

A counter-intuitive story of purpose and profit

Innovative business models are being developed in Asian healthcare.

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GLOBAL intractable issues like poverty, climate change and hunger seem to be the domain of charitable institutions and NGOs. Given the headlines, the forces of profit and purpose seem most fiercely opposed when it comes to the provision of healthcare.

With the cost of healthcare almost spiralling out of control in most economies and governments struggling to keep up with the pace of funding required, patients are increasingly being squeezed out by the cost of healthcare - how can these forces come together for social change?

These issues are even more pronounced in the emerging economies of Asia, where the realities are even more glaring. Yet, counter intuitively, the crossroads of profit and purpose have come together as a path towards meaningful, sustainable impact. Innovative business models that are being developed in Asian healthcare might yet be a panacea to the health issues faced in the West.

Countries in South and South-east Asia account for around 31 per cent of the world's population and almost 45 per cent of the world's disease burden. Yet the region commands only 5 per cent of the global healthcare expenditure.

The nature of healthcare needs in these markets has also evolved. With a large, growing and increasingly urbanised population base, the focus is no longer only on infectious diseases but on the same chronic diseases that impact the developed world.

Compounding the difficulty of creating effective healthcare provisions is the fact that most of the patients in Asia pay out of their pockets for healthcare. Consequently, for the majority of those living in this part of the world, they often find themselves one disease away from the financial burden of treatment that commonly results in personal bankruptcy.

Yet, unlike Europe, governments in Asia have sought the active participation of the private sector to lead the way. Today, of every 10 new hospital beds built in Asia, seven are being built by the private sector. Private capital has become essential to increase the efficiency of healthcare; meet the capital needs for new and upgraded infrastructure and to reduce the strain on public resources.

In a casual suburb of Hyderabad, India, a growing family is struggling to cope with the main breadwinner's gastrointestinal disorder. Help arrives from a new concept of day care where major endoscopic surgical procedures can be done without need for hospitalisation.

In Ho Chi Minh, a Vietnamese farmer gains access to the latest cardiovascular surgery techniques at a highly accredited hospital at a fraction of the cost previously possible.

In a little community outside Jakarta, Indonesia, a small merchant whose children have been sickened by hepatitis from a heavily polluted river is distraught. He finds help through a local company that focuses on making the world's most innovative drugs accessible, and affordable, to those who are most vulnerable.

Similar anecdotes scatter across Asia's three billion people who form the base of the economic pyramid. This large segment of humanity not only faces significant and unmet medical needs but also lives in relative poverty.

SUBSTANTIAL PURCHASING POWER

Their average income is less than US\$3 a day and yet together they have substantial purchasing power: a US\$3 trillion consumer market. The businesses that serve the families above are some of the investments that private investors - including us, Quadria Capital - have made. What is clear is that our businesses are making an enormous social impact on the sustained development of these communities. What is less obvious is that these investments have the power to generate superior returns for our investors.

New business models that substantially lower the cost of healthcare, without compromising clinical quality, have emerged to satisfy significant unmet medical need. For instance, HealthCare Global Enterprises (HCG) - India's largest network of cancer hospitals - has been able to bring cutting-edge technologies like PET CT, MRI and Cyber Knife robotic radiosurgery to tier II and tier III cities, like Vadodara and Gulbarga.

Companies such as the Asian Institute of Gastroenterology (AIG) have been able to substantially reduce the cost of gastric surgery to levels that make good healthcare accessible to millions. This has been achieved without compromising the quality of care.

There are several common characteristics that can drive improved quality, access to care, and efficiency in a business.

The first is process management; this includes standardisation of clinical and operational processes, robust performance management and the use new technologies.

This in turn can impact asset utilisation. We help portfolio companies to focus on an asset-light model, with the emphasis on ensuring high patient throughput in the most critical areas of a hospital such as clinical centres of excellence, advanced medical technology, diagnostics and pathology.

Most importantly, we help to place emphasis on people and patients. When placed at the centre of healthcare, the patients can be empowered to take a more active role in managing their own conditions while enabling greater differentiation of services based on needs and desired outcomes.

In our view, Asia represents the new centre of gravity for the global healthcare industry. With powerful secular trends driving the growth of the industry, the sector is set for robust growth at over 15 per cent per annum over the coming decade.

Connecting private capital to a market orientation can bring efficiency to healthcare provision while delivering high quality, affordable healthcare to those that need it the most.

A more important fact that is often overlooked is that private investors in healthcare have not relied on profits at these hospitals to generate returns. We do not extract dividends from the businesses we invest in. All profits are, in fact, re-invested for further growth. Superior shareholder returns are driven by the value creation of larger, scaled platforms that can command high valuations in public equity and private capital markets.

We firmly believe that our goals of both "profit" and "purpose" are not just compatible but in fact mutually reinforcing.

- **The writer is a founder and managing partner of Quadria Capital, an Asian healthcare private equity firm**