Interview with Michael Flemming, Chief Executive Officer, Life Healthcare

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Tags: Life Healthcare

Our international readers know about South Africa’s socio-economic relative achievements, considering the country joined the BRICS grouping last year and achieved the first Millennium Development Goal (MDG) that same year. But would you say that the healthcare sector has grown in line with the country’s overall development?

All parties would agree that in terms of certain MDGs, the healthcare delivery has been falling behind, in a number of areas, predominantly in mother and child welfare.

The healthcare reform has been more socialist orientated whereas the rest has been more capitalist orientated. The embracing of the public and private sectors has not happened, and this is hindering the development of healthcare reforms in this country.

Life Healthcare is an international group, which puts you in a position to compare. How do you assess the level of professionalism and the quality of infrastructure in South African hospitals as opposed to international standards?

In the private sector, it is certainly right up there. We used to run a group in England and I can tell you that we have developed our system at least as much as they have. As compared to the Indian and Turkish operations, in terms of physical infrastructure, what is available in South Africa is also very good, along with the clinical professionals in the private sector.

On the other hand, the public sector is overworked, under resourced. But generally, the competencies are there. We are quite fortunate that the development of healthcare through the sins of the past has focused on a small group of people. Because of that, we ended up with a very competent healthcare delivery system.

We certainly do not stand back for any developed country, or for emerging markets.

Mr Motsoaledi told Focus reports in an interview that it is non-sense that this country still has two healthcare systems, 17 years after the apartheid has been abolished by the constitution, with significant differences between them. What impact on your business do you expect from the introduction of the National Health insurance (NHI)?

The big issue with the NHI is that it is about buying services with a willing buyer and a willing seller. In theory, our existence is all about the fact that the public sector has deteriorated: the private sector exists because of the deterioration of the public sector.

One of the objectives of the Minister of Health (MoH) is not only to implement the NHI, but also to improve the quality of the public sector. All South Africans have the right to a level of care that is appropriate.

It will take a long time to achieve this objective and we do not think it will reach the current choice and quality that the private community enjoys. Because of the shortages in resources in this country, there will always be a place for both private and public sector operations.

So I do not think that the NHI will close us down. In fact, the Minister sees us play a bigger role rather than a lesser role in the delivery of healthcare in the context of the NHI.

Nonetheless, we disconnect with the government’s views on the pricing issues. Regrettably, we do not think they understand how cheap South Africa is relatively to other markets. On one hand, the government wants to cut down the cost of healthcare in the private sector; on the other hand, the government does not think we spend a lot of money. Nevertheless, if you do a per capita spend in the private sector and compare it to other markets of equivalent quality, we are cheaper.

I do not see NHI as a threat, but rather as an opportunity. In South Africa, a large segment of the population that is formally employed is uninsured. I advocate for some form of a social health insurance, rather than a national health insurance, which would be a more preferable route to go down to.

Approximately four million South Africans are affected in this manner. That would take our market up to about between 15 to 16 million people, which is roughly 25% of our population. That would match more the number of assets or beds that we manage. Then the balance of people who cannot really afford it would go to government's sector.

The Public-Private Partnerships (PPP) model seems to be the future model for South Africa's healthcare sector. Life Esidemeni, one of the group's hospitals, is one of its applications. Do you see more PPPs being developed between Life and the South African government?

Life Esidemi is the perfect response to the government's needs to increase the number of beds available to its people. The ideology of PPP is at the moment for the provision of hospitals, for the provision of facility management rather than clinical management. Now, that is not my core competency, therefore I could say I am not in that game at all, considering I am not going to worry about security and catering and cleaning and maintenance because this is not my area of competency.

Having said that, life Esidemeni is the largest PPP in healthcare in South Africa, and it is sad that the government is not using this model more. It is good model, a cheap model, which provides good quality care. We have 4,000 beds which are full everyday of the week, where we look after government's patients for them.

Netcare and Lesotho looks like a very good model. Who does not the South African government try to adopt the type of approach that Netcare and Lesotho have in place for instance, and which seems to be working really well? It is not in their radar screen in the short term.

How do you assess the level of competition for the Life Healthcare Group in South Africa?

The market is highly concentrated, as a result of a consolidation that has taken place over the last ten years, whereby the top three groups really have about 80% of the assets in the country. Consequently, growing inorganically has become more and more difficult. But the South African demand for healthcare continues to grow at anywhere between 2% and 5% in the private sector.

The competition is cost and quality driven, where the people who demonstrate the best ability to manage the cost down are winning the largest share of the market. We run our hospitals on an average Monday to Sunday to about 71% occupancy, which is about 3% to 5% better than our peers.

The hospital business is like an airline business. If you have an empty bed, you never make money; hence occupancy translates into bottom line. That's the game that is being played at the moment.

How has the company performed in 2011 as we are just closing the year and what units have been the main growth drivers?

We have had an excellent 2011 September year end. At earnings level, we have had a 26% growth y.o.y. What is even more relevant is that we have had a 5% growth in activity during the year, and we increased our capacity by nearly 4% as we built extra beds on.

However the growth really has to come internally.

There are 6,000 beds licences being allocated in South Africa. Between all of us, we have around 24,000 beds in the private sector. That means that 25% of extra beds licenses being allocated are not being developed, because people do not have the capital to do so. While the competition authorities say that they do not want to award those licences to the big three to avoid them getting bigger, no one else is exploiting these beds and we end up with a shortage in supply.

Ironically, that ends up giving me more power in negotiation because I do not take the cheap schemes. It ultimately works against them.

As far as competition is concerned, it is pretty fierce between three groups that are equally competent. There are good and bad outcomes in every single facility, but generally all three are world class providers, all three are international and have a focus on the maintenance of quality in our country; all three train and educate healthcare professionals to sustain the business going forward.

What are your objectives to grow the Life Healthcare Group in three years from today both in South Africa and overseas?

Although South Africa has a number of issues which we have spoken about, we still think there are geographical patches where we need to go into, where there are gaps in our delivery system.

Secondly, there are products that are severely under resourced in this country and with under capacity, for example in mental health, rehabilitation, and renal dialysis. So we focus in growing those products in the major cities in South Africa, and we see significant growths in those areas.

In South Africa, we see ourselves growing in the next three years on our bottom line by 15% per annum.

As we go international, we need to understand that we sell human capital. There are systems and processes which require that we actually transfer human capital. As a result, it is very difficult to spread yourself too thin. Whereas the Americans for instance have withdrawn from those markets,

we will concentrate on growing in India, where we saw a market that had good healthcare professionals, extreme unprofessionally run and corporatized hospitals, a market that is fragmented, with huge growth opportunities.

We do not see it in the UK or in Switzerland like our peers; there are good assets there, but we do not see growth opportunities. In India, we know we can add value, in the transfer of the corporate skills that we have, and we will certainly increase the profitability of the group in which we now have a stake.

On the African continent, there remain some significant growth opportunities. One must understand that when you go to Kenya, Tanzania, Nigeria, Ghana, the quality of the overall infrastructure is significantly below what you have in South Africa.

Do you have a final message to the readers of Pharmaceutical Executive?

When I come back from my travels, I am always very proud of the fact that the total South African healthcare system is a significantly quality driven world class player. You cannot classify the private sector as an emerging market healthcare player, because we have developed far beyond many others.

I think we have developed that sector beyond what we can currently see in the UK. I am not saying we have better doctors, or better nurses, but our total system is developed beyond theirs. We have the support of all the pharmaceutical companies, we have a very mature advanced medical insurance market, so we have the total ability to develop world class quality healthcare, and that just means better delivery.

What we need to do in this country is to make sure that this applies to all the 50 million people living in this country. That disparity is my fear. Although it also represents obviously opportunities, it is my fear.

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