

# **Unlocking Growth in China – Challenges and Opportunities**

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# China: A Country of Great Change



Nanjing Road 1980



Nanjing Road 2004

# China: A Country of Great Change



1980



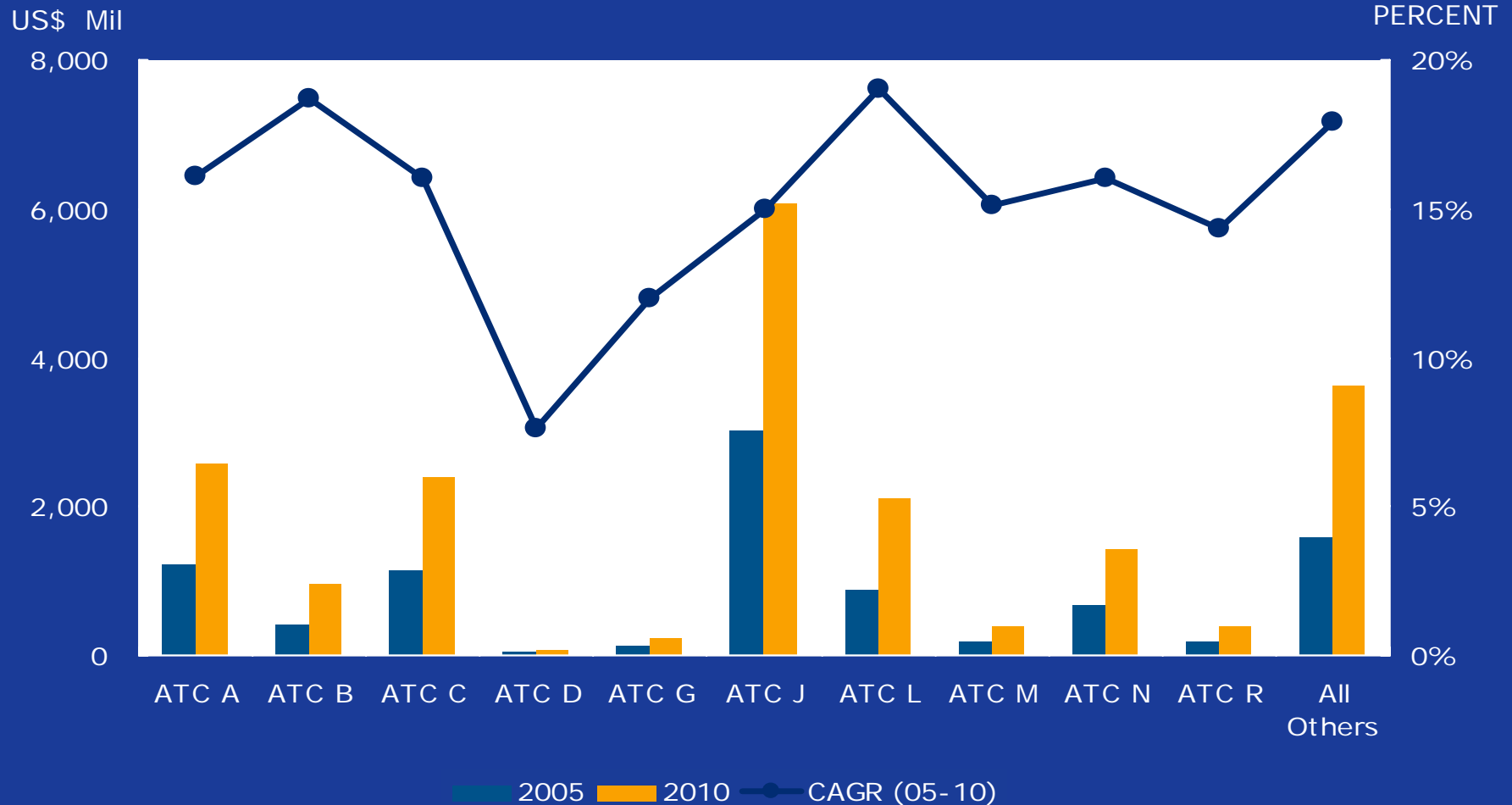
2004

# China is projected to be the 7th largest pharmaceutical market in the world by 2010

Estimated Market Size for Ethical and OTC Drug at ex-factory level excluding TCM (US\$ Billions)

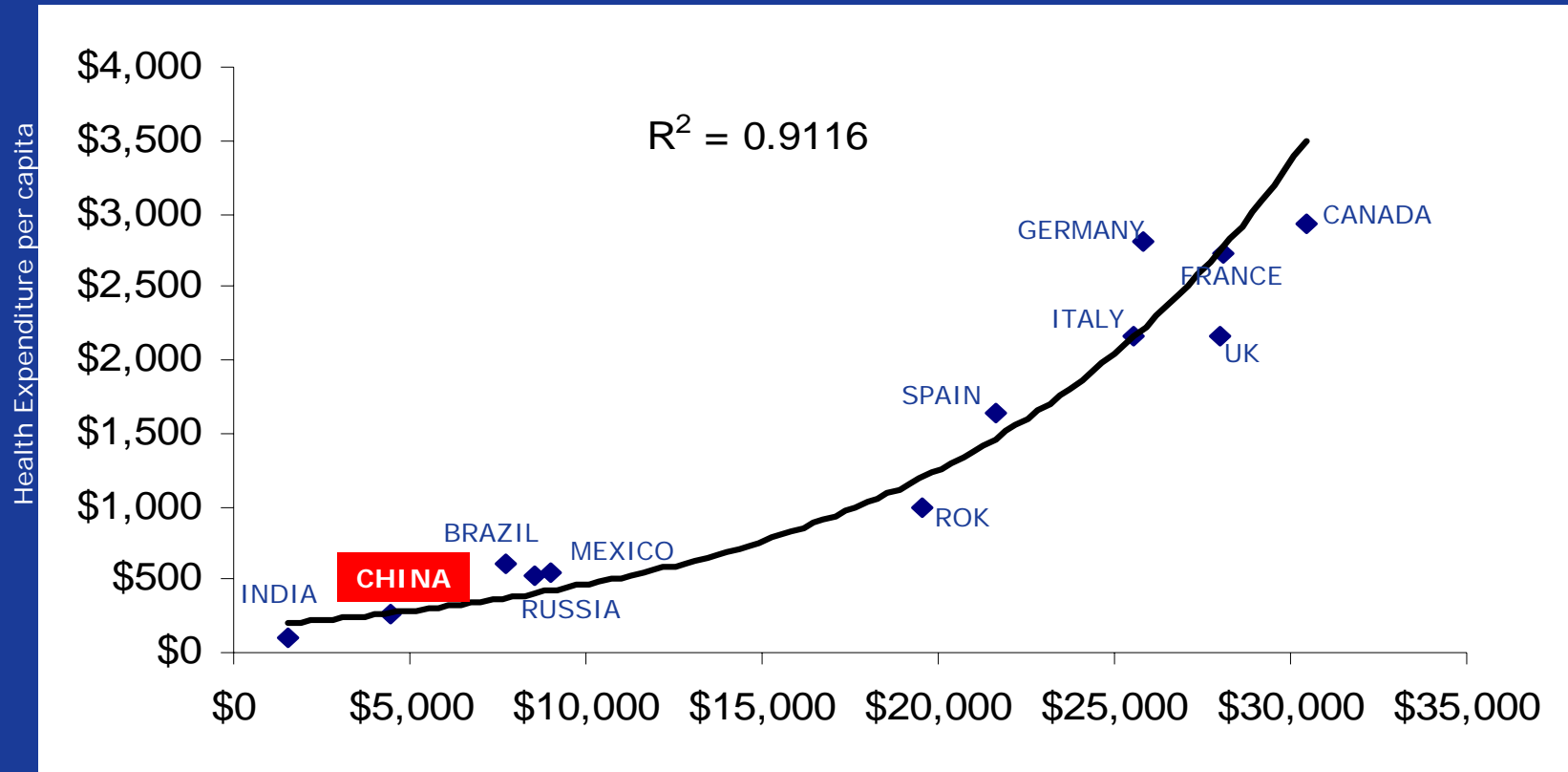
1997 Top 12		2000 Top 11		2005 Top 9		2010 Top 7	
1. USA	103	1. USA	151	1. USA	256	1. USA	381
2. Japan	47	2. Japan	58	2. Japan	68	2. Japan	81
3. Germany	18	3. Germany	17	3. Germany	34	3. Germany	45
4. France	17	4. France	17	4. France	31	4. France	35
5. Italy	10	5. UK	11	5. UK	22	5. UK	29
6. UK	9.4	6. Italy	11	6. Italy	20	6. Italy	29
7. Brazil	8.9	7. Spain	7.0	7. Spain	15	7. China	28
8. Spain	5.7	8. Brazil	6.7	8. Canada	14	8. Spain	21
9. Canada	4.8	9. Canada	6.3	9. China	13	9. Canada	18
10. Korea	4.0	10. Mexico	5.8	10. Mexico	8.3	10. Mexico	12
11. Argentina	4.0	11. China	5.0	11. Turkey	7.2	11. Korea	11
12. China	3.7	12. Argentina	4.0	12. Brazil	7.0	12. Turkey	11

# J class will still be the largest category followed by A, C and L classes in 2010, with L class the fastest growing ...



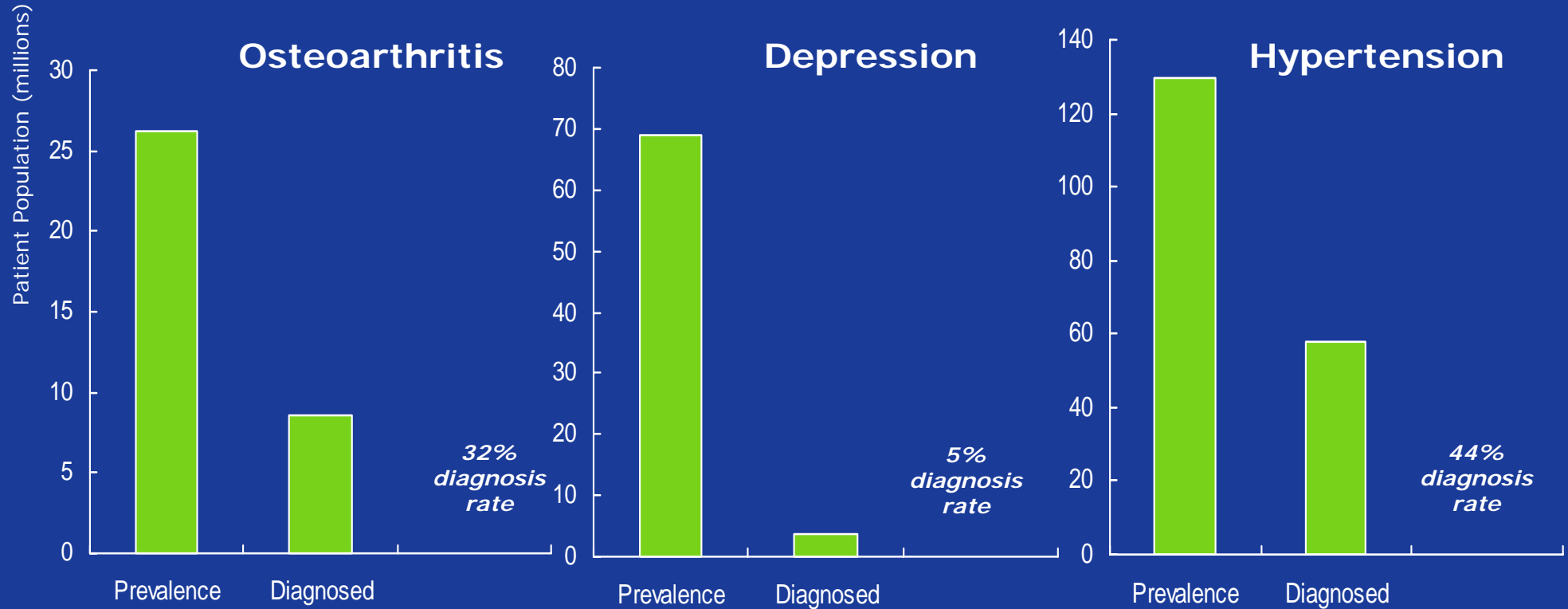
# GDP growth is a good predictor of healthcare spending

GDP per capita vs. Healthcare Expenditure per capita (PPP)



Source: WHO

# Diagnosis, treatment and compliance gaps are significant implying both opportunities and challenges

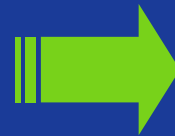
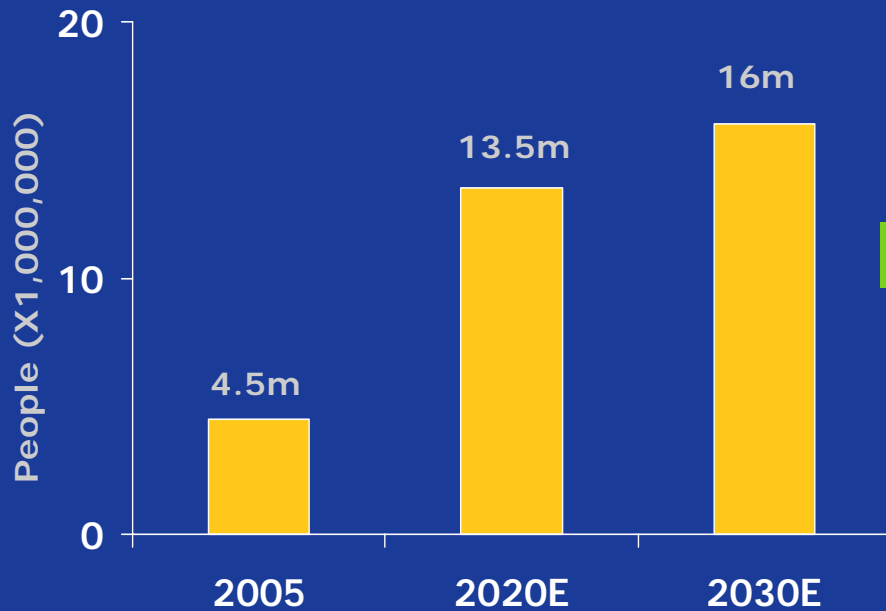


Approximate Prevalence and Diagnosis Rates for OA, Depression and Hypertension in China

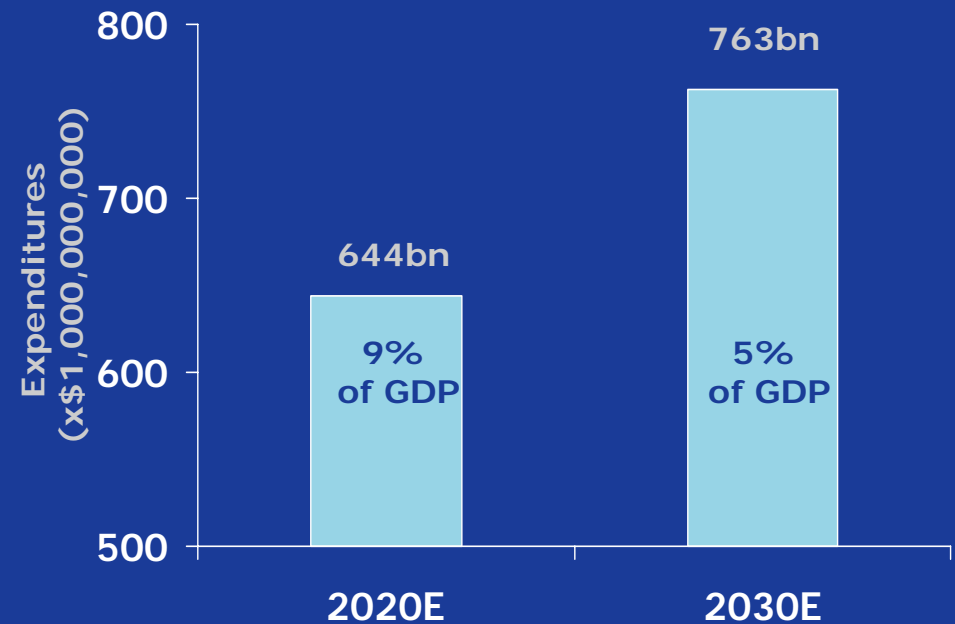
# Another case in point: cancer

Theoretical Impact

### China Cancer Prevalence Rates



### China Cancer Expenditures

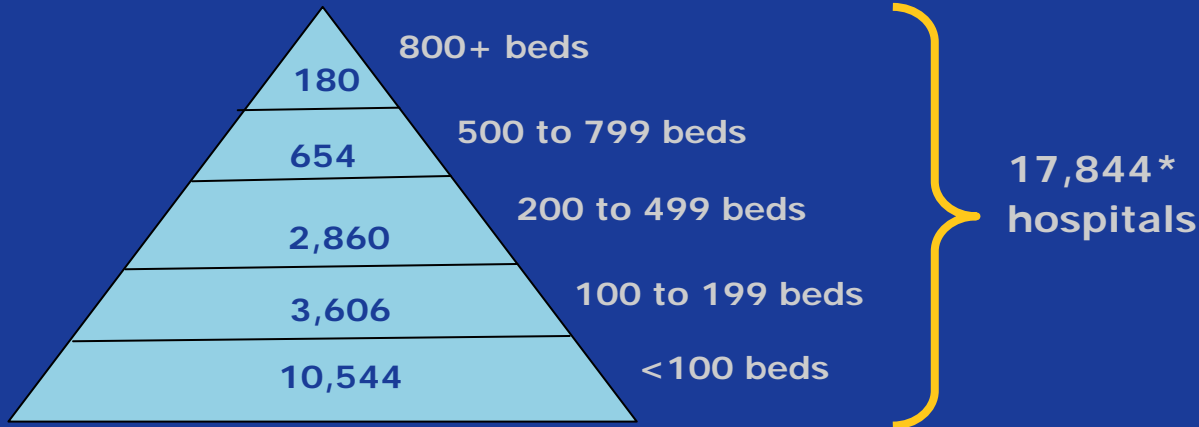


# Healthcare in China is Complex and Challenging

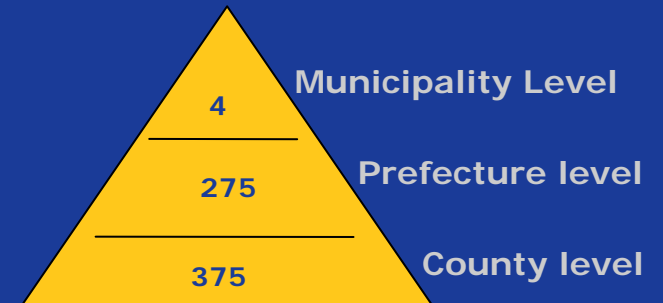
- Funding
  - Insufficient and inequitable
- Healthcare Delivery
  - Inefficient and inequitable
  - Poor quality
  - Misaligned with the needs of the majority of the population
  - No separation of prescribing and dispensing
  - Hospital market dominates with 80% share
- Pricing and Reimbursement
  - Process complicated and non-transparent
  - Unilateral cost containment measures focused on price control
- Regulatory
  - Enforcement not effective
  - Too many organizations with multiple inter-dependencies

# The market is fragmented; there are more than 17,000 hospitals in 650+ cities

## Hospitals Classified by Bed Size

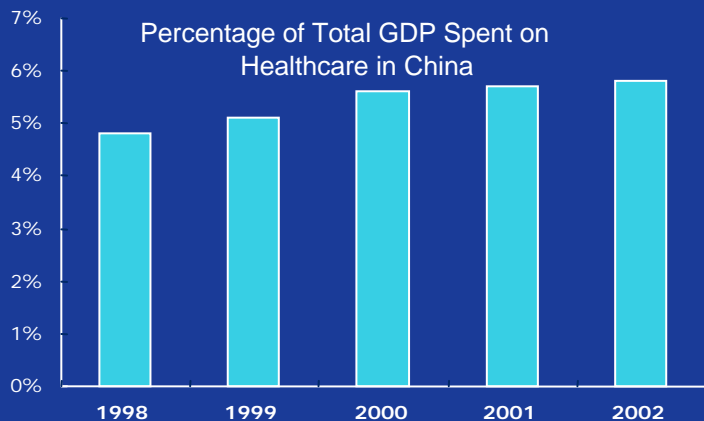


## City Classified by Administration Level

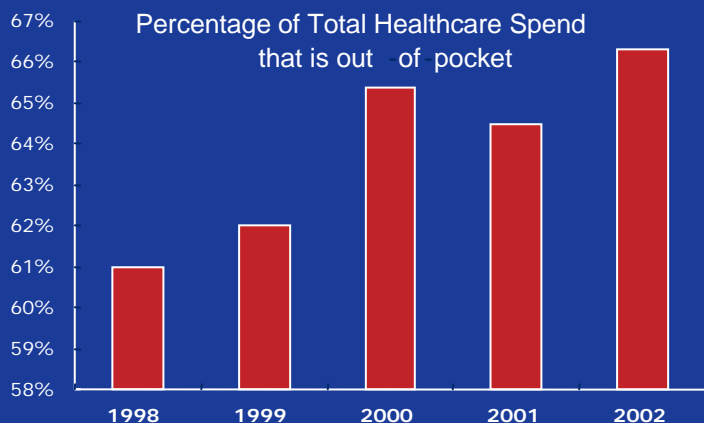
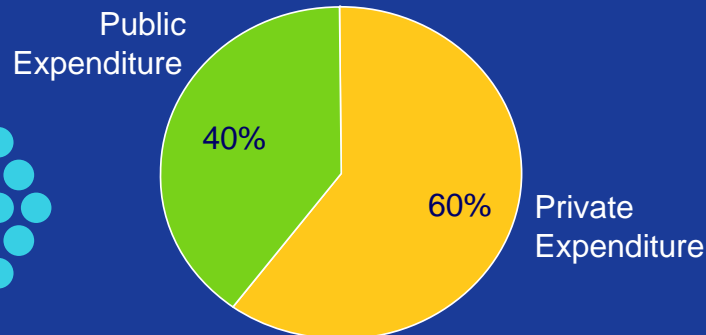


\* Ministry of Health 2002 statistics

# As with other earlier stage economies, consumers are paying the bulk of the bill for healthcare ...

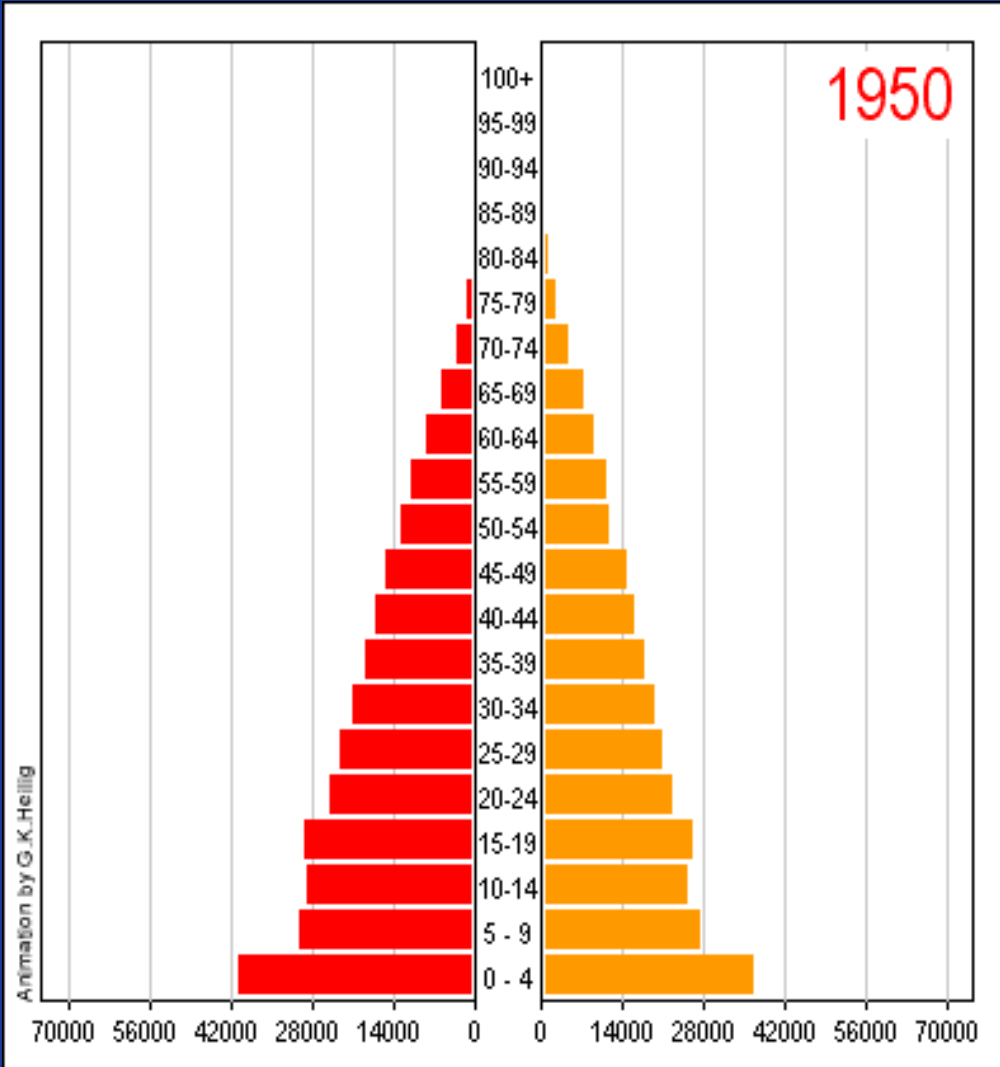


Total Health Expenditures 2002: \$60 Billion

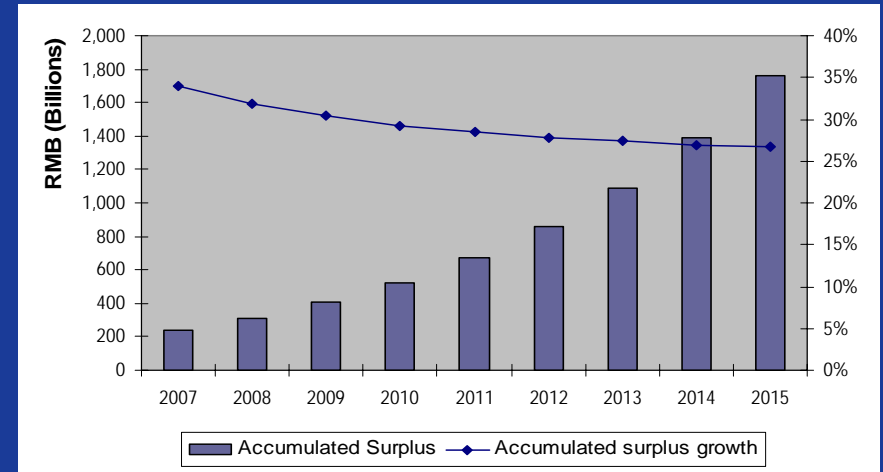


Healthcare is becoming a more important issue for China, and out-of-pocket expenditure is growing with it

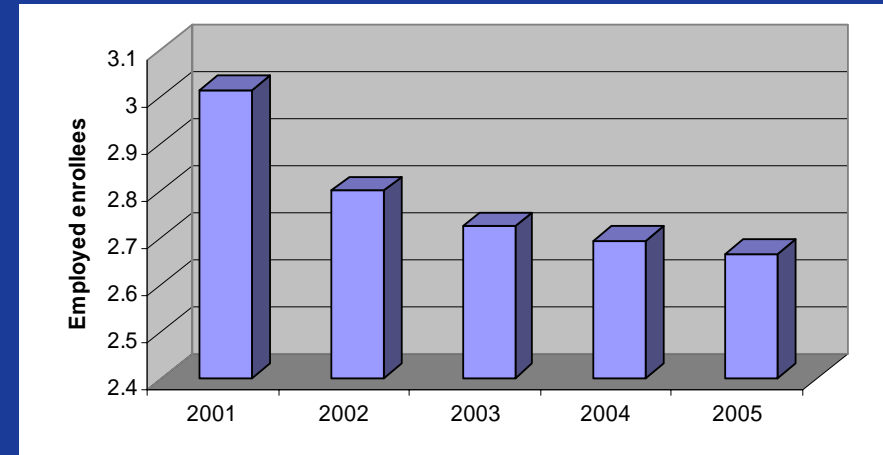
# The aging population presents many challenges ...



Demographic trend projection



BMI Fund Surplus  
(based on income growth rate)



Number of employed enrollees per retiree enrolled in the BMI

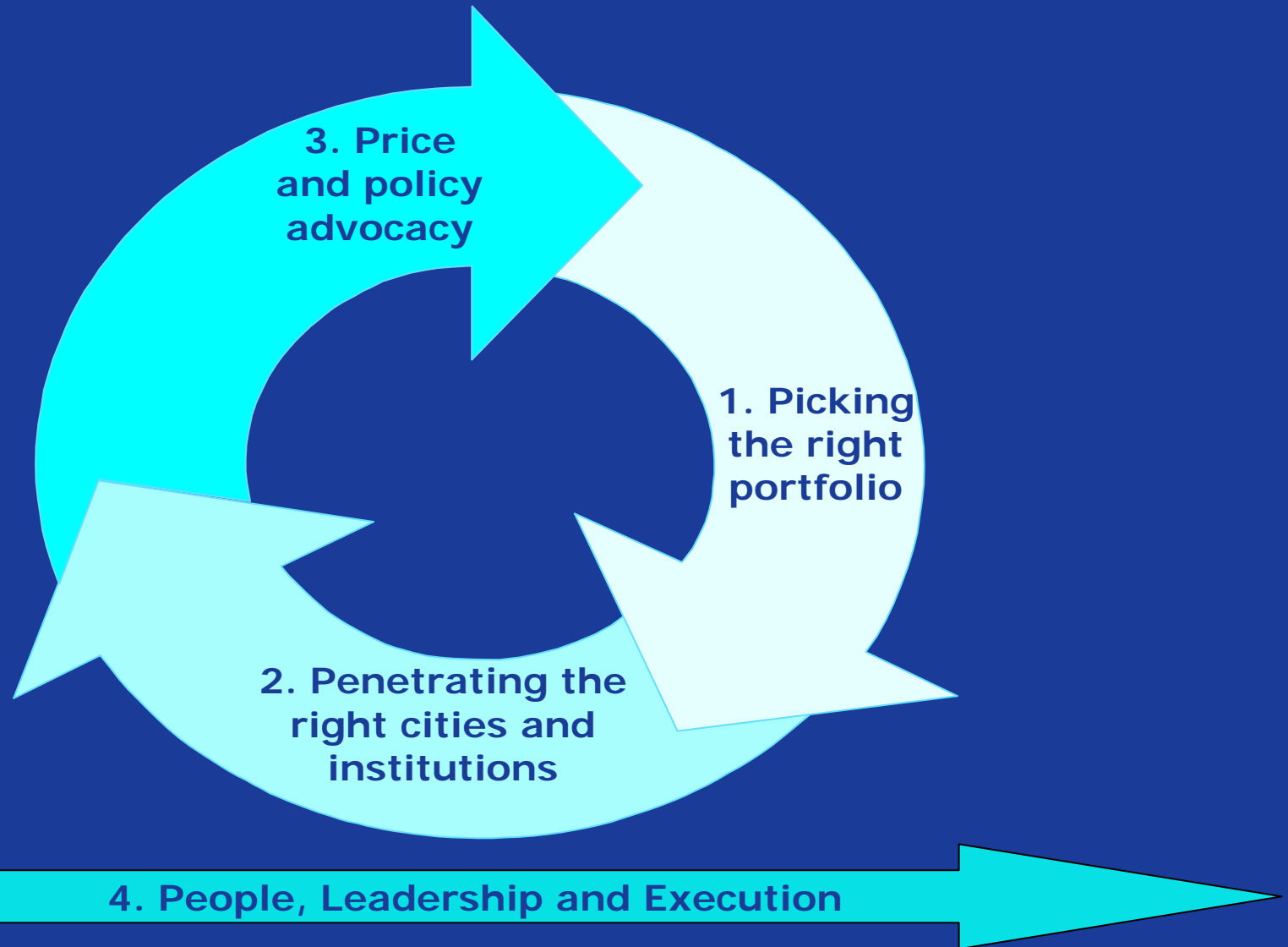
# The Chinese Healthcare Reform Agenda

1. **Admitting failure, central leadership identified it as a pillar in building a harmonious society.**
2. **Continuing effort to institutionalize the anti commercial bribery initiatives**
3. **Affirm the public-goods nature of healthcare and the government's financial and moral obligation to promote a just and equitable healthcare system.**
4. **Likely focus on the following areas:**
  - **Continuing investment in building the infrastructure to bridge the urban-rural divide**
  - **Better enforced and more transparent regulations (GMP, Registration, GSP etc..)**
  - **Multi-tiered funding mechanism combining tax-based government fund, social insurance and private insurance**
  - **Universal access to basic healthcare services and essential drugs and services development**
  - **Healthcare delivery system reform to address efficiency and priority**
  - **'Value for money' and cost containment**

# Implication to the industry

1. Increasing government funding beneficial to long term development of the market.
2. Pharmaceutical market growth at more sustainable level
3. Multinationals will pick up additional market share in the short term as local competitors adjust
4. Community and primary care focus could free up fiscal space at the special and general hospital level
5. Need to structure portfolio according to the emerging payer structure.
6. In Sales and Marketing, new interaction models are emerging that optimize ROI.
7. In Pricing and Reimbursement, value-based proposition should be prepared as the government begins to focus on 'value for money'.

# Four "Ps" drive success in China



# Market research is mission critical ..

- It must bridge the gap from simple research to true insight-based strategic recommendation.
- The methodologies must be adapted for segmentation, particularly along the following dimensions:
  - Geographical (3 Tier 1 cities vs the rest)
  - Economic strata (Urban vs the bottom of the pyramid)
  - Portfolio (Rx vs OTC as an example)
- It must work with the government and other stakeholders to create a sustainable environment by addressing issues such as privacy, legal status and transparency.
- Promote the development of a class of market research professionals with high levels of standards and dedication.
- Use technology to leapfrog existing conventional models.



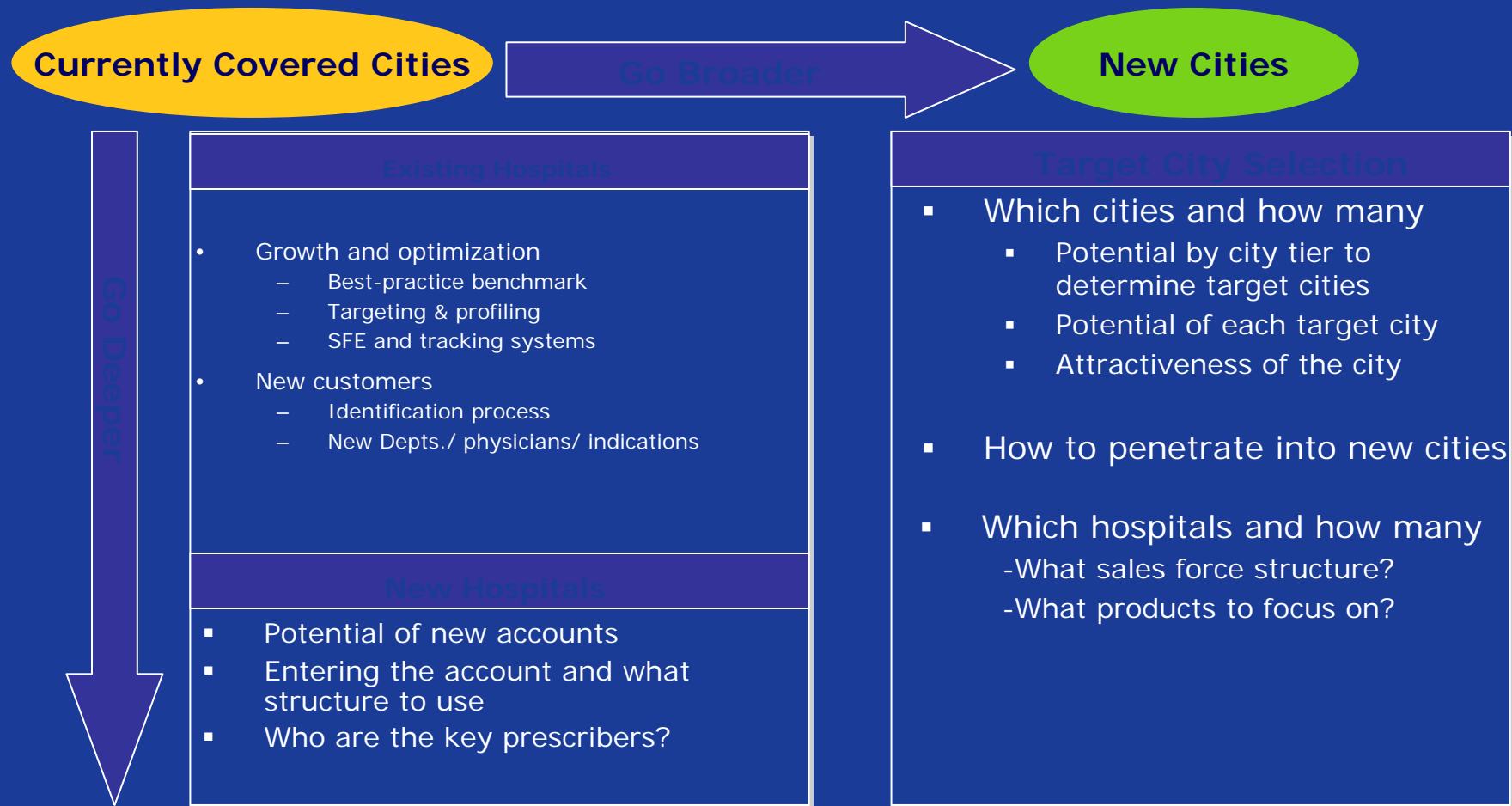
# Picking the right portfolio

- Determine the strategic objective in quantifiable terms
- Projecting the likely future direction of therapy areas in China.
- Design a *Profitable* long-term “China Portfolio?”
- Balance in-licensing and ‘tail management’
- Know and model what is the investment required in building a successful brand in China – Brand ROI ?
- Benchmark and model portfolio performance throughout the life-cycle.
- \* Quality market research is critical to determining the composition of the ‘China’ portfolio. It is also a necessary condition for the optimal life-cycle management of the products’ contribution.

# Penetrating the right cities and institutions

- Analytically determining the optimal cities for your brands (top 100 cities)
- Define the realistic investment plans required to build top brands (top 100 cities). What does it take to build a mega-brand and what is the return (sales, SOV etc) on brand investment activities.
- Developing a robust plan to tactically drive city expansion and institutional targeting based on therapeutic potential throughout the vast geography.
- For specialty products, are you targeting physicians who are high prescribers ?
- Use distribution and partnership to your advantage.
- Use the interplay between retail and hospital channels to your advantage.
- \* Market research is again mission critical in driving penetration and segmentation – especially in a country where good quality data is in short supply both in depth and scope.

# The key issue in China remains balancing resource investment against profitability



# Pricing and Policy

- Industry's *raison d'être*? - A healthy and innovation-driven pharmaceutical industry is important to China and her citizens. But that promise can only be fulfilled in partnership with policy makers.
  - Focus on healthcare and not price – evidence and valued based pricing.
  - Proactively build the infrastructure (in data and methodology) in HEOR.
  - Help the government address major systemic issues such as:
    - Private payer structure
    - Separation of prescribing and dispensing
    - Improving regulatory efficiency and transparency
    - Public health threats
    - Access to healthcare at the Bottom of the Pyramid
- \* The need for market research in this aspect is profound as it directly influences the government decision makers in setting policies which will ultimately impact the sustainability of the healthcare environment in China.

# In summary, China is a market of great opportunity but also major challenges.

- Given the past performance and the future forecast of 15-18%, China is a key future market
- Leaders are investing significantly in this area, now is the time to move to build a competitive advantage
- For market research, this presents tremendous challenges and the associated opportunities. In a data-poor country such as China, market research, if done well, provides the strategic insight that ensures the success of execution.
- For market research community, there is also an exciting opportunity to adapt existing models to the complexities of China and in the process help shape and perfect the market research environment.

Thank You