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Expanding Business In Stages: Case Study For Three Private Hospitals In Malaysia

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Abstract: *For a new private hospitals, the right strategies are very important to ensure that the hospital will have enough cash flow to sustain the business. One of the strategy is to expand business in stages and by doing this the hospital can use the internal fund generated from the current business and this will avoid borrowing from financial institutions which will effect the bottom line of the hospital. The aim of expanding in stages is to achieve breakeven where the expenses or cost are equal to revenue and therefore the net loss or gain is zero. There is no profit or loss being made even though the opportunity costs have been "paid", and the company had received the expected return of the capital. Breakeven point is achieved when the sales revenue is equal to total costs. In this study , a qualitative design was selected to conduct a case study of three new private hospitals in Malaysia namely Hospital A, Hospital B and Hospital C . A case study approach was selected based on the usefulness and appropriateness for this particular study. Data were collected from : various literatures, Suruhanjaya Syarikat Malaysia (SSM), Finance Manager of Hospital A and Chief Executive Officers of Hospital B and Hospital C. Those data collected will be qualitative data as an evident for scientific, interpretive and critical paradigms. The principle of collecting data was based on the year the hospital started business until the hospital achieved breakeven and generated profit and this principle applied to Hospital A, B and C. For Hospital A, data were collected from year 2004 to year 2007 where as for Hospital B, data were collected from year 2005 to year 2008. In case of Hospital C, data were collected from year 2009 to year 2011 . By growing the business in stages, all the three hospitals managed to achieved a breakeven point and generated profit within a short period. For Hospital A, the profit was generated in less than three years after opening the inpatient services. Hospital B generated profit in year 2007 after starting the business in year 2005 and Hospital C managed to achieved the breakeven point and generated profit in year 2010, which is two years after operating the business.*

Keywords: *private hospitals, breakeven point, business strategy,expanding in stages*

I. Introduction

In Malaysia ,everyone has access to public healthcare services. The latest medical technology and many specialist treatments are available in many of the public hospitals. However, waiting time for some services can be unacceptably long and many public hospitals are generally overloaded. The government has always been the primary provider of primary, secondary and tertiary healthcare to the public and continues today. Due to escalating cost of providing public over the years, the government in the eightist started to encourage the establishment of private healthcare services, in particular, private hospitals to take up part of the burden. However ,private healthcare services are mainly for those who can afford out-of-pocket payment and so is able to cater for the ever growing group of higher income population. At the moment there are 220 licensed private hospitals in the country with some of them providing the latest medical technology and many types of specialist treatments that meet the international standards. The private system had reduced the burden of the public healthcare system even though the medical fees are generally high and only the higher income group can afford the out-of-pocket medical charges. Based on the Ministry of Health Facts 2013, the admissions to private hospitals represented nearly 30 per cent of total admissions for the year 2012. However when compared to the high-income economies , the population-to-healthcare resources ratio is still on the low side. Key indicator of the number of hospital beds per 1000 population current stood at 1.8 which is well below many countries until today. The government has been targeting 2.0 in its effort to increase healthcare services capacity in the country. However from private sector investment, achieving the target 2.0 beds per 1000 people is not going to happen any time soon. Based on some studies it was found that the lead time for establishing a new functional private hospital is more than four years and a significant portion of the lead time involves dealing with government regulations. Planning approvals for hospital construction may take more than two years and licensing the hospital requires no less than six months (MPC, 2014)

For a new private hospitals , the right strategies are very important to ensure that the hospital will have enough cash flow to sustain the business. One of the strategy is to expand business in stages and by doing this the hospital can use the internal fund generated from the current business and this will avoid borrowing from financial institution which will effect the bottom line of the hospital. Based on the study conducted by National

Business Poll, 2011 it was found that forty –one(41) percent report the lack of finance as an impediment growth with 19 percent ranking it as a serious matter. Even though 15 percent of employers stated that lack of finances hinder their growth, 49 percent had said that it was not an issue for their business growth. On average large number of employers are facing serious problem in term of expanding business due to the financial constraint. Operating cash flow alone will not support the higher level of required capital for most hospitals. Hospitals will need to borrow capital and their competitiveness will depend on the ability to access to debt at reasonable cost. Health care is a very capital-intensive business and access to debt debt financing keeps hospitals in business. Today not all hospitals are able to generate enough cash to finance their operations and investments in people , program, facilities and technology. Most hospitals need to access to external debt on a periodic basis to assure the provision of continued health care services for the communities. The ability to issue and support debt is not a "nice-to-have" capability; it is essential to the viability of nearly all hospitals and health systems (Sussman,2010).

A new company should determine the point in time when to expand the business and there must be a time period when to expand (Damodaran,2009). As per the recommmendation given by Info Entrepreneurs (2013), a new company must have good cash flow because cash constraints can be the biggest factor limiting growth and wrong decision made can be fatal. A key element in assessing new opportunities is making the best use of financial strength. With limited resources, expansion would mean starving the business of essential funding and every element of working capital should be carefully controlled to maximise the free cash flow. In order to ensure the growth of the business, good stock control and effective supplier management is increasingly important. Raising financing against trade debs and for expansion plan including raising the equity from the shareholders is one of the option that can be taken by the company. With this type of approach the new company is required to expand business in stages depending on the cash flow and affordability to raise funding. When firms face financing constrainst, investment spending will vary with the availability of internal funds, rather than just with the availability of positive net present value project (Fazzari, Hubbard, and Petersen,1988). To ensure the sustainability of the business, it is important to manage the free cash flow . Therefore expanding in stages can prevent the business failure. According to Jagafa and Wood (2012), business failure has been defined as a insufficient revenue or a rise in expense to such a point that the company cannot sustain business and a discontinuance of business or discontinuence of ownership is the consequence of this (Shepherd, 2003) . Dikman et al (2010) quoted that business failure is a situation when a firm cannot pay their lenders, stock shareholders or suppliers.

Private hospital requires sufficient manpower and facilities. In Malaysia, another aspect on the important of the healthcare services industry is the contribution to employement of knowledge workers where they generally represent the higher income group, particularly the specialists or those with specialist skills. There is still huge shortage of doctors to support the growth of new privete hospitals. The ration for doctors at 1:835 (210) is still below the world's average at 1:710 (2009) and Malaysia is only nearly comparable to the middle-income economies at 1:806(2009). Due to the current shortage, private hospitals will find it difficult to recruit sufficient doctors to run the services. Therefore by expanding in stages the manpower can be recruited according to the need of the hospital (MOH –Health Fact 2006-2013).

For a new business the aim of expanding in stages is to achieve breakeven. Break-even (or break even) is reaching the point of equilibrium between a profit or a loss. According to (Michele Boldrin,2008), at the break-even point (BEP) the expenses or cost are equal to revenue, therefore the net loss or gain is zero. There is no profit or loss being made even though the opportunity costs have been "paid", and the company had received the expected return of the capital. Breakeven point is achieved when the sales revenue is equal to total costs.

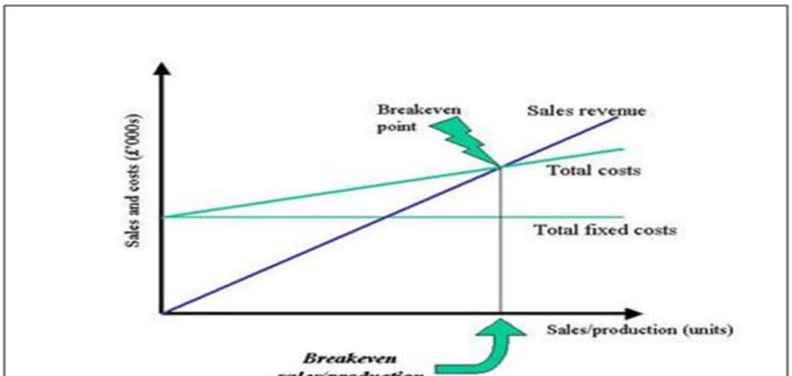

Table 1.0 : Breakeven point

II. Objectives

1. To see the impact of expanding business in stages for the three private hospitals
2. To see at what year hospitals A, B and C achieved breakeven point and later generate profit

III. Methodology

In this study , a qualitative design was selected to conduct a case study of three new private hospitals in Malaysia namely Hospital A, Hospital B and Hospital C . A case study approach was selected based on the usefulness and appropriateness for this particular study. According to Yin (1994), a case study is a special kind of qualitative work that investigates a contextialized, contemporary phenomena within a specific boundary. For the purpose of this study, I was using Multiple case studies because multiple sites increases the scope of the investigation and the degrees of freedom (Patton, 1990). Data were collected from various literatures : Suruhanjaya Syarikat Malaysia (SSM), Finance Manager of Hospital A and Chief Executive Officers of Hospital B and Hospital C. Those data collected will be qualitative data as an evident for scientific, interpretive and critical paradigms.

The principle of collecting data was based on the year the hospital started business until the hospital achieved breakeven and generated profit and this principle applied to Hospital A, B and C. For Hospital A, data were collected from year 2004 to year 2007 where as for Hospital B, data were collected from year 2005 to year 2008. In case of Hospital C, data were collected from year 2009 to year 2011

IV. Data

Hospital A

	2004	2005	2006	2007
REVENUE	RM 4,095,540	RM 19,531,453	RM 60,831,245	RM 66,342,165
PBT	(RM 933,242)	(RM 5,324,145)	(RM 370,398)	RM 2,865,130
Beds	nil	18--- 58 2 ICU	82 2 ICU	105 4 ICU

This hospital started Emergency services in November 2004 and opening inpatient services in January 2005 with 18 beds. Middle of that year extanded to 58 beds. In 2006 increased beds to 82 followed by 105 beds in 2007. ICU was expanded from 2 in year 2005 to 4 beds in 2007.

Hospital B

	2005	2006	2007	2008
REVENUE	RM 12,073	RM 12,644,301	RM 29,367,557.	RM 44,606,330
PBT	(RM 291,547)	RM (5,184,736)	(RM 2,714,249)	RM 2,190,474
Beds	nil	58 2 ICU	58 2ICU	82 4 ICU

Started with 58 beds in 2006 and maintain with the same strength until 2007. For 2008 the bed was increased to 82 with an additional 2 beds for ICU.

Hospital C

	2009	2010	2011
REVENUE	RM 14,784,037	RM 68,303,492	RM 84,567,928
PBT	(RM 3,662,029)	RM 4,954,904	RM 8,353,749
Beds	91 4 ICU	128 4 ICU	168 6 ICU

Started with 91 beds in year 2009, increased to 128 beds in 2010 and further increased to 168 in year 2011. The ICU was increased from 4 beds in 2009 to 6 beds in year 2011

V. Discussion

Hospital A started business in November 2004 by operating the Emergency services. The inpatient services was started in January 2015 after receiving license from Ministry of Health and the hospital started with 20 beds consisting of 18 general beds and 2 Intensive care Unit. Middle of 2005 the hospital increased the bed to 58 beds consisting of 56 general beds and 2 Intensive Care unit. In year 2006, the bed was increased to 82 after completing the renovation of the new ward at the total cost of RM 2.6 million. With the additional beds the revenue increased by 122% compared to the previous year. Beside the addition of beds, the hospital also started a new dialysis services with 3 machines. The revenue for 2005 had increased by more than RM 15 million compared to 2004 because for year 2005 the hospital had operated 58 beds for inpatients. However due the costs incured the hospital had recorded a loss of RM 5.3 million. In line with the expansion program the revenue for 2006 had also increased to RM 60.8 million and the Loss Before Tax had been reduced to RM 370,398 . With the new addition of RM 10 million paid up capital in year 2007, the hospital had expended the ICU from 2 beds to 4 beds at the cost of RM 1.35 million. Normal beds had also being added in to a new beds of 105 after the completion of new ward at the cost of RM 3.25 million. The hospital had also started a cathetherization laobratory (Cathlab) at the cost of RM 3.1 million and also converting the third Operation Theatre to Cardiac OT at the cost of RM 2.15 million. By expanding the services in stages the revenue of the hospital increased from RM 4,095 in year 2004 to RM 19.5 million in year 2005. The revenue further grew to RM 60.8 million in year 2006 and further increased to RM 66.3 million in year 2007. Hospital A recorded losses of RM 933,242 for year 2004 and increased to RM 5.3 million in year 2005. However, the loss was reduced to only RM 370,398 in year 2006 and generated a profit of 2.8 million in year 2007. With the strategy of expanding in stages the hospital managed to achieve breakeven and generated profit in year 2007.

Hospital B started business in year 2005 but toward the end of the year it was purchased by another company which run the biggest chain of private hospitals in Malaysia. For this year the revenue generated was only RM 12,073 because it started with Emergency services only and the accumulated loss before tax was RM 222,455. After taken over by the corporation, the hospital was operated using the same model as Hospital A. In year 2006, Hospital A operated with 58 beds, supported by 17 full time Resident Medical Consultants . For this year, Hospital A had only one CT Scan and 1 Fluoroscopy and one X ray machine. The assets had increased from RM 41,598,847 in 2005 to RM 52,415,806 because the hospital had operated 58 beds with 2 beds of intensive care units. With the opening of 58 beds, Hospital B was able to generate a revenue of RM 12,644,301. However for this year the accumulated loss was RM 5,184,736. In year 2006, the hospital had borrowed RM 17,961,120 from Bank as term loans and owing to holding company of RM 22,290,137. For year 2007 there was no expension of services and the total beds remain at 58 beds. However the number of outpatients had increased to 61,504 (>82% compared to year 2006) followed by an increase of inpatients from 3,341 in year 2006 to 6,608 in year 2007 (>97% compared to year 2006). With the increase in the number of patients, the revenue had increased to RM 29,367,557. As a result of increase in revenue, the financial year loss had reduced to RM 2,714,249 in year 2007.

In year the 2007, the assets had reduced to RM 19,991,549 from RM 52,415,806 in 2006 due to the disposal of the land and building to Real Estate Investment trusts (REITS). Towards the end of 2007 the revenue for 2007 had increased to RM 29,367,557 in 2007 which is much better compared to RM 12,644,301 in 2006. The loss before taxation had reduced from RM 5,184,736 in 2006 to RM 2,714,249 in year 2007. With this exercise the hospital was able to generate cash to pay the loan from Bank and holding company and also to finance the expansion program. Net cash generated from investing activities was RM 27,151,031 and RM 10,520,300 was retained as investment in quoted shares to enable the hospital to enjoy yearly dividend from REITS. Due to the disposal of assets to REITS, the bank borrowing was reduced to RM 932,087 and the amount owing to holding company reduced to RM 14,231,854. The hospital further expanded the number of beds from 58 to 82 in year 2008 with and addition of 2 ICU beds. In line with this expansion ,Hospital B had generated a revenue of RM 44,606,330 which is much higher compared to RM 29,367,557 in year 2007. With a higher revenue the hospital was able to achieve breakeven and recorded a profit of RM 2,190,474.

The building for Hospital C was completed in year 2008 and operation started in year 2009. It is just a matter of transferring the business into a new place because equipment, staff and Medical Consultants are ready. . The hospital started with full range of services with major equipment such as CT Scan, MRI, Lithotripsy, Cathetherisation laboratory and fluoroscopy and supported by 91 beds supported and four beds of Intensive care unit. 3,441 inpatients and 19,354 outpatients were served by this hospital in year 2009. Medical services are provided by 17 Resident Medical Specialists and he hospital was able to pick up very fast because it was a relocation of business not starting from the scratch where they already had a loyal customers. The total assets for Hospital P in 2009 were only RM 13,595,499 because the land and building belong to Real Estate Investment Trusts (REITS).

In year 2009, the revenue generated was RM 784,037 with a total loss before taxation of RM 3,662,029. In this year the hospital received advances from penultimate holding company of RM 12,689,300. With this advances, the company still had a positive net financing cash flow of RM 12,333,790 which enable the hospital to expand the business by creating additional 37 beds. Therefore total beds in year 2010 was 128 beds and the business had grown tremendously with an outpatients of 73,376 and 12,478 inpatients. With the growth of business, Hospital C had achieved breakeven and generated a profit of RM 4,954,904 in year 2010. The hospital further expanded to 168 beds in year 2011 and with the additional 40 beds the revenue increased to RM 84,567,928 which is 24% higher than year 2010. As a result, profit before tax increased to RM RM 8,353,749 which is 68.5% higher than the previous year.

VI. Conclusion

By growing the business in stages, all the three hospitals managed to achieved a breakeven point and generated profit within a short period. For Hospital A, the profit was generated in less than three years after opening the inpatient services. Hospital B generated profit in year 2007 after starting the business in year 2005 . However a quiker generation of profit was facilitated by the the disposal of assets to REITS. Hospital C managed to achieved the breakeven point and generated profit in year 2010, which is two years after operating the business. Even though Hospital C was a new hospital, it was relocated from the old hospital which was not very far from Hospital C. Therefore by expanding business in stages all the three hospitals managed to achieved the breakeven point and generated profit in much shorter time.

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