

MANAGEMENT CASE

describes a real-life situation faced, a decision or action taken by an individual manager or by an organization at the strategic, functional or operational level

Apollo Health and Lifestyle Limited: Retail Franchising in the Healthcare Industry

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Mr Ratan Jalan had a meeting with the Chairman of Apollo Hospitals, Dr Prathap C Reddy, for a half-yearly review of performance in the afternoon of January 2007. In his mind, he mulled over all the events in Apollo Health and Lifestyle Limited (AHLL) over the last few years.

Mr. Jalan was the Chief Executive Officer of AHLL. An engineer from the Indian Institute of Technology (IIT), Kharagpur, his 25-year long career had begun with a decade at HCL. He had a varied set of experiences — in advertising with the Duncan Group, in direct marketing at Lintas, and in healthcare consulting with the Asian Health Services.

When he had joined the group, AHLL was a mere figment of imagination, not even on the drawing boards. It had taken six painstaking years to build the company, and Mr Jalan was justifiably proud of all that had been achieved. AHLL had developed the first-of-its-kind franchised model in private healthcare – a unique model, not developed anywhere else in the world. For two consecutive years, AHLL had received the Best Franchisor Award in recognition of the efforts that had gone into the creation of the Apollo Clinic brand.

And yet, till today, the company has managed to set up only 50 franchisees. Mr Jalan recalled the optimism that they all had shared nearly six years ago about establishing 250 clinics in five years time. Had they overestimated the targets, Mr Jalan wondered.

Only the last week, Mr Jalan had received a letter from one of the franchisees, forwarded to him by the Chairman, which made him contemplate whether they were moving in the right direction at all. Mr Jalan knew that the performance and sustainability of AHLL required some hard questions to be answered.

APOLLO HOSPITALS: BUSINESS OPPORTUNITY

Apollo Hospital Enterprises Limited, the flagship company of Apollo Hospitals, was started by Dr Prathap C Reddy in the '80s. His desire to create world-class healthcare facilities in India was triggered by an incident that occurred in the late '70s — A man

KEY WORDS

Healthcare Industry

Preventive Healthcare

Franchised Model

Brand Positioning

Promotional Programmes

in his 30's died of coronary heart disease because he could not afford to pay for a simple coronary bypass surgery.

This incident acted as the stimulus for the birth of the Apollo Hospital in Chennai. After initial years of struggle, the Hospital established a foothold in Chennai. Gradually, the Apollo Group set up more hospitals in Hyderabad, Madurai, New Delhi, Ahmedabad, Kolkata, Pune, Bangalore, etc. Today, Apollo Hospitals are synonymous with corporate healthcare in India.

Dr Reddy realized that the cost of healthcare made it unaffordable to the middle class of India; the only method of reducing the cost of healthcare for the common man was therefore to promote preventive healthcare. Preventive healthcare emphasizes the importance of regular health check-ups rather than using healthcare facilities only when necessary.

SETTING UP APOLLO HEALTH AND LIFESTYLE LIMITED

Apollo Health and Lifestyle Limited (AHLL) was incorporated in the late 2000 as a result of Dr Reddy's vision of making quality primary healthcare available as an inexpensive proposition to people all over the country.

After much deliberation, the franchise model was taken as an ideal way to expand the business. According to a study conducted by Arthur Andersen, it was possible to create a nationwide chain of 250 primary healthcare clinics on a franchise basis; and therefore it was decided to go ahead with the project. Subsequently, AHLL was formed in order to deliver quality primary health care through a separate identity, called "The Apollo Clinic," to be launched across India and the neighbouring countries.

A franchisee enjoys the best of two worlds – as the owner of an independent business, he is free to leverage his entrepreneurial capabilities and knowledge of the local market; additionally, he has assurance of service from the franchisor and the confidence that he will be continuously updated about developments in the medical field, where he is a novice. A nationally recognized brand like Apollo minimizes his business risks while providing all the knowledge and expertise required to successfully run the business. Moreover, being part of a large network, allows the franchisee to offer world-class serv-

ice without requiring to spend a lot of money. He is essentially buying 'peace of mind.'

Keeping in view the role played by family physicians, their availability in large numbers, and also Apollo's high-end image, it was decided that the clinic would confine itself to consultations by specialists and super-specialists. It would also help in leveraging the general physicians' role as influencers for other services being offered by the clinic.

According to Mr Jalan, "On an average, families are spending Rs 540 a month on day-to-day healthcare. In return they get poor infrastructure and unhygienic clinics. There is very little quality control. Preliminary research also indicates that potential customers were demanding better quality, consistent, and standardized services. With the Apollo Clinic, we felt that we should be able to deliver all this. But I would also like to add that we would not attempt to replace the family physician. We will be complementing their services. In a way, we are bringing the concept of retailing into healthcare systems through our franchise-based business model."

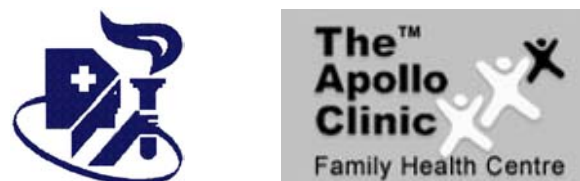
The Apollo Clinic: Positioning and Brand Communication

The Apollo Clinic logo was developed with a simple visual mnemonic for the family in warm orange color. The logo contained an impression of three figures, denoting a mother, father, and a child, to emphasize that the clinic was a family health centre. The nomenclature and the visual identity were meant to convey a facility, the lineage, and 'for the family' feel.

A nurse with a child was adopted as the visual for all backdrops at all the clinics, and was prominently displayed behind the reception area (Exhibit 1).

Keeping in mind the difference in positioning of the Clinic, the logo was made distinctly different from that of the Apollo Hospitals, while retaining some of the brand elements (Figure 1).

Figure 1: Logo of Apollo Hospital and Apollo Clinic



The initial communication strategy for The Apollo Clinic focused on three key propositions: ambience, convenience, and value-for-money pricing. Subsequently, it was decided that communication should focus on the integrated services available under one roof as the key message, since warmth could be conveyed through execution and pricing should be more of a supportive proposition. (Exhibit 2)

According to Mr Ratan Jalan, "The Apollo Clinic is about convenience, about providing a one-stop shop of its kind. Consistency in quality and service is the key to manage a business and this has been an important feature in Apollo Health franchising as well. Healthcare is a sensitive field; hence one has to ensure quality service and since Apollo is a reputed name in healthcare, the clinics stand for flawless service and excellent quality."

The Apollo Clinic aims to provide a friendlier and more regular consumer interface for the overall Apollo brand. A study conducted by ACNielsen based on a total of 1,390 interviews across three cities, highlights the impact of The Apollo Clinic on the overall image. While certain differences in perceptions between Apollo hospitals and clinics, such as availability of high-end medical equipment or more competent doctors, are a reflection on category differences, there is a marked correction after the visit to the Apollo Clinic in terms of 'price perception' and 'not for everyone' image of the Apollo brand. (Exhibit 3)

The Healthcare Industry

As per various estimates, healthcare is a Rs100,000 crore industry and a study done by KSA Technopak indicates that a family in urban India spends as much as 11 per cent of the household income on healthcare. The Indian healthcare industry is, however, highly fragmented, with very few players in the organized sector. The market can broadly be classified as follows:

- **Large government or trust hospitals:** Most of the well-established hospitals in India, located mainly in the metros, are large hospitals set up by the government or trusts. Some of them have established reputation as super specialty hospitals, and have been in existence for more than 30-40 years. Fees in most of the government-run hospitals are low, but service standards are not clearly defined. In many instances, hospitals are unhygienic and patients visit only in

dire conditions.

- **Large corporate-run hospital networks:** In recent times, a number of corporates have established "for-profit" hospitals and hospital chains. They typically provide superior facilities, usually with superior equipment and better quality of care. Some of the well-known names include Escorts Heart Institute, Fortis Hospitals, Apollo Hospitals, Max Hospitals, and Wokhardt Hospitals.
- **Doctor-run/hled hospitals:** Each city is dotted with a number of hospitals that are usually established by doctors-turned entrepreneurs. Each doctor typically runs a hospital, which has its own set of standards, unrelated to any universal standards of service and healthcare provision. Their reputation mainly rests on that of the doctor-entrepreneur, and their reach is limited to a loyal patient following.
- **Nursing homes and clinics:** Almost all cities and towns have nursing homes and clinics. These are most commonly operated by doctors who neither have any specialization nor are in a position to make significant investments. They are typically run like a 'mom and pop store.' In a number of facilities, manpower (including nursing staff) is neither trained nor certified, and the catchment area for services is very small. Fees are usually very low, and these clinics and nursing homes do not have qualms about running unethical business practices.

This day-to-day healthcare segment comprises of three major constituents: consultations (with family physicians, specialists or super-specialists), diagnostics (ranging from routine lab tests to ultrasound), and pharmacy (for medicines). Currently, the network for such services, even in large cities, is extremely fragmented, unorganized, and unbranded. Absence of accreditation norms or quality regulations has resulted in a poorly regulated cottage industry-like environment.

The day-to-day healthcare (visits to the family doctor, laboratory tests, etc.) market is not organized. There are no defined standards of service and no stringent regulations. Quality parameters are not defined. Thus, very often, a blood test taken in two different clinics yields different results.

Competition has further created situations where doctors practice in multiple locations at the same time, and

recommend their patients to visit them in a clinic of their choice, depending upon the relationship with the patient, his payment capacity, etc.

Competitive Analysis

The large private hospital space is getting crowded with the entry of a number of new players, each with a few hospitals, and occupying niche positions in regions or in specialties.

Max Healthcare: The plan of Max Healthcare (led by Mr Bhai Analjit Singh) was to set up primary healthcare clinics which would feed into secondary hospitals. However, without a secondary care hospital in the group, the clinics failed to establish themselves. It converted all its primary care clinics to secondary care centres with 20-50 beds each. At the same time, it also established a tertiary care hospital in Delhi and is in the process of setting up another tertiary care hospital. The group now has about 800 beds with 7 hospitals.

Fortis: Initially started with a tertiary care hospital in Mohali, Fortis has now grown to establish other hospitals – three in Delhi and one in Amritsar. These include the Escorts hospital that has been taken over by Fortis. Each of these hospitals is fed by smaller secondary care-managed or owned hospitals. Today, Fortis has about 2,000 beds in 12 hospitals.

Wockhardt Hospitals: Started as a pharmaceutical company, Wockhardt entered into the healthcare services business through a specialty hospital in Kolkata in 1988. Since then, it has established hospitals in a number of other cities in India, including Bangalore, Hyderabad, and Delhi. It has stuck to its strategy of setting up super-specialty hospitals only, and does not have any secondary care centres. Wockhardt group has now established 10 hospitals with about 1,500 beds all over India.

At the primary care level, the market is crowded with a number of players, each of them offering a specific positioning. All of these players offer standardized boutique of healthcare-related services. Some of the well-known names include Dr. Batra's Clinics (offering super-specialty homeopathic treatment, with 46 clinics in operation throughout India), VLCC (offering beauty and health solutions with 100 centres across India), and MV Diabetes Clinics (started as diabetes clinics by Dr Mohan). All of them follow an owned/franchised model concept.

All the primary care centres have specific positioning differences, while offering common basic healthcare services. Some of these differences are as follows:

VLCC: Primarily positioned as a beauty and healthcare service provider. It has also established sub-brands to cater to specific niches in the healthcare market.

MV Diabetes Clinic: Concentrates only on the diabetes market. The primary focus of clients is in Southern India. It mainly offers service packages which are meant for specific cure.

Thyrocare: Offers only diagnostic services specifically related to thyroid treatment. It has been established all over the country with many collection centres supported by a few diagnostic centres.

Apollo Clinics: Specifically positioned for specialty primary care with a focus on family health. It relies on the referral abilities of customers from clinics to Apollo hospitals.

Dr. Batra's Clinics: Primarily positioned as a homeopathic healthcare centre. It also has general practitioners who offer allopathic treatment. Mostly works with packaged offers which are time-based, or treatment-based.

In most of these centres, there is a greater emphasis on preventive medical treatment rather than cure. The typical clientele consists of customers who are from the middle or upper-middle class societies, who can afford to pay marginal premiums as compared to customers visiting smaller, unorganized clinics.

Letter from a Franchisee

One of the franchisees in Delhi had written a letter to the Chairman of Apollo Hospitals. It said:

"Dear Dr Reddy

When we decided to take a franchisee for the Apollo Clinic, we reposed our faith in the Apollo brand.

Unfortunately, we have now discovered that there are no benefits to us from this. Not only have you made me invest such large amount of money in the Clinic, you have also not extended any help in increasing the sales of my Clinic.

In the past few years, we have not made any profits. Your local office has not provided us any help. Whenever they visit us,

they comment on quality standards only. How can we afford to keep spending money on quality standards, when we are losing money?

Patients are just not interested in the ambience; all they want is affordable medical services. I have requested the AHLL team to permit me to offer the medical services at much lower prices, but they have not agreed. How will we then increase patients?

Even the doctors who are empanelled at our Clinic are not helping. Most of them are more interested in their private practice, and routinely keep diverting patients. Even when they practice here, they expect higher incentives from franchisees for their services and referrals. How can we afford them when we are not making profits ourselves?

I have recommended one of my friends, who is a BHMS. He has agreed to set up consulting practice at the Clinic, but your team has refused permission. The doctors we have are not helping, and the doctors I know are not allowed to practice. How can we function like this?

To add to all this, not once has any doctor from Apollo Hospitals visited our Clinic. We expected that we would have support from the Apollo Hospitals. We are very disappointed with our experience with Apollo and want to withdraw from the franchise."

The letter from this franchisee was not surprising. For the last few months, he had been refusing to pay the royalties due. This Clinic was located in a suburb of Delhi, known for a large middle class population—on a main road, with ample parking place, and was well connected to most of the surrounding areas. Max Healthcare had also set up its clinic in the same region and was known to be doing 'good business.' Even at the time of commencement of operations, this Clinic had its own share of problems:

- The Franchisee was unable to obtain the requisite licenses for operating its Pharmacy. Therefore, the Clinic had to begin operations without the Pharmacy.
- The initial team of people recruited by the clinic for Customer Care had all quit. When privately questioned, some of them revealed that they had to leave because of the abrasive behaviour of the franchisee. New Customer Care executives were relatively untrained and therefore could not provide service to the customers as expected.
- Mr Jalan suspected that the Clinic was actually making more money than they publicly acknowledged. It is possible for the Franchisee to collect money from the patients without necessarily registering it through the software. Even when asked to submit monthly statements, the Clinic would routinely delay provid-

ing the data, and in fact sometimes even provided faulty data.

- Doctors who were empanelled with the Clinic routinely dropped out. Most of them complained of poor patient flow, and therefore inadequate opportunity for them to practice at the Clinic.

Mr Jalan called a meeting with the COO, Mr Chockalingam, to review this letter. "We have to live with these complaints since we have decided to run this as a franchised business," said Chockalingam. "Each franchisee will have his perspective, and if we keep abiding by each of them, we will never achieve a uniform model across the country. Today, this franchisee has talked about prices; tomorrow, another franchisee could talk about beds. It is in the nature of the franchisees to ask for what is not offered. I believe that the only way a franchised operation should be run is by achieving a high degree of standardization. I do realize that there may be some areas where we may need to yield to local requirements. But the question is, how much should we give in?"

The Head of the Northern Region, Mr Behl, countered, "Getting qualified doctors is not easy. Every doctor has his own problems. We cannot attract reputed doctors as they do not see any value in practicing in an Apollo Clinic; a new doctor cannot attract patients. We have no alternative but to lower prices."

"But then, shouldn't there be a premium that a patient is willing to pay for the Apollo brand? After all, what we are offering is the brand value that Apollo brings to a facility. We should be able to command at least some price differential because of the brand experience," said Mr Jalan. "In any case, we cannot compromise on the quality standard as it is likely to dilute the brand."

"What is it that attracts patients to the Clinic? I do not think that any patient is interested in the quality standard. I believe that a strong marketing campaign, followed with aggressive pricing will attract patients. Once a patient walks into a Clinic, I am sure that his experience will ensure that he visits us again," concurred the Marketing Head.

Mr Jalan wondered whether a patient's behaviour was predictable. "After all," he said, "even today a patient visits a Clinic only when he has an ailment. How can we predict his buying patterns? For all that we know, he

may visit a clinic only once in a year!”

“Why are we giving so much attention to the franchisee’s opinion? He does not know anything about running a healthcare business! Had we run this on our own, and without the franchisees, we could have run it much more effectively, without bothering about all these issues that the franchisees keep throwing at us,” said Mr Chockalingam, based on his long experience of work in the Apollo Group.

THE APOLLO CLINIC MODEL

The Apollo Clinic is an integrated model and offers facilities for Specialist Consultations, Diagnostics, Preventive Health Checks, and 24-hour Pharmacy, all under one roof. The Clinic also provides a range of value-added services such as second opinion from a panel of leading experts through tele-medicine and counseling on various lifestyle parameters.

Consultation

The Apollo Clinic is staffed with doctors from various medical fields. Specialties include Internal Medicine, Gynaecology, Paediatrics, and Cardiology. A panel of visiting consultants in various specialties is also a part of the Clinic. They cover a wide range of disciplines including Urology, Orthopaedics, Neurology, Dermatology, Gastroenterology, Cardiology, Dentistry, Paediatrics, Orthopaedics, Pulmonology, Endocrinology, ENT and Ophthalmology, etc. Except for the internists, all doctors in the Clinic are empanelled and are not on the rolls of the Clinic.

Diagnostic Facilities

The Clinic offers a comprehensive range of diagnostic services which include a Laboratory equipped to handle investigations in the areas of Biochemistry, Haematology, Clinical Pathology, and Microbiology; an Imaging and Radiology department; and a Cardiology department.

24-Hour Pharmacy

Each Apollo Clinic has a 24-hour pharmacy, owned and operated by the franchisee. The pharmacy is an integral part of the Clinic so as to offer easy access and convenience round the clock.

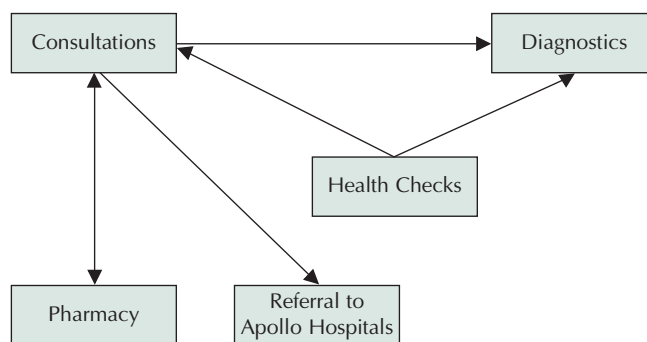
Other Value-Added Services

The Apollo Clinic has a treatment room for minor and routine procedures like vaccinations, suturing, first-aid, etc. However, emergency care or day-care services are not available.

The Apollo Clinic also offers preventive healthcare packages so as to facilitate prevention and early detection of diseases. These packages include Apollo Health Checks, Apollo Executive Health Checks, Apollo Heart Checks, Apollo Well Woman Checks, Apollo Child Health Checks, and Apollo Family Health Checks.

The Clinic Model has been designed such that each unit generates revenue for the other. Pharmacy generates walk-in customers, and these in turn result in increased consultations. Consultations feed diagnostics. Similarly, health checks feed into increased consultations and diagnostics. Finally, revenues are also generated by referrals to Apollo Hospitals by the consultants. Refer to Figure 2 for revenue linkages between various services offered by the Clinic.

Figure 2: Value Propositions of Apollo Clinic



Every Clinic has been carefully designed, right from the waiting area to the regular training inputs for the staff. The aim is to provide an overall customer experience that is unique and far superior to anything presently available. The key features that were kept in mind while designing the Clinics are:

- Utmost functional efficiency to drive resource utilization, physicians and support staff productivity, and customer satisfaction
- Reassuring and pleasant ambience through judicious use of colours, lighting, and other elements to convey heightened sense of comfort in an elegant (not opulent) manner

- Focus on cost to ensure overall growth and specifically the growth of the bottom line
- Ease of replication and sustainability — the key criteria in selection of materials.

The Apollo Clinic attempts to provide a clean, hygienic, warm, and friendly ambience to its patients. Care taken in designing the Clinics to ensure uniformity as well as provide the right design and ambience is reflected in the following examples:

- All Clinics use the same material for designing the interiors such as furniture, doors, floors, ceiling, electric fittings, and paints.
- All Clinics have a large poster at the entrance which depict a nurse and a child. In addition to this, similar welcoming posters are prominently displayed in various places in the Clinic.
- Large reception areas are provided with facilities for TV, magazines, and adequate seating arrangements.
- Pleasant colours are used to enhance the ambience of the Clinic
- Clinics have Customer Care Executives in a standard uniform, specifically designed to project a pleasant image.
- Pharmacies are attached to the Clinic and have an entrance from within the Clinic.
- All patients have to be addressed as customers and are to be treated as such.
- Feedback forms are made available at each Clinic counter for obtaining feedback on the services provided to the patients.

A few illustrative pictures of the Apollo Clinic are provided in Exhibit 1. Key service quality parameters are listed in Exhibit 4.

Service Pricing

Pricing of services in the Clinics differs from one location to another. Once a region is finalized for setting up a Clinic, AHLL conducts a study on the best existing service providers in that region. The tariff structure of the Apollo Clinic is then benchmarked against that of these service providers. Accordingly, the Apollo Clinic tries to offer its services at as low a premium as possible, the objective being to offer significantly superior service at a competitive price.

It was decided that volumes, and not margins, would drive a clinic's profitability. Though the clinic would offer significantly superior services, it would follow a value-for-money pricing strategy, with specifics getting guided by the local market conditions for each of the clinics. Since majority of the corporate hospitals including Apollo suffer from being perceived as elitist having 5-star facilities, it was realized that aggressive communication would be vital to correct such perception in the context of the clinic. (Refer to Exhibit 2)

Selection of Franchisees

The process of selection of franchisees typically starts with advertisements in national or regional newspapers soliciting enquiries for franchisees. Advertisements are followed up with a review of applications received from prospective franchisees. Franchisees are initially short-listed based on the following criteria:

- Their background, including entrepreneurial interests
- Their financial strengths and ability to invest.

Short-listed candidates are called for an interview where they are presented with the details of the franchise model contained in a brochure about the Clinic, a compilation of previous success stories (developed later), and a detailed financial plan for a typical clinic (Exhibit 5).

Potential franchisees are encouraged to ask questions and seek clarifications. Finalization of the candidates is a two-stage process – in the first stage, all information is made available to the candidates, and in the second stage, they are interviewed by a senior panel from AHLL, who review their ability to run a franchise.

A potential franchisee who applies for any of the following reasons is summarily rejected:

- Is either involved or interested in the real estate business
- Has other large business interests, and treats this only as an esteemed addition to his company portfolio
- Has possible financial constraints which could be severe enough to affect the business, should it require additional funding
- Is a doctor or has an existing clinic, and therefore is looking to leverage the Apollo brand for expanding his own practice.

Out of about 100 applicants to an advertisement, typically only one would be short-listed after screening. The short-listed franchisee is required to sign a Memorandum of Understanding (MOU) expressing his intent to set up a franchised clinic. As a token of his commitment to the interest, he is required to pay an amount of Rs 5 lakh, which is reimbursed later on signing the agreement.

The MOU would confer on the franchisee the right to setting up a clinic in a specific territory. Within the next three months, he would be expected to finalize the funding for the Clinic, and also narrow down the choice of possible locations for the same. (The MOU has subsequently been done away with and currently, a franchisee directly signs the agreement).

Subsequently, an agreement is signed between the franchisee and the franchisor for establishing the clinic. The key features of the agreement are as follows:

- The agreement is a composite one, consisting of a license for the development of business (Development Stage), and a license for the operation of business (Operational Stage).
- The Development Stage is the pre-operative stage and commences on signing the agreement in order to have "The Apollo Clinic" ready for operations/launching. This stage could extend to a maximum period of eight months from the date of the agreement, and the franchisee is required to complete the development process and get set for launching the operations of the business in this time.
- The term envisaged for the Operating License (for commencement and conduct of the business operations) is seven years from the date of launching of the Clinic.
- The franchisee agrees to pay to AHLL an Initial Licensing Fee of Rs.15 lakh (in addition to the Rs.5 lakh paid at the time of signing the MOU) for development rights and the right to use Marks developed by AHLL. This is a non-refundable fee that a franchisee is required to pay.
- In return for this, AHLL would grant a non-exclusive right to develop and operate the business using the Systems and Marks created by AHLL, and conducting the business at the territory developed by the franchisee.
- Apart from this, upon commencement of operations

of the Clinic, the franchisee is required to pay an amount equal to 5 per cent of the gross revenue generated in the business. These payments are required to be made on a quarterly basis.

- The franchisee could seek further renewal for a period of seven years by paying a renewal fee equal to 30 per cent of the Initial License Fee.

A list of clinics currently in operation are provided in Exhibit 6. The key obligations of the franchisor and the franchisee are laid out in detail in Exhibit 7.

Initial Training and Set-up

Prior to the commencement of business operations, each franchisee shall undergo a comprehensive Business Education Programme that is designed to meet the needs of the franchisee operating "The Apollo Clinic," and is conducted by the Indian Institute of Management, Bangalore for a period of 15 days (Exhibit 8).

In addition, for 12 days before the commencement of operations, AHLL provides training to the staff of the franchisee, at the Clinic premises, which includes establishing and standardizing procedures essential to the operation. During this process, AHLL provides the franchisee with Service Quality Standards and Process Manuals.

AHLL also organizes service quality training, operations training, and provides inputs for manpower planning including job responsibility and reward structure, and guidelines on manpower selection.

Business Promotion and Marketing

The Apollo Clinic relies on promotions at three levels: promotions by Apollo Hospitals for Disease Management programmes (DMPs), promotional programmes centrally co-ordinated by AHLL for all Apollo clinics in a specific region or nationally, and finally, clinic-based promotional activities.

The medium for promotional activities typically consist of the following mix:

Advertisements

- Newspaper advertisements
- Newspaper inserts
- TV scrolls
- Banners and posters

Other Promotional Programmes

- Continued Medical Education (CME) programmes for doctors in the region
- Disease management programmes for customers
- Customer-focused non-healthcare programmes (such as the 'Scratch and Win' programmes)

Given the sensitivity and the likely risk of being perceived as overly commercialized business proposition, AHLL has had a limited focus on 'paid' advertising and has conserved advertising spends. Instead, word-of-mouth advertising, public relations, and local promotional initiatives have played a greater role in the promotion of clinics.

Promotions and advertisements are limited, and mainly focused on increasing initial visits to the clinic. The experience at the Clinic is expected to encourage repeat purchase behaviour.

Through the creation of a Unique Health Identity (UHID), each customer of a clinic is tracked for the services that he has availed, the frequency of purchases, and the average value of purchases being made. These UHIDs are stored in the CMS and are continuously monitored and upgraded.

Local promotional initiatives include specific campaigns which are focused on increasing footfalls to a clinic. One of the biggest promotional events is the launch of a clinic which is preceded by a distribution of pamphlets in the locality, inserts in local newspapers, scrollers in local TV channels, and specific invitations to people for the inaugural. Typically, a well-known personality of the city is invited to 'open' the clinic, which is followed by publicity in the local press.

AHLL also co-ordinates some national promotions and special events. These are typically linked to certain occasions (e.g., World Heart Day, World Diabetes Day, Mothers' Day, etc.) when health check-up packages are made available pertaining to a specific programme.

In addition, AHLL organizes CME programmes to be conducted at various clinics. These CMEs are organized by pharmaceutical companies and co-ordinated by AHLL. CMEs are viewed by the medical fraternity as a means of updating themselves about the latest happenings in the medical field, and a useful source of learning.

AHLL has also launched the Health Edge Card (Figure 3), to specifically encourage repeat visits by a customer. For a nominal amount of Rs 500, a family of four is entitled to a number of visits per year, and discounts on certain purchases. Most of the Apollo Clinics have a high repeat purchase behaviour with almost seven out of every ten customers visiting the clinic repeatedly.

Figure 3: Health Edge Card



The corporate segment has been targeted in a focused manner for promoting regular health check-ups for their employees and also pre-employment check-ups for new recruits through personal selling.

Clinics are in regular contact with the existing customers through newsletters and direct mailers, and telecalling by the Customer Care Executives.

Besides, AHLL has assisted in launching some promotional activities in the pharmacies through programmes such as 'Scratch and Win' programmes. These encourage customers to increase their purchase values on every visit by guaranteeing gifts on exceeding a minimum purchase value.

CURRENT SITUATION

According to Mr Jalan, 'In quite a few cases, we have witnessed the franchisees expecting the brand to generate 'automatic' returns on their investment. It is a manifestation of the larger Indian reality, which is characterized, more often than not, by the owner's reluctance to get his hands dirty and the proverbial rent-seeking behaviour.'

As a result, not all clinics have shown the same sales characteristics. While some of the clinics are remarkably successful, others have languished in terms of sales and profitability (Table 1).

Table 1: Examples of Three Clinics in Delhi

Item	Unit	Faridabad	Gurgaon	East of Kailash
Diagnostics	times consultations	3.135	1.82	2.37
Laboratory	times consultations	3.3108	1.414	1.484
Pharmacy	of gross revenues	40%	26%	46%
Refunds and Discounts	of gross revenues	4%	5%	6%

As a business model, AHLL was required to set up close to 250 clinics in a time span of five years. However, only about 50 clinics were operational by 2006. As a result, AHLL was still largely dependent upon the initial licensing fee from the franchisees for its operations.

Some of the clinics that had signed up in the initial phase were approaching the time for renewal of contract. Mr Jalan was wondering whether AHLL should renew the franchisees or allow the agreements to lapse.

At the same time, AHLL was faced with the issue of low conversion rates of interest to franchisees. While responses to advertisements were good, very few would qualify based on the standards expected of potential franchisees. As a result, conversion rates were less than 5 per cent of the interested applicants.

Moreover, some of the franchisees who had initially

signed the agreement, delayed the implementation, thereby blocking the territory for others.

Mr Jalan was convinced that the Apollo Clinic brand had to be sustained in the minds of customers. He also believed that if a customer visited the clinic once, his experience would be so good, that he would like to come back again.

To create a brand image, it was necessary to invest significant amounts in advertising and branding. This was not possible until AHLL started to generate adequate revenues through licensing fees.

Before going to the meeting with Dr Reddy, Mr Jalan thought that he should spend some time in thinking about a few key issues:

- Should the company continue with the franchise model at all? Alternatively, should it decide on setting up an owned model?
- Should the decision to launch the clinics under a new brand be reviewed? Or, is there any way of exploiting the brand image of the Apollo Hospitals for the Apollo Clinics?

Even after nearly six years in business, AHLL was still making only around Rs 5 crore, and profits were, at best marginal. Answers to some of these questions would also provide the solutions for the survival and growth of AHLL. ✓

Exhibit 1: The Apollo Clinic



Clinic Reception Area



Clinic Laboratory



Clinic Sitting Area

Exhibit 2: Advertisement Campaigns and Communication

Life must be good
We'll ensure there are no interruptions

Life is a series of exceptional things. But when an illness or discomfort occurs, life's rhythm is upset. We understand.

That's why we at The Apollo Clinic strive to restore good health as fast as possible. All you have to do is visit the nearest Clinic and we shall swiftly guide your life back on track.

Starting with consultation with some of the leading specialists selected by an eminent panel from the Apollo Hospitals. Comprehensive in-house

facilities in each of the Clinics ensure that diagnostic tests, if required, are carried out with speed and accuracy. And you step out with only genuine medication from our 24-hour pharmacy.

Moreover, the world-class quality you associate with Apollo comes to you at a price that is more affordable than you would expect.

So if ever you don't feel at your best, come to us. After all, life's too good to be interrupted.



Brings life back to normal

TO BRING LIFE BACK TO NORMAL, CALL ANY OF OUR COUNTRY-WIDE CLINICS:

NORTH Agre (0662) 262 3832/206 309 02/121 | Alahabad (0522) 243 03/81 | Chandigarh (072) 260 78/222/233 | Delhi - Andher (011) 2742 7040-43 | East of Kailash (011) 2642 600/602 | Jalandhar (019) 2339 083-04 | Panipat (019) 2371 802-07 | Raipur Garden (080) 239 8223/333444 | Jaipur (0146) 195 2000 | Lucknow (0522) 240 9725-27 | Noida, Faridabad (0120) 204 800/801-04 | Ghaziabad (0120) 279 2009-02 | Gurgaon (0124) 268 220-22 | Noida (0120) 22 0726/97/689 | Gurgaon (0124) 268 220-22 | Noida (0120) 22 0726/97/689 | Gurgaon (0124) 268 220-22 | Noida (0120) 22 0726/97/689

SOUTH Bangalore Central Bangalore (080) 5677 3327-29 | Karwarangh (080) 2542 3033 | Malleshwaram (080) 233 752-31 | Chennai (044) 2499 4236 | Kanner (044) 2768 341-43 | Salem (0427) 231 036/67

EAST Guwahati (0360) 2481 474-75 | Jambhujpur (0637) 243 874/9352/4423 | Kolkata - Howrah (033) 2642 708/81 | Salt Lake (033) 2318 033/2/3 | Shalimar Park (033) 2383 2437-09 | Siliguri (0353) 2640 584-83

WEST Ahmedabad (079) 2345 2447/2346 1655 | Surat (079) 2070 839-83 ... and soon at many more neighbourhoods.

MAA/02/22

And you thought we are expensive

Diagnostic services at Apollo are speedy, accurate and truly affordable. Why go anywhere else?

At Apollo, we offer comprehensive range of diagnostic services which are completely automated. Our state-of-the-art equipment, team of competent and well-trained professionals and rigorous process control ensure that you get the world-class quality you associate with the Apollo brand. Moreover, we believe that quality need not come at a premium. So, you get these services at very reasonable prices, right in your neighbourhood. Next time you need to go through a test, simply walk in or call any of the Apollo facilities in Ahmedabad.

Diagnostic Test services	Rate
Blood Sugar Fasting	Rs. 35/-
Urine Routine	Rs. 30/-
Chem X-Ray	Rs. 130/-
E.C.G.	Rs. 125/-
Lipid Profile	Rs. 520/-
Ultrasound	Rs. 750/-

For speedy, accurate & automated diagnostics, call any of our facilities: www.theapolloclinic.com

The Apollo Clinic, Ghatlodia: Pandoli House, Ramra Park, Near Prabhat Chowk Ahmedabad 380 061, Tel: (079) 2745 0147/3214.
The Apollo Clinic, Satellite: Akshar Complex, Near Shyranjani Cross Roads, Ahmedabad 380 015, Tel: (079) 2692 0931, Akshaya Apollo Hospital, Bhat GIDC, Etarav, Near EDI, Gandhinagar. Tel: 550 1800/03 City Centre: Tulu Bag, Patrilal Garden, Near D's Home, Park, Ahmedabad, Tel: 5539 5800

Do not bypass this advertisement for your heart's sake

Sundrop Heart & Apollo Hospitals Group bring you **Heart Check** for just Rs. 375/-*

Includes **consultation with Specialist, blood sugar fasting, lipid profile, ECG, physical examination and diet counselling.**

Call or walk-in to your nearest Apollo facility to schedule an appointment.

Offer valid between 7th & 16th May 2004.



*Conditions apply

Healthy oil for healthy people >



The Apollo Clinic: Ghatlodia: Pancholi House, Ranna Park. Ph : 2766 1665 / 2766 0147.
 Satellite: Akshar Complex, Near Shivrangani Cross Rd. Ph: 2692 6931 - 33.
 Akshaya Apollo Hospitals: Bhat GIDC Estate, Near EDI, Gandhinagar. Ph: 850 1800 / 03.

Gift good health to the man who taught you to be strong.

This Father's Day, gift a

Father's Day Health Check

at Rs. 399/- only

Sunday, June 20th is Father's Day. He was your accomplice when you played a prank. He was your pillar of strength. And this is your chance to say, "thanks" - gift him good health with our special Father's Day Health Check package.

Father's Day Health Check comprises:

- Fasting Blood Sugar • Lipid Profile • ECG
- Complete Physical Examination • Consultation & Diet Counseling



Offer valid from June 20th to July 6th, 2004 at The Apollo Clinics only.



Bangalore Central: 1st Floor, Sobha Alexander, H-2, Commissioner Road, Near Shoppers' Stop, Bangalore- 560 025. Phone: (080) 5697 5327-29
 Koramangala: No. 51, Opp. Jyoti Nivas College, Koramangala, Bangalore- 560 095. Ph: (080) 2563 3833 Fax: (080) 2563 3825
 Malleshwaram: No 83/87, Seandarya Parkmain, 5th Cross, Malleshwaram, Bangalore 560 043. Phone: (080) 2334 7521-4

Exhibit 3: Brand Perception of Apollo Hospital and Apollo Clinic

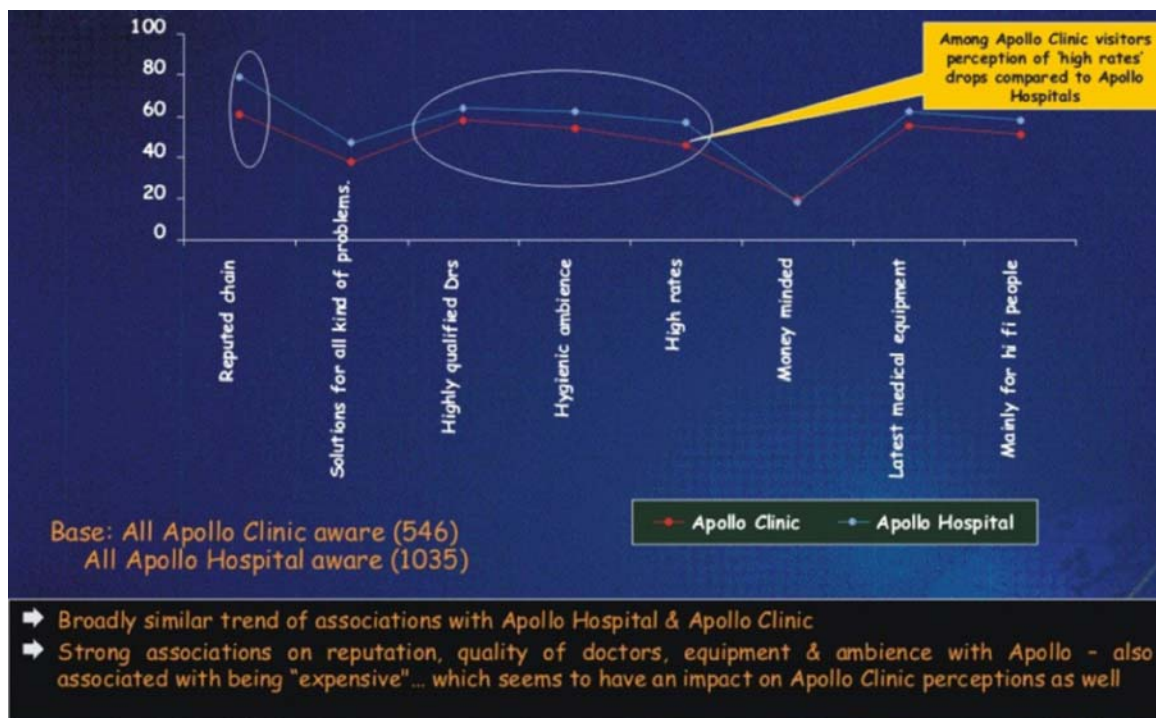


Exhibit 4: Service Quality Parameters: Key Points

A Service Quality checklist is designed across various functional areas, like the Entrance to the Clinic, the Pharmacy, the Front Office and Enquiry Desks, public areas within the Clinic like Waiting areas, Toilets, Pantry, etc., service areas like the Consultation chambers, Treatment room, Phlebotomy area, X-Ray room, Ultrasound room, ECG/PFT, and TMT rooms. It also enables measurement of the efficiency of each of these areas, thereby providing critical inputs into the Rewards and Recognition Mechanism.

For each of the areas mentioned above, the Service Quality Audit Tool is broadly classified as follows:

- *People-related:* The parameters assessed as people-related are the skills and attitudinal elements of functioning. It also

addresses the area of personal grooming, uniforms, and general appearance of staff.

- *Process-related:* The parameters assessed include the overall efficiency of the system in terms of adherence to optimal and efficient procedures to reduce *process jerks* to the customers.
- *Infrastructure-related:* The parameters assessed are the overall quality of infrastructure provided for smooth and seamless operations. These include the level of cleanliness and functioning of fitments.

AHLL representatives carry audit periodically. The findings of the audit are shared with the franchisee, and scores from the audit are tabulated for rating the overall performance of each Clinic.

Exhibit 5: Financial Plan

Indicative Project Costs	
Cost Head	Amount
Lease advance	4.80
Civil modifications & interiors	8.02
Furnitures & fixtures	15.30
Engineering services (HVAC, Electrical, DG set etc.,)	20.90
IT (hardware & software)	10.25
Medical equipment	68.00
One-time license fee	20.00
Preliminary & pre-op expenses	12.84
Interest during construction period + loan process fees	1.65
Cost escalation & contingencies	2.00
Margin money for working capital & start-up exp	3.04
Total Project Cost	166.81

(in Rs lakh)

Projected Profit and Loss Statements		
	Year-1	Year-7
Gross Income	143.49	487.36
Direct Expense		
Materials cost (purchases)	49.99	165.90
Payment to visiting consultants	9.90	34.36
Royalties & management fee to AHLL	7.17	24.37
Power, utilities and others	3.60	11.34
Total Direct Expense	70.66	235.97
GROSS PROFIT	72.82	251.39
Indirect Expense		
Personnel cost	23.28	41.01
Lease rentals for premises	9.60	12.86
Administrative expenses	4.80	8.50
Marketing & sales promotion	9.00	15.94
Others	1.60	2.83
Total Indirect Expense	48.28	81.15
PBDIT	24.54	170.24
Depreciation and pre-op expenses	18.67	18.67
PBIT	11.08	156.78
Interest	10.55	0.42
PROFIT BEFORE TAX	0.54	156.36

Key Assumptions

1. In the first year of operation, a Clinic would have an average of 30 consultations per day, with a majority of the consultations being in the area of gynaecology, followed by super-specializations such as cardiology, and general physicians. Charges for consultations are assumed at an average of Rs. 150 to 250 per consultation.
2. Pharmacy is assumed as expected for about 80 per cent of the consultations at the Clinic. In addition, walk-ins are expected to generate about four times the revenue generated through referrals from consultations. Average pharmacy bill is assumed at about Rs.125 per visit.
3. Imaging and other diagnostic services are assumed at about 8 each per day for the first year of operation.
4. An average of 4 preventive health checks are assumed to be performed per day in the first year of operation, gradually increasing to about 10 health checks per day by the 7th year.

Exhibit 6: Clinics Currently in Operation

• Adajan, Surat	• Agra	• Allahabad	• Andheri East, Mumbai
• Andheri West, Mumbai	• Behala, Kolkata	• Bhatinda	• Bhopal
• Burdwan	• C Scheme, Jaipur	• Chandigarh	• East of Kailash
• Garia, Kolkata	• Ghatlodia, Ahmedabad	• Ghaziabad	• Gorakhpur
• Goregoan, Mumbai	• Gurgaon-1	• Guwahati	• Howrah
• Jalandhar	• Jamshedpur	• Janakpuri	• Jessore Road, Kolkata
• Kandivali, Mumbai	• Kannur	• Koramangala, Bangalore	• Ludhiana
• Malleshwaram, Bangalore	• Malviya Nagar, Jaipur	• Nagpur(West)	• Patna-1
• Pitampura	• Qatar	• Rajouri Gardens	• Salem
• Salt Lake, Kolkata	• Satellite, Ahmedabad	• Shakespeare Sarani, Kolkata	• Siliguri
• Thane	• Tinsukhia	• Varanasi	• Vashi, Navi Mumbai

Exhibit 7: Obligations of Franchisor and Franchisee

Obligations of the Franchisor

The layout and design of the Clinic are prepared by the Franchisor to maintain the standards of the business. The following assistance is provided by the Franchisor:

- Site selection guidelines
- Provision of Architecture/Interior design guidelines
- Providing the design of furniture exclusively for “The Apollo Clinic”
- Provision of the design for signage
- Site visits by the Franchisor’s team to monitor and co-ordinate progress of the project work

The Franchisor recommends suppliers for the medical equipments at pre-negotiated prices. The Franchisor is involved in providing assistance in:

- Equipment selection
- Guidelines to ensure smooth installation of the Medical equipment
- Guidelines in finalizing a maintenance contract for the equipments

The Franchisor provides the Development Manual.

The Franchisor provides the Operations Manual which contains mandatory and suggested specifications, standards, operating procedures and rules for running the business.

The Franchisor provides the licensed Marks including “The Apollo Clinic, and related advertising and promotional material. The Franchisor shall provide the following promotional support:

- PR at national level
- Clinic launch guidelines
- Advertising templates
- Guidelines on direct mailer campaigns
- Policies on inaugural promotion schemes

The Franchisor provides the Marketing Manual to the Franchisee. This would cover an Institutional Marketing Plan, corporate proposals template, details of the products, etc.

The Franchisor provides the Clinic Management Software (CMS). The software is valid only during the currency of the License Agreement.

The Franchisor also provides certain printed stationery and documents that are required to be maintained and adhered to in form and substance.

Obligations of the Franchisee

The Franchisee is responsible for meeting the entire cost of development of the Apollo Clinic.

The Franchisee is required to ensure compliance with the plans/designs provided by the Franchisor.

The Franchisee is responsible for ensuring compliance with all municipal by-laws and all other applicable laws, rules and regulations, and obtaining necessary approvals from authorities.

The Franchisee is required to obtain the approval of the Franchisor regarding location and appropriateness of type of premises.

The Franchisee is required to execute the required civil work and engineering work for completing the development of the premises/business.

The Franchisee assumes the sole responsibility to comply with all local laws for establishing the Clinic’s business in the territory and for procuring all permits, licenses, etc., from the necessary governmental agencies including the municipal corporations and the land development authorities and revenue authorities.

The Franchisee is responsible for engaging its own workmen during construction and shall be solely liable for all aspects of construction including payment of salaries, statutory dues, and other demands of labour.

The Franchisee is also responsible for recruiting manpower as per the Manpower Plan provided by the Franchisor for the various positions.

The Franchisee is also responsible for the appointment of the staff/doctors/ professional consultants, etc., so as to ensure quality of the personnel employed, with the prior approval of the Franchisor.

Exhibit 8: Tie-ups of AHLL

AHLL has tied up with a number of organizations that are equipped to provide specific and specialty inputs in a number of areas. The key organizations and their roles are as follows:

- *ABM Associates*: The Apollo Clinics are designed by one of the leading architects in the country, Alfaz Miller (ABM Associates). ABM Associates is widely recognized as one of the leading architectural firms in India. Mr. Alfaz Miller, the man behind the firm, has won several prestigious awards for his work. Reliance, Tata, ABN Amro Bank, Shanta Biotech, and Satyam are some of his well-known clients. He has a particularly impressive background in designing franchised retail outlets, which are functional, elegant, and easy to execute.
- *Ma Foi Consultants*: Ma Foi is a well-known training and selection firm in India. All Customer Care Executives needed to undergo the 16 PF test conducted by Ma Foi before they could qualify to join the Apollo Clinic.
- *Indian Institute of Management, Bangalore*: All franchisees had to undergo a 15 day training programme at IIM, Bangalore before the commencement of operations of the Clinic in order to get familiarized with the business aspects.
- *Wipro Healthcare IT*: The Clinic Management Software, a software that integrated all the functions of the Clinic, was specifically developed by Wipro for use in the Apollo Clinics. ✓

Sanjay Patro is a Professor of Marketing at XLRI Jamshedpur and has more than 22 years of experience in teaching, research consultancy, and training. His areas of interest are Strategic Marketing, Product Management, Brand Management, and Rural Marketing. He has several publications in international and national journals. He is a member of the Association of Consumer Research and Strategic Management Society. He has handled consulting assignments and Management Development Programmes for many organizations.

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*"We're in a new universe of **healthcare** coverage, where it is a commodity only for the wealthy.*

— Jerry Flanagan