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ARAVIND EYE CARE SYSTEM - REVISITING THE BUSINESS MODEL

Dr. Prajna[1] was going through the summarized financial numbers of the Aravind Eye Care System (AECS) for the last five years in preparation for the upcoming year-end annual audit in March 2013. He was surprised to note the steady decline of surplus generated by AECS since 2009. Dr. Prajna wondered whether the present revenue model of AECS – 65% free care – is sustainable in the long run. The average cost for cataract surgery was about Rs. 2,000 (USD 33) and AECS recovers only Rs. 750 (USD 12) from the local government for every free patient who undergoes cataract surgery. The much talked about strategy of AECS was that, the paying patients who account for 35% of the surgical patients cover the costs of the free patients who constitute the remaining 65%.

Dr. Prajna was aware of the increasing competition from other eye care providers. He also realized that the first mover advantage of the AECS in manufacturing low cost intra ocular lenses (IOLs) by its sister organization Aurolab has withered over the years with the emergence of new competitors in the market. He wondered if the AECS needed to review the existing hybrid revenue model and perhaps start charging the market rate from all patients. However, this thought reminded him of the repeated concerns of Dr. V[2] in his later years. Dr. V, would constantly remind Dr. Prajna,

[1] Dr. N.V. Prajna, a renowned corneaspecialist, is the chief of the Department of Medical Education, AECS.
[2] Dr. GovindappaVenkataswamy who set up the AECS in 1976 with the help of close family members under a trust (Govel Trust), with the mission of 'eliminating needless blindness' due to cataract and other treatable conditions.

"Remember that our goal of eliminating needless blindness is not achieved yet and do not ever deviate from the principle of serving humanity generously".

Dr. V was categorical that patients who could not afford to pay should get the same service and attention as those who could. Dr. Prajna felt perhaps it is time that this grand vision of Dr. V is revisited in view of more competition and the increasing cost of eye care services.
AECS hospitals have separate facilities for paying patients and free patients. Interestingly, the patients choose for themselves one facility over the other. AECS hospitals do not examine the income profile of patients at the time of admission and rely on voluntary disclosures made by the patients. It was the opinion of Dr. Prajna that social scrutiny in Tamil Nadu compels a patient to avail paying facilities if their income permits. Patients capable of paying for services were looked down upon if they tried to use free services. This self-selection model may not be applicable in other parts of the country due to different culture and value orientations. Since the most critical resource that meets AECS standards, being the qualified eye surgeons with the right attitude, is in short supply; the management does not favor rampant expansion. However, the postgraduate training wing of the AECS is in a limited way supplying qualified and well-trained doctors to the medical fraternity.

Dr. V was certain that high productivity and volume were necessary for the AECS to remain financially viable and generate a reasonable surplus to support growth. Indeed, the first hospital set up by the AECS at Madurai generated a surplus from the very beginning. In 2003, the AECS reported 1,447,575 outpatient visits and performed 202,066 surgeries[3]. The outpatient visits more than doubled in the next ten years with an almost similar increase in the number of surgeries (**Exhibit 1**). A surgeon at AECS hospitals conducts an average of 2,000 operations per year. The number of similar surgeries in the U.S. is just 125. The high number of surgeries however, does not mean there are more complications or that quality is compromised. In fact, the number of complications at AECS hospitals is nearly half of those in the British Health System for the same procedures. [4]

[3] Manikutty, S and Vohra, Neharika (2006-2007) - Indian Institute of Management, Ahmedabad, Aravind eye care system: giving them the most precious gift. Retrieved from: (https://wiki.brown.edu/confluence/download/attachments/9994241/Aravind+case.pdf?version=1)pp.15, 16, 29

[4] India Eye Care Center Finds Middle Way To Capitalism. Retrieved from (http://www.npr.org/2011/11/29/142526263/india-eye-care-center-finds-middle-way-to-capitalism/)