordan, Thailand, Malaysia
India's Strength	Low – Thailand has captured a significant share of the market	High – Kerala is popular for this service	Low – South Africa and Thailand lead in plastic surgeries. Cuba specializes in skin treatments	High – India has strong brand equity. Jordan has a strong presence in middle-eastern market

2.3 Consumer Profile

The demand for Indian healthcare services primarily comes from three types of consumers. The table below presents the profile of these three consumer groups:

GROUP	Description	Countries	Demand Driver
I	Non-Residential Indians	Numbering 20 million across the world	Low Cost Healthcare combined with trip back home
II	Patients from Countries with Underdeveloped Facilities	Nepal, Burma, Bangladesh, African Countries, Middle East Countries, Latin America	Quality Healthcare at Affordable Prices.

GROUP	Description	Countries	Demand Driver
III	Patients from Developed Countries	U.S, U.K, Canada	Low Cost of Healthcare, Capacity Constraints for Services in Home Country.

Though tourism is not the primary need of these consumers, it offers additional attraction particularly for people traveling for cosmetic surgery and less complicated procedures.

2.4 Market Players

The major players in Indian medical tourism are: the Apollo Hospitals, Escorts Hospital, Wockhardt Hospitals, Arvind Eye Hospitals, Manipal Hospitals, Mallya Hospital, Shankara Nethralaya etc. AIIMs, a public-sector hospital is also in the fray. In terms of locations – Delhi, Chennai, Bangalore and Mumbai cater to the maximum number of health tourists and are fast emerging as medi-tourism hubs.

2.5 India in Medical Tourism – SWOT Analysis

Given below is a SWOT Analysis of the Indian Medical Tourism Industry in its current state:

Strengths	Weakness
<ul style="list-style-type: none"> ❖ Quality Service at Affordable Cost ❖ Vast supply of qualified doctors ❖ Strong presence in advanced healthcare e.g. cardiovascular, organ transplants – high success rate in operations ❖ International Reputation of hospitals and Doctors ❖ Diversity of tourism destinations and experiences 	<ul style="list-style-type: none"> ❖ No strong government support / initiative to promote medical tourism ❖ Low Coordination between the various players in the industry– airline operators, hotels and hospitals ❖ Customer Perception as an unhygienic country ❖ No proper accreditation and regulation system for hospitals ❖ Lack of uniform pricing policies across hospitals
Opportunities	Threats
<ul style="list-style-type: none"> ❖ Increased demand for healthcare services from countries with aging population (U.S, U.K) ❖ Fast-paced lifestyle increases demand for wellness tourism and alternative cures ❖ Shortage of supply in National Health Systems in countries like U.K, Canada ❖ Demand from countries with underdeveloped healthcare facilities ❖ Demand for retirement homes for elderly people especially Japanese 	<ul style="list-style-type: none"> ❖ Strong competition from countries like Thailand, Malaysia, Singapore ❖ Lack of international accreditation – a major inhibitor ❖ Overseas medical care not covered by insurance providers ❖ Under-investment in health infrastructure

3 Lessons from International Success Stories

The success stories from across the world provide significant strategic inputs for the development of a strategy for India.

3.1 The Case of Cuba

Cuba is one of the earliest successes in medical tourism industry. The country successfully tapped the demand for medical tourism from Latin-American countries. Cuba's success can be attributed to the strategic push provided by government through State-Owned Companies. The two main ingredients of Cuba's success were:

3.1.1 Promoting Privatization of HealthCare

The government promoted private investment in healthcare to increase the supply of high quality and specialized healthcare. Healthcare was accorded infrastructure status and laws enacted to increase participation of private entrepreneurs. One example is allowing treatment for skin diseases using human placenta that was banned elsewhere.

3.1.2 Centralized Marketing through SERVIMED

The government centralized promotion of health services abroad by entrusting the responsibility to SERVIMED a newly formed public company. SERVIMED coordinated with tour operators and travel agencies to develop health packages. The package included travel in Cuba's national airline, 24 hours assistance, and companion personnel for the patient, repatriation, and post-surgery controls. To

support efficient marketing, SERVIMED also opened offices in Argentina, Brazil, Chile, Mexico, and Venezuela.

The two-pronged strategy successfully resulted in 30,000 patients visiting Cuba in 1997 for treatment earning US\$ 30 million foreign exchange.

3.2 The Case of Thailand

A more recent success story is that of Thailand. Thailand is one of the world's leading healthcare destinations with a forecast of 1 million overseas patients for the current year. The main reasons for Thailand's success are:

3.2.1 Inter-Sectoral Coordination

The Thai government realized early the need for coordination across various sectors to realize the industry's potential. Hence it developed a common vision, strategic direction, joint-strategy and shared objectives for various sectors in order to facilitate better coordination between the concerned players – the Ministries of health, tourism, foreign affairs and other bodies like Thai Airways Tourism Authority of Thailand.

3.2.2 Effective Marketing - Tourism Authority of Thailand

The Tourism Authority of Thailand (TAT) has played a stellar role in providing integrated marketing Thai tourism abroad. TAT has more than 18 offices worldwide and has won several international credits for developing excellent marketing campaigns targeted at tourists. TAT has so far been extremely successful in marketing Thai health services also.

3.2.3 Focus on Hospitality

Thailand heavily focuses on hospitality to provide superior consumer experience and building brand equity. For example the Bumrungrad Hospital in Bangkok provides hospitality services that include: pick up from Airport, language interpreters for 18 languages and an in-house Starbucks and McDonalds to cater to tourists from U.S and U.K.

3.2.4 Building Infrastructure

Thailand built a strong health infrastructure during the economic boom by encouraging private and public participation. In 1996 alone Thailand spent a whopping 7% of GDP on healthcare. Priority was also given for Foreign Direct investment in healthcare sector with Thai Government processing 3000 FDI proposals in just four years.

To summarize, these cases emphasize the need for a strong government role in improving coordination, infrastructure and integrated marketing.

4 India - Strategic Thrusts for the Future

The following section lays down the strategy for India to achieve leadership position in medical tourism. The strategy largely draws from the discussions in previous section.

4.1 Role of Government

The role of Indian Government for success in medical tourism is two-fold:

- ❖ **Acting as a Regulator** to institute a uniform grading and accreditation system for hospitals to build consumers' trust.

❖ **Acting as a Facilitator** for **encouraging private investment** in medical infrastructure and policy-making for improving medical tourism.

For facilitating investment the policy recommendations include:

1. *Recognize healthcare as an infrastructure sector*, and extend the benefits under sec 80-IA of the IT Act. Benefits include tax holidays for five years and concessional taxation for subsequent five years.
2. The government should actively promote FDI in healthcare sector.
3. Conducive fiscal policies - providing low interest rate loans, reducing import/excise duty for medical equipment
4. Facilitating clearances and certification like medical registration number, anti-pollution certificate etc.

The above measures will kick-start hospital financing, which is struggling now due to capital intensive and low efficiency nature of healthcare business.

For facilitating tourism the government should:

1. *Reduce hassles in visa process* and institute visa-on-arrival for patients
2. Follow an *Open-Sky policy* to increase inflow of flights into India
3. Create *Medical Attachés* to Indian embassies that promote health services to prospective Indian visitors

4.2 Formation of National Association of Health Tourism (NHAT)

The promotion of medical tourism has so far been very fragmented with initiatives by few states and private hospitals. The earlier discussions clearly underline the need for presence of an apex body that can coordinate the promotion of medical tourism abroad. In the Indian context too, this has been successfully

demonstrated in the software industry by NASSCOM. It is therefore essential to form an apex body for health tourism – NAHT. The NAHT should be formed as an association of the private hospitals operating in the industry. The main agenda for NAHT will be:

1. **Building the India Brand Abroad:** Classify the target consumer segments based on their attractiveness and position the India Brand based on the three main value propositions – *high quality service, value for money and destination diversity*. An integrated marketing Communications campaign using print, media and road shows should be developed.
2. **Promoting Inter-Sectoral Coordination:** The NAHT should take up the responsibility of aligning the activities of various players – Tourism Department, Transport Operators, Hotel Associations, Escorts personnel etc.
3. **Information Dissemination using Technology:** NAHT should set up a portal on medical tourism in India targeted at sharing information and enabling online transactions.
4. **Standardization of Services:** NAHT should also focus on establishing price parity for similar kinds of treatments in various hospitals and ensure the hospitals adhere to high hygiene and quality standards.

4.3 Role of Private Sector

The action items for private sector are:

1. **Increased participation in building infrastructure:** To achieve its full potential, it is estimated that India needs an investment of Rs.100000 to

140000 Crores by 2012. Since the government can afford only a third of the amount, the private sector should play an active role to fill the gap.

- 2. Integrate Horizontally:** Private hospitals should also plan to integrate horizontally for providing end-to-end healthcare solutions to consumers. For example Apollo multi specialty hospitals is already planning to set up spas and alternative mediclinics to attract more foreign tourists.
- 3. Joint Ventures / Alliances:** To counter increasing competition, Indian hospitals should tie-up with foreign institutions for assured supply of medical tourists. Specifically tie-ups with capacity constrained hospitals and insurance providers will provide significant competitive advantage.

4.4 Value Innovation Through MEDICITIES

Another successful example of the software industry is the establishment of Export Oriented Software Technology Parks. This model can be successfully replicated in the medical tourism industry by means of MEDICITIES. Each MEDICITY could be a self-sustained healthcare hub with super specialty hospitals of international standards, ancillary facilities, research institutions, health resort, rehabilitation centers and residential apartments. This model can be floated through a public-private partnership. The government will provide land and ancillary services and the private players will provide infrastructure and services. From the consumer's point of view, the MEDICITIES will offer superior value at affordable prices. From industry's point of view, this will offer significant competitive advantage for India.

5 Conclusion

The medical tourism industry offers high potential for India primarily because of its inherent advantages in terms of cost and quality. However the competition is getting heated up and the success in future will largely be determined by development and implementation of a joint strategy by various players in the industry. The government should step in the role of a regulator and a facilitator of private investment in healthcare. An apex body for the industry needs to be formed to promote the India brand abroad and aid inter-sectoral coordination. Joint ventures with overseas partners and establishment of MEDICITIES will help in India building a significant advantage and leadership position in the industry.

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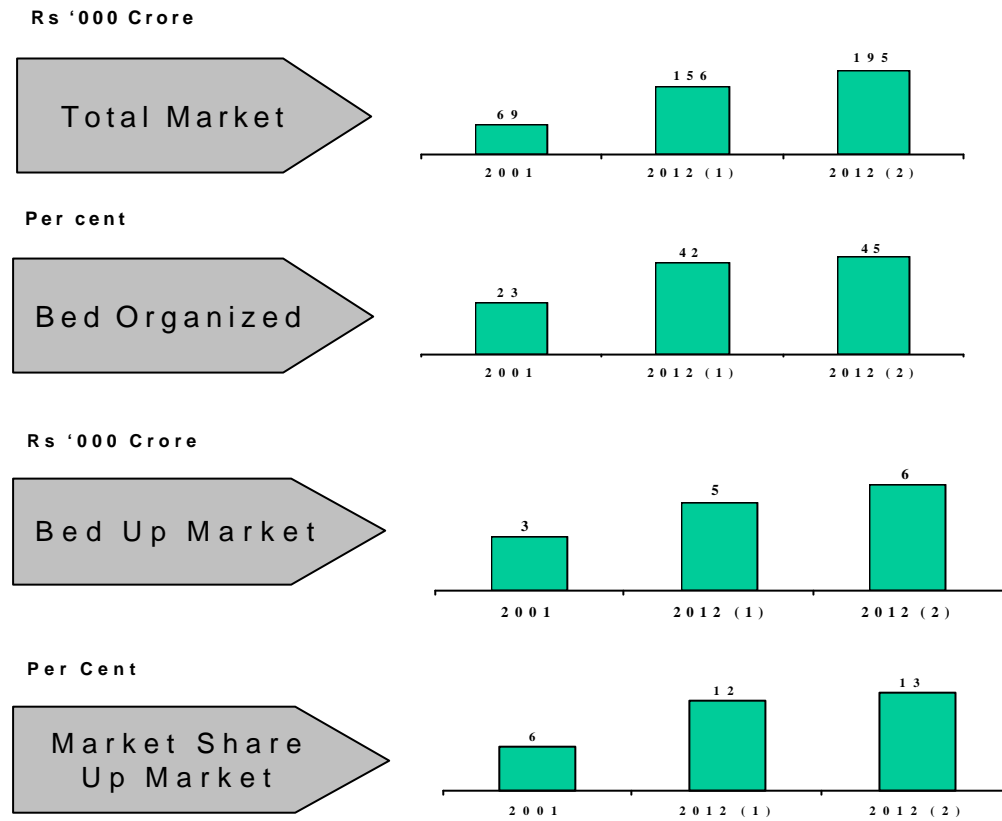
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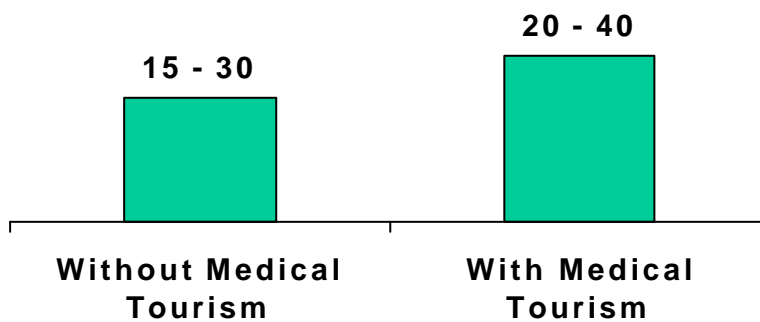
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7 Appendix

7.1 Size of Medical Tourism Market in India – 2012



Size of Up Market Private
2012 Rs. '000 Crore



Source: Healthcare in India – The Road Ahead Mckinsey & Company, 2002.

Note: If Medical tourism were to reach 25% of private up market, Rs. 5000 – Rs. 10000 Crore will be added to the revenues of these players. Medical tourism will then represent 3 to 5% of total delivery market in 2012.

7.2 Economics of HealthCare Business

MOST PRIVATE SECTOR MODELS ARE NPV NEGATIVE Need to significantly manage operating costs

Key Assumptions	Scenario 1	Scenario 2	Scenario 3
<ul style="list-style-type: none"> • 200 bed hospital with 4 OTs and 2 Cath Labs • 80% utilisation level • Ramp-up of revenues over first three years of operation • WACC of 17% • Debt Equity 1:1 • Depreciation 10% • 10 year NPV • Inflation of 9% for revenues and costs • NPV calculated using discounted future cash flow model 	<p>Investment Cost Rs 50 lakh per bed</p> <p>Operating margin 20%</p> <p>NPV - Rs. 13 cr</p>	<p>Reduction in investment costs by 20% to Rs. 40 lakh per bed</p> <p>Operating margin 20%</p> <p>NPV 0</p>	<p>Reduction in investment costs by 20% to Rs. 40 lakh per bed</p> <p>Reducing operating costs and improving operating margins to 28%</p> <p>NPV Rs. 33 Cr</p>

Source: Healthcare in India: The Road Ahead, McKinsey & Company, 2002

From the table above we find that for private investment in hospitals to be sustainable, it is essential for government to provide incentives in terms of tax holidays, low cost loans and elimination of import/excise duties on equipment.