Netcare's International Expansion Case Study Analysis Report

# Introduction:

The report delves into the case study of Netcare's international expansion, focusing on strategic decisions and considerations in the healthcare industry. Netcare, a leading healthcare provider based in South Africa, embarked on an ambitious journey to expand its operations internationally. This report analyses three key aspects of Netcare's expansion strategy: its core competencies, choice of location, and strategic options for expansion.

**1. Investigating Netcare's Competencies:**

* Explores the competencies initially acquired by Netcare in South Africa and their subsequent international transferability.
* Identifies core strengths and capabilities that enabled Netcare to establish a competitive advantage in the healthcare sector.
* Examines how Netcare leveraged its expertise in healthcare management, clinical services, and patient care to expand into new markets.

**2. Assessing UK as a Business Location:**

* Critically reflects on the reasons why the United Kingdom was considered an appropriate location for Netcare's international expansion.
* Evaluates factors such as market demand, regulatory environment, infrastructure, and cultural compatibility.
* Discusses how Netcare capitalized on opportunities in the UK healthcare market while mitigating potential challenges.

**3. Analysing Expansion Options:**

* Assesses the pros and cons of the various options available to Netcare for international expansion versus focusing on domestic operations.
* Explores different market entry strategies, including mergers and acquisitions, joint ventures, and greenfield investments.
* Considers the strategic implications of each option in terms of risk, return on investment, and long-term sustainability.

# Methodology:

* Utilized a case study analysis approach to examine Netcare's expansion strategy.
* Conducted extensive research using academic literature, industry reports, and company documents.
* Applied critical thinking and strategic analysis frameworks to evaluate Netcare's decision-making process.

The Competencies that Netcare initially acquired in South Africa and subsequently they became internationally transferable.

Netcare (Network Healthcare Holdings Limited) is a leading Healthcare provider based in South Africa. It operates and provides healthcare services in both South Africa and United Kingdom. After the acquisition General Healthcare Group (GHG), Netcare had started to provide services to National Health Service (NHS) via its subsidiaries. In this essay, we are going to discuss the capabilities obtained by Netcare while it is operating in South Africa, which eventually helped the company to expand its presence internationally.

The Road goes ever on and on

Down from the door where it began.

* J.R.R. Tolkien

Netcare was founded in 1994, with six hospitals. In the early stages, Netcare had acquired and managed many small hospitals from Clinic Holdings Ltd and Excel Medical Holdings Ltd. In the year 2001, Netcare had brought in a Health-care provider named Medicross, including 75 medical and dental care centres across South Africa. Later, Netcare acquired further 25 centres and 130,000 managed care customers from Prime Cure Holdings. They also managed 358 operating theatres with 86 retail and hospital pharmacies. With all these facilities, Netcare had provided treatment for Trauma and Ancillary services through equity interests in private hospitals. To ensure their services to reach people in emergency, Netcare had incorporated Netcare 911 which is the largest private emergency service with a fleet of 7.5 million members and a fleet of 246 response vehicles and ambulances, along with 3 helicopters and 2 air ambulances. Netcare also offered diagnostic service that can accessed through interest in national administrative scheme. They managed to provide logistical services to 290 high-tech pathology labs and depots. Netcare had achieved a highest level of operational efficiency by managing such an extensive fleet of facilities across the country. Along with that, these extensive facilities enabled Netcare to provide a low-cost, high-volume services to patients who did not have access to private hospital offerings.

To provide Man-power for all the facilities across the country was not an easy task. Netcare’s Human resources team were committed to excellence and were a critical component of its overall business. To cease the brain-drain of nurses from the country and recruit expatriates back to South Africa, Netcare had actively participated in the initiative led by the government and other private companies. Netcare also invested R100 million to train 3700 nurses and paramedics. They provided their physicians and specialists with state-of-art facilities, trained nurses, and latest technology. These initiatives by Netcare attracted an additional 162 medical specialists to its facilities in 2007. To sustain and maintain a culture of excellence and effectiveness, there was a need for a shared-services scheme where information can be exchanged regularly. Netcare implemented Systems Applications and Products (SAP) system, in accreditation of all its hospitals. This system allowed Netcare to drive efficiencies and contain costs without affecting the quality of their services. Along with that, Netcare had initiated Clinical governance program to help define the clinical pathways so the variabilities in services can be reduced and leads to safer patient care. To achieve a disciplinary patient care system, Netcare started an Ethics committee to formulate its own clinical governance guidelines for ICU, trauma, and infection control.

As a result of all these accomplishments, prowess, and resources that Netcare had procured through its operations and services in South Africa made it a leader in healthcare industry. These competencies gave Netcare the liberty to adapt an approach to engage with the Government in South Africa, and so on became a partner in healthcare industry. All these strategies and approaches undertook by Netcare, during its initial operating period in South Africa, helped the senior teams of Netcare to enhance their experience and expertise to drive for sustainable growth in South Africa and expand their capabilities internationally.

# Why United Kingdom was an appropriate location for Netcare to do business.

One of the key long-term goals of Netcare health care group was to provide world-class health care services for the patients in every continent of the world. The group had already acquired enough competencies to expand their services on international platform. Their work in South Africa had enhanced the expertise and experience of the senior teams in Netcare to drive for sustainable growth internationally. And, at the same time, they had found the health-care system in United Kingdom was in disarray with a lack of modernization.

The primary reason for the Netcare to choose United Kingdom as its main choice to do business was the large number of aging populations in the country. The average cost of expenditure spent for the treatment of aging people will be far greater than the average cost of expenditure of other age groups. Along with this, if the people of this age group or any other age group needed to get any kind of treatment and doctor consultation, the minimum waiting time to get an appointment is 12 months. This is due to the demand for services exceeds the capacity to offer the service. United Kingdom had a very smaller number of doctors and health care professionals to service this large number of patients in waiting lists. The buildings and other facilities used by the hospital were very outdated. All these challenges and problems faced by the healthcare system in United Kingdom propelled the Netcare team to use their skills and expertise obtained from operations in South Africa to enter the Healthcare market of United Kingdom and offer their services. Considering all the limitations faced by the NHS, the Government of United Kingdom had increased the public/private funding and opened the way for public/private partnership. In the year 2000, just under $50 billion was spent by the government of UK on healthcare, which is amounted for 6 percent of the total GDP. In this, the expenditure on private healthcare, that includes buying of healthcare services and pharmaceuticals directly totalled around $9 billion. The countries in the G7 nations spent around the average of 9 percent of GDP on healthcare compared to the 7 percent GDP of UK. But, on the other hand, United Kingdom allocates 85 percent of the total share of expenditure to public sector healthcare compared to 70 percent of the countries in G7 nations. This gave the Netcare the additional boost to expand its operations into the United Kingdom and win the contracts with the National Health Services (NHS).

# Pros and Cons of the various options that Netcare had either to expand internationally or do business at home.

When founded in 1994, Netcare was a very small healthcare group with 6 hospitals. Fast-forward to 2007, the Healthcare group owned 107 private hospitals and clinics with 12,240 beds in the hospitals. It had generated a revenue of R19 Billion with operating profits of R3 Billion and total assets worth of R50 Billion. Netcare had a very long journey with a successful progression. But, after its inception, when this substantial growth did not yet start its pace, Netcare faced many problems at home which could had been hindered its growth.

One of the choices that Netcare had after its inception and starting initial operations in South Africa was to constraint its operations in South Africa itself without expanding internationally. If Netcare had constrained itself within the South African market it could have focused its efforts to service the 43 percent of South African population who did not had access to private health care. This poor population mainly relied on public health-care system for medical issues. Serving the medical practices to this bottom tier population could have been advantages to Netcare, as it could have gain codes of good practice issued by government under the Broad-Based Black Economic Empowerment Act. The main aim of this charter was to sort out and manage the challenges faced by Health-care system. On the business perspective, orchestrating a operating system to deliver Health-care services to bottom tier population can also benefit Netcare on a long-term. When we closely look at the health care system in South Africa, the private health groups are competing to provide world class health care services and facilities to 7 million of population, who could afford private health care. And the expenditure spent on private health care was around R66.4 billion. R51.6 billion was averagely spent on public heath care which offers services to 40 million people. With a right strategy and innovative model of treatment, Netcare may have managed a way to service this tier of people, where there is no competition. To offer services to such large population, Netcare should achieve economies of scale by bringing down the unit cost. Netcare was already a leading player in the highly competitive sector of market, by providing services to remaining population groups, by using a tiered system, Netcare can become incumbent in the leading Health-care groups of South Africa. But the limitations to stay put in South Africa without exploring the opportunities outside can become a deadly decision for Netcare someday. Because, the political system in South Africa is highly unstable. The intervention of government in health care system to limit the freedom of private players is very common. Also, the new National Amendment Bill can entirely change the entire structure of the health-care industry going forward.

International expansion was always on cards for Netcare. In fact, it was the main objective for the Netcare to become a global player and to deliver their services to patients in every continent. As of September 30,2007, The Netcare group was dominant in South African market with a market share more than 28 percent. And, in the United Kingdom Netcare is generating good responses from the patients all over the country and three new NHS contracts were awarded in the year 2007. Netcare was doing well in both the countries. The real question is, is it possible for Netcare to foresee a growth elsewhere. The only limitation that impeding Netcare to act on further international expansion was there failure operations in Rwanda, Tanzania, Kenya, and Portugal. Netcare may encounter similar kind of problems or situation in taking their services to other countries. For a firm, to successfully embark on an international business expansion, it should design a strategy to deal with differences of Economic, political, Legal, and cultural differences of the countries. In Rwanda, Netcare failed to grasp the cultural differences in the country by appointing a Hutu in charge of eight Tutsi receptionists. Thus, the hatred in created in the work place did not allow Netcare to run the operations smoothly. And, unlike United Kingdom, where political system is very stable and predictable, it is not the same case with South Africa and Rwanda, where there is a huge degree of instability. If Netcare takes any further steps in their aim of expanding globally, without addressing these limitations in their making strategical plan of approach for each individual country, they are going to face with similar bad results. They must constantly adapt to a strategy for each nation without affecting their core business principle of delivering quality medical service to every person in every continent.

“Enduring great companies preserve their core values and purpose while they adapt their business strategies and operating practices endlessly to the changing world. This is the magical combination of preserve the core and stimulate the progress”

* Jim Collins

On the other, there is a golden opportunity for the firm to expand their competencies into the markets of Brazil. As the largest country in South America, Brazil had a population of 184 million with a GDP of US $1.1 trillion. And about 20 percent of the Brazil population, which is 37 million, uses private health care system. Brazil has almost 7000 number of hospitals owned by private and governmental bodies. The insurance plans provided by the health-care system in Brazil equals to 80 to 90 percent of total hospital revenue in the country. And, as Brazil has a lower level of consumer spending, the private hospitals in Brazil had adapted to a system to deliver high-quality services at a very low price. This system closely coincides with the objectives of Netcare to both offer their services in Brazil and learn the system so they provide similar services in South Africa to lower middle class population. Brazil can be good market for Netcare to consider as its next target market. It makes more economical and strategical sense to expand Netcare operations into other markets as a profit growth of a firm can be only possible if the firm manages to sell more in current market and entering new markets.

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