THE ANALYSIS OF THE COMPETITIVE ENVIRONMENT IN THE HEALTHCARE INDUSTRY FROM ROMANIA

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Abstract:
The purpose of this article is to briefly analyze the typology and intensity of the existing competitiveness on the market of the private healthcare services from Romania. In order to achieve this, we have used the Porter's five forces model. The analysis of the competitiveness in this field has showed that there is an increasing and constant dynamic on this market, as well as a greater fragmentation..

Key words: *competition, private healthcare sector, Porter's five forces model, Barriers to entry*

JEL classification: *O01*

The information necessary for the analysis of the competitiveness in the private healthcare sector from Romania comes from publicly available sources (the Ministry of Public Finances 1, the Trade Register 2). In order to perform the analysis, we have used economic data aggregation services provided by various private operators 3. The data used in the analysis process are focused on the specialized medical services included in the Nomenclature of Economic Activities (NACE) from Romania at code 862 4 - Medical and dental practice activities, section Q - Health and medical assistance, division 86 - Human health activities, NACE code 8622.

The NACE code 8622 is reserved for the following medical activities:

- medical visits and specialized medical treatments in various fields, provided by trained physicians and surgeons;
- family planning centers providing medical services, such as sterilization and termination of pregnancy, without overnight stay.

This code includes neither the assistance provided to patients admitted to hospital (NACE code 8610), nor the services provided by midwives, physical therapists and paramedics (NACE code 8610). Based on the data analysis performed using the Porter's five forces model5, we have inferred the following:

1. Rivalry among existing competitors

A total number of 5,634 private healthcare providers operate at a national level in Romania, offering specialized medical services; they represent 0.29% of the total number of businesses registered with the Trade Register.

The specialized healthcare providers are present in all regions of Romania, yet the largest number (over 50%) of operators in this sector can be found in the major Romanian academic centers, i.e. Bucharest (25%), Cluj (11%), Timisoara (7%), Iasi (6.5 %), Dolj (6.2%). The specialized healthcare sector in Romania employs 27,466 people, which represent 0.68% of the total number of employees from Romania.

The specialized healthcare services in Romania account for more than 1 billion Euro, with an increasing trend in demand. The turnover in the specialized healthcare sector is of 4.6 billion RON (approximately 1 billion Euro). In 2017, the net profit in the specialized healthcare sector was of 711 billion RON (approximately 161 million Euro).

The private healthcare sector is one of the most dynamic from Romania 6. Over the last 8 years, the demand for private healthcare services has trebled, currently reaching over 1 billion Euro, with a positive trend an annual growth rate of approximately 12%7

The analysis of the data obtained from open sources has shown that Romania is one of the countries with the lowest volume of information regarding private healthcare, available both for the patients and the healthcare providers 8

The first 10 businesses operating in this sector hold approximately 34.25% of the market share, as follows: 1. "Unirea" Medical Center, with 8.21% market share; 2. Med Life S.A., with 8.18% market share; 3. Sanador S.R.L., with 6.24% market share; 4. Diaverum Romania S.R.L., with 5.53% market share; 5. Medicover S.R.L.,with 1.9% market share; 6. Nefromed Dialysis Centers S.R.L., with 1.3% market share; 7. Affidea Romania S.R.L., with 1.01% market share;8. Medcenter S.R.L., with 0.73% market share; 9. "Hipocrat" Medical Clinic S.R.L., with 0.64% market share; 10. Anima Specialty Medical Services S.R.L., with 0.51% market share.

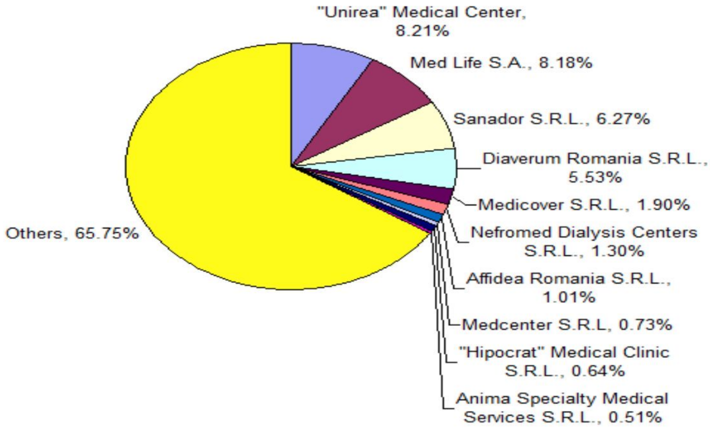

Figure 1: Market share of the top ten private health care operators in Romania

Based on their turnover in 2017, the first 10 providers of specialized healthcare services are:

1. "Unirea" Medical Center - 83.5 million Euro; 2. Med Life SA - 83.2 million Euro; 3. Sanador S.R.L. - 63.5 million Euro; 4. Diaverum Romania S.R.L - 56.2 million Euro; 5. Medicover S.R.L. - 19.4 million Euro; 6. Nefromed Dialysis Centers S.R.L. - 13.7 million Euro; 7. Affidea Romania S.R.L. - 10.2 million Euro; 8. Medcenter S.R.L. - 7.42 million Euro; 9. "Hipocrat" Medical Clinic - 6.5 million Euro; 10. Anima Specialty Medical Services S.R.L. - 5.1 million Euro.

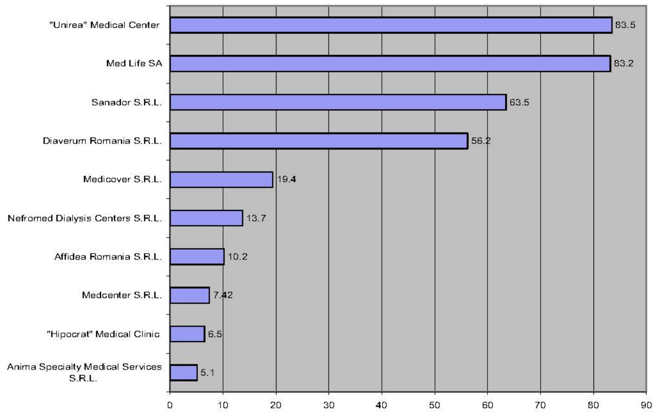

Figure 2: The turnover realized in 2017 by the first ten private medical services operators in Romania

Based on the profit reported by the providers of specialized healthcare services, the classification is as follows: 1. Fresenius Nephrocare Romania - 3.7 million Euro; 2. Sanador S.R.L. - 2.7 million Euro; 3. Pelican impex S.R.L. - 1.9 million Euro; 4. Avitium S.R.L. - 1.8 million Euro; 5. Hipocrat Clinic - 1.7 million Euro; 6. Rapid Diagnosis Center - 1.3 million Euro; 7. Arcadia Policinics - 1.2 million Euro; 8. Top Med "Buna Vestire" S.R.L. - 1.2 million Euro;

9. Nefromed Dialysis Centers S.R.L. - 1.1 million Euro; 10. Ama Optimex S.R.L. - 1.1 million euro.

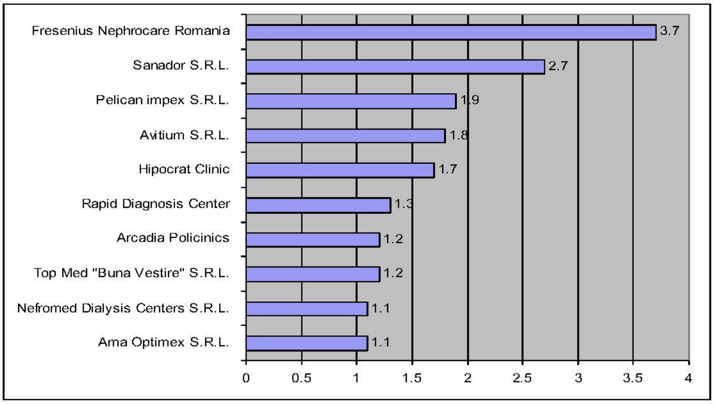

Figure 3: The benefit made in 2017 by the first ten private medical services operators in Romania

The services provided by the operators in the private specialized healthcare system are quite fragmented, according to the type of medical services that they have chosen to provide. Therefore, in this sector, we notice medical services focused on a single medical specialty, such as radiology, cardiology, ENT, ophthalmology, dental care, etc., as well as healthcare services which include several medical specialties.

The five leaders in this sector, i.e. Unirea Medical Center, Med Life, Sanador, Diaverum and Medicover, provide healthcare services in several specialties. The healthcare operators' capacity to integrate several medical specialties in one place creates a competitive advantage over other healthcare operators focusing on only one medical specialty.

2. The bargaining power of buyers

The most important buyers of specialized healthcare services are the employers 9 which, in order to retain their employees, acquire packages of medical services covering their employees (and sometimes their employees' families); the packages include annual blood tests, regular medical check-ups for conditions associated to occupational hazards (as determined by the occupational health physician), and/or surgical procedures. These buyers represent 88% of the total number of buyers, having a significant power over the operators on the market of specialized healthcare services, and thus influencing the prices of the services offered.

From this perspective we can say that, due to their capacity to acquire a large volume of specialized healthcare services, the bargaining power of clients/buyers from Romania is high and it can influence the profitability of the businesses in the field.

3. The bargaining power of suppliers

The suppliers in the sector of specialized healthcare services can be represented by the employed medical personnel or by the external vendors working for the provider of specialized healthcare services. The bargaining power of suppliers is high when there are few suppliers and many patients on the market, when the suppliers have developed a good professional reputation among their patients, or when the cost to switch from one supplier to another is high. As the medical personnel is insufficient, the bargaining power of suppliers is relatively high, and the former have the possibility to influence the profitability of the businesses operating in the sector of specialized medical services. Another type of suppliers can be those providing the medical businesses with technical assistance for diagnosis and medical treatment. As the competition on the medical equipment market is dynamic, the bargaining power of suppliers is low.

4. The threat of substitute products/services

The substitute products/services chosen by some of the patients as a replacement for the specialized medical services are represented by natural supplements and alternative medical treatments (i.e. homeopathic medicine, acupuncture, bio-energy treatments).

These substitute products or services are intensely promoted among the population, by mass-media and street advertisements. In order to be able to assess the threat represented by substitute products/services, we will have to consider the economic factors associated with this phenomenon, especially those factors related to the selling price of such products/services on the market, by comparing the performance/price ratio with a certain product/service. The migration costs play an important part in the product/service switches. The lower the costs related to the switching from traditional to substitute services, the more relevant such type of products/services become for consumers, as an alternative to the traditional products/services.

5. The threat of new entrants

Barriers to entry mainly offer protection in the sector.

In the sector of specialized medical services, the main barriers to entry are represented by the following factors:

- Legal provisions: In order to enter this business area, the new competitor must comply with the strict legal conditions regarding market access, as well as with the provisions regarding service quality and initial education and continuous professional development of their personnel. Moreover, in order to provide specialized medical services, certain permits and authorizations need to be obtained (health and safety license, environmental permit, urban planning approval, etc.).

- The amount of capital needed to enter the market: Specialized medical services entail activities where the amount of the initial investment is really high, thus becoming a real hindrance to the market entry of a new competitor. For instance, in order to be able to provide X-ray imaging services, a new entrant needs to also cover for expenses related to the purchase of extremely expensive modern medical equipment, in addition to the expenses related to medical working space and personnel.
- The characteristics of the market the new competitor aims to enter into: the social and economic conditions, the number of actual or potential patients on the market, the intensity of competitive rivalry on the market. Thus, the higher the competitiveness, the lower the profit potential.
- High switching costs.
- The need to make initial marketing and R&D investments;
- The policies regarding healthcare, promoted at national/local level, which can stimulate or inhibit the entry of new competitors on the market.
- Professional reputation. The medical procedures imply an inherent relationship of trust between the patient and the physician. Nevertheless, the process of gaining professional reputation represents an important barrier to entry on the market of specialized medical services.

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