A Strategy for Growth

Medtech executives must have a firm understanding of these four concepts in order to achieve sustainable success in one of the world's fastest-growing medical device markets

China is synonymous with growth, setting a benchmark that's increasingly difficult to achieve in more mature markets like those in the U.S. and Europe. At the same time, China's market is fraught with challenges ranging from anti-monopoly probes of automobile and technology companies to anti-bribery investigations of pharmaceutical companies. It thus becomes crucial for executives at multinationals to understand how to achieve sustainable growth while navigating and mitigating potentially high-impact business risks, which are universal for companies operating in China regardless of their activities.

Similar to other industry spaces in China, the medical technology (medtech) market offers incredible opportunity. Combining data from third parties and our research, PwC (PricewaterhouseCoopers) estimates that the China medical device market will reach approximately US$50 billion by 2017 – reflecting a roughly 20 percent compound annual growth rate (CAGR) from 2013.

The underlying growth drivers include the aging population, greater affordability for care, changing lifestyles and expanding healthcare coverage. In light of these numbers, it is folly for executives at medtech companies not to expand on their China strategy. Key sub-segments of China's current medtech market include diagnostic imaging (38 percent), consumables (16 percent) and patient aids (15 percent).

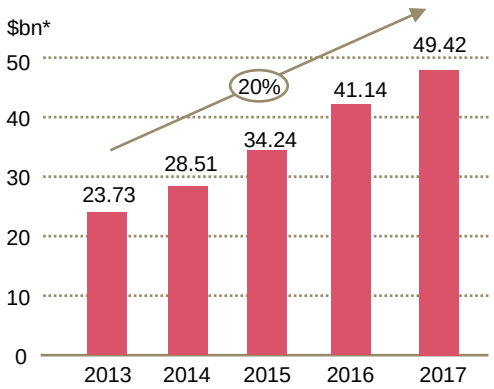

Figure 1: China medtech market.
The China medtech market is expected to grow from~$24billion in 2013 to~$50billion in 2017, with the projected growth rate of~20% per annum. The key underlying growth drivers are aging population, greater patient affordability, changing life styles and healthcare reform to raise healthcare coverage. Currently, diagnostics imaging, consumables, and patient aids account for top three market sub-segments

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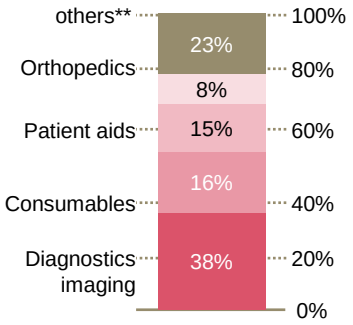


Note: *Constant Forex USD1=RMB6.3, **For example: dental, endoscopy, wheel chairs, dialysis, and furniture
Source: Frost & Sullivan, CAMDI, MENET, PwC interviews and analysis

Dissecting growth

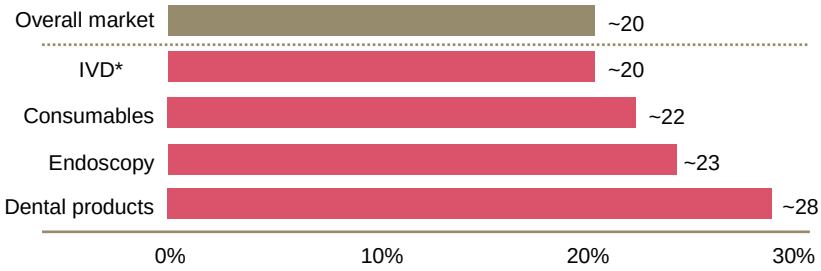
The Chinese medtech market experienced explosive growth over the past five years. With the fortification of demographic shifts, increased healthcare access, low overall healthcare market penetration, fragmented markets with undefined leaders and the rise of local players, insiders expect the market to continue its ascent in the near future. But what sectors are driving this growth?

Medical equipment, such as X-rays, ultrasound, and other imaging equipment, will likely continue dominating the market share, accounting for at least one-third of the value of China's medtech market. However, other product sectors are growing at an even more rapid rate. Although each accounting for no more than one-fifth of the market's current value, consumables, implantable/ dental products, endoscopy, and in vitro diagnostics (IVD) are projected to grow at least 20 percent per annum over the next three years.

These higher growth segments illustrate a maturing Chinese healthcare market and should encourage manufacturers to shift their product portfolios to serve the future China medtech ecosystem.

A growing number of non-traditional players are also expressing strong interest in the health industry. Alibaba, for example, is looking into establishing an e-pharmacy platform. Such investment in conjunction with other key market growth factors will make it easier to find and use health products, including drugs and medical technology products.

Regardless of their experience in China's medtech market, companies who want to achieve sustainable growth should share four common priorities. They need to seize the country's market opportunities, understand the government's role in the industry, take advantage of evolving healthcare reform efforts and watch out for local competition.



Note: *In-vitro Diagnostics (IVD)
Source: Frost & Sullivan, Espicom Business Intelligence, CAMDI, MENET, PwC interviews and analysis

Figure 2: China medtech market growth potentials by select subsegments. The overall medtech market in China is projected to grow at ~20% CAGR over the coming years. The growth is expected to be led by sub-segments such as dental products, endoscopy, consumables, and IVD which have higher growth rates than the overall market

Government's role

While medtech regulations are relatively new in China in comparison to those for pharmaceuticals, they are quickly evolving. In early 2014 the State Council delegated the routine product management of Class I medtech products to local CFDAs as part of its medtech product registration regulations. The government plays an increasingly important role in the tendering process for the procurement of medtech products, especially capital-intensive medical equipment. As a result, pricing no longer serves as the first consideration for medtech product purchasers.

Understanding the nuances of the tendering system, the key criteria for purchasing decisions and the data that drives these decisions is becoming increasingly important. Unfortunately, a national standard for the tendering system does not exist. Tendering guidelines and mandates have been delegated to the province/ municipality level, which may lead to significant policy differences among the provinces.

Meanwhile, the Chinese healthcare market is also undergoing a series of transformations. The medtech industry will follow in the footsteps of the pharmaceutical industry, which saw the raising of the bar for regulations, pricing, market access and product requirements. Medtech companies must anticipate these changes rather than try to react to them after the fact. In addition, understanding the complex and multifaceted role the Chinese government plays in the medtech industry will help companies navigate the evolving landscape.

The market approval process in China is also difficult to navigate. As aforementioned, the CFDA released a new regulation pertaining to medtech product registration in March 2014, which took effect in June 2014. This new regulation stipulates that medtech products are categorized into three classes according to their "risk level," with product features and claimed clinical outcome among the delineating factors.

Clinical trials may be required for medtech products in Classes II and III.

Class II products refer to those that require additional management on product safety and efficacy – ultrasound equipment, for instance. Class III designate those products that are implantable or lifesupporting or to products that require strict monitoring of product safety and efficacy – a p acemaker for example.

The key objective of this regulation is to ensure the safety and effectiveness of medtech products. A greater level of scrutiny will unfold as well. Once CFDAs approves a product, the product must be re-registered in five years. This system may be inefficient and costly, but that's the current reality.

At the very least, medtech companies should have intimate knowledge of the intricate regulatory pathways, but sustained success on the regulatory front requires firms to be proactive in implementing robust process review in concert with the ever-changing regulations.

Healthcare reform

By expanding basic medical insurance coverage and expenditure on healthcare, the Chinese government improved the country's overall access to healthcare. More than 95 percent of Chinese citizens enjoy basic medical insurance, and China's estimated healthcare expenditure accounted for about 6 percent of the country's GDP in 2013, representing a t rend towards increased spending that will likely continue.

It is unclear, however, whether these initiatives will drive efficiencies or erect additional hurdles for medtech companies. As such, it is increasingly crucial for medtech executives to keep a c lose eye on "hot-button" reform topics, such as the upgrading of hospital infrastructure, equipment and facilities.

Furthermore, with more hospitals undergoing reform, hospital management tends to focus on service charges rather than consumables in the interest of profit. In response, hospitals expect medtech companies to provide solutions that can improve hospital performance, especially as it relates to costs and business operations. This shift from point-of-care to disease continuum management is similar to the changes observable in mature markets like those in the U.S.

Staying competitive

There are many unique sub-markets in the Chinese medtech market, making it difficult to pin down growth opportunities. Penetrating the market segments requires patience and commitment, and it's important to establish proper control measures to balance risks and rewards.

The "first mover" or "early bird" advantage in China still exists but the emergence of strong domestic players makes the success of foreign players increasingly difficult. Domestic and multinational companies (MNCs) alike need to focus on how to be global-local, or "glocal," to ensure their operations are nimble and effective through a balance of macro-global strategies and locally tailored market needs.

Recent acquisitions and investments made by MNC medtech companies in China have helped to re-shape the competitive landscape, and those MNCs still have another few years to defend their competitive advantages while figuring out their China 2.0 Strategy.

More broadly, medtech companies looking to navigate today's Chinese medtech ecosystem know they need to actively study the points discussed: the country's market opportunities, the government's role in the industry, the evolving healthcare reform efforts and the role of local competition. The companies that make the commitment to understand the key market characteristics and cultural nuances will be best positioned to achieve market acceptance and ultimately, sustainable success.

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