The pharmaceutical industry is counting on emerging markets for its growth. As organizations invest more in the developing countries of Asia Pacific, the competition is getting tougher. Only those companies that truly understand the needs of their customers and deliver innovative solutions to meet those needs will be successful.

Kantar Health’s legacy companies have operated in these markets since 1964. Formerly TNS Healthcare in the emerging markets, we joined forces with Consumer Health Sciences, MattsonJack and Ziment to form Kantar Health, the leading next-generation decision support partner in Asia. We deliver insight and advice by combining our local knowledge and global expertise to help you make the right decision at the right time.

Visit us at kantarhealth.com to find out more.

E info.APregion@kantarhealth.com | www.kantarhealth.com
COUNTRY REPORT

CHINA

OVERVIEW

Pharmaceutical market value:
$36.6bn (2008)
Close to $42bn (2009)
Projected: $46bn (2010)

OTC: close to 30 per cent of overall sales

Projected growth rate: around 10-15 per cent (reliable estimate)
(Source: Ipsos Health. Note: these figures are best estimates as there are no validated, official figures available)

(Figures include raw materials. Source: China Customs)

Health expenditure (% of GDP): 4.6 (2006)
(Source: World Bank database)

Healthcare reform

Despite the significant momentum behind the reform plans, uncertainties remain, particularly regarding further implementation and how it varies by geography. Patients in the largest cities often suffer from chronic cardiovascular diseases and diabetes caused by an ageing society and changing lifestyles, but they can benefit from a well-established local primary and secondary healthcare system and better medical insurance schemes. However, the disease epidemiology in China’s rural areas seems more complicated, with healthcare services still under development and 54 per cent of the rural population accounting for only 22.5 per cent healthcare expenditure, according to a Ministry of Health report.

With many considerable variations in demographics, epidemiology and medical tradition, it is best to think of China as comprising several countries.

Undoubtedly, local healthcare reform implementation will further exaggerate local differences and create an environment of ‘micro healthcare reform’ in the long term. Many pharmaceutical companies have already recognised this trend and implemented some form of regional model, often assigning a series of key regions and placing critical capabilities in regional offices, such as local marketing and governmental affairs, allowing them to customise their activities based on local market needs. For example, six months after Dr Emmanuel Puginier took the helm of Novartis’ pharmaceutical business in China, it decentralised its business and...
formed four powerful and independent subsidiaries in Shanghai, Beijing, Guangzhou and Chengdu, to achieve better understanding and implementation for local markets. Such a change is expected to solve not only issues surrounding province-level differences, but also significant differences between cities in one province.

Another important option for multinational corporations to expand business in the current environment is to rethink M&A strategy. In October 2010, sanofi-aventis announced it would buy BMP Sunstone, the maker of a famous brand of children’s cough and cold treatments, for $520.6m, allowing it not only to expand in Chinese consumer healthcare products but also control more business channels in the primary healthcare market, a key focus in Chinese healthcare reform. One month later, GlaxoSmithKline announced its $70m purchase of Nanjing MeiRui Pharmaceuticals to reinforce its urology portfolio in the country, while also inheriting MeiRui’s brands and sales force to penetrate new market territory.

**The Author**

Adele Lee is head of marketing insights, Kantar Health China.

**HEALTH ECONOMICS**

The aggressive ambitions of the Chinese government to provide universal healthcare will create opportunities for companies that can align with the government’s expansion priorities. In addition to providing universal coverage, the government has stated that its goal is to have ‘people’s medical expenses visibly reduced’, significantly impacting product pricing. To gain access to this emerging market opportunity, pharmaceutical companies must redefine the value of treatment beyond just the price of the product.

Multiple hurdles exist and threaten to obstruct entry to the Chinese healthcare market. Each of the three major stakeholders in this healthcare market, namely payers (the government), providers and patients, offers its own challenges (see figure on p63).

The pricing hurdle is high for healthcare companies. The government’s decree to reduce prices is reflected in the attitudes of its people. Nearly 80 per cent of Chinese citizens interviewed by Kantar Health between May and September 2009 in its National Health and Wellness Survey, agreed that ‘the healthcare industry’s profits are high, yet they keep on raising their prices’. Additionally, two-thirds of those surveyed believed that all prescription medications had side effects and expressed an unwillingness to tolerate such side effects. A public relations effort is needed in China to help offset these beliefs about prices and side effects and inform the population of the value that pharmaceutical products can bring by improving and extending lives.

However, a PR plan is only the beginning. The price associated with instituting universal healthcare in China is estimated at RMB850bn ($127.67bn). Pharmaceutical companies will encounter leverage from the keeper of this budget unlike anything they have ever experienced before, from either private or public payers. The biggest driver of market penetration is expected to be price. Improving patient-reported outcomes, such as quality of life and work productivity, will be essential to help justify reimbursing a pharmaceutical product. Ultimately, pharmaceutical companies will need to broaden the argument to look at total healthcare utilisation beyond the product itself and make an overall cost argument to justify the brand price.

The introduction of universal healthcare means China will have to make massive investment in infrastructure to extend services into difficult-to-reach rural areas. With half of the urban population visiting a healthcare provider at least twice in a six-month period and one in five visiting an emergency room, costs of treating patients will be extreme when coverage expands further. Delivering scientific evidence that prescription products can reduce this use is essential to the argument that pharmaceutical intervention is the most cost-effective healthcare option.

While the Chinese market is an exciting prospect for pharmaceutical companies, redefining the treatment value will be the key to achieving market access through driving reimbursement and attracting patients. The complexities of the culture combined with the dynamics of universal healthcare will create barriers, but brands that can overcome them by making a compelling cost-effectiveness argument are likely to gain deep penetration into this emerging market.

**The Author**

Andy Stankus is vice president of business development, Asia-Pacific, health sciences practice, Kantar Health.
Pricing & Reimbursement

Basic public medical insurance dominates the medical insurance market, while private insurance covers a relatively small proportion of the population (currently estimated at less than 10 per cent of the urban population). Public health insurance provides healthcare to beneficiaries through three separate health insurance schemes: Basic Medical Scheme (BMI) for Urban Employees, BMI for Urban Residents and New Rural Cooperative Medical Insurance (NRCMI). According to the Ministry of Human Resources and Social Security (MoHRSS), which is in charge of health insurance, at the end of 2009, 220 million people were covered by BMI for Urban Employees, 181 million were covered by BMI for Urban Residents and 94 per cent of rural households participated in NRCMI.

The MoHRSS sets the basic insurance policies, while the provinces and pooling-fund regions adjust the insurance policies for their jurisdictions, based mainly on their economic development status. As a result, each province has its own reimbursed drug lists (RDL), which can be up to 15 per cent different from the national RDL, each pooling-fund region has its own deductibles, co-payment and upper limit (the upper limit payment is set by the MoHRSS as at least six times the average annual salary, disposable income, or income for urban employee BMI, urban resident BMI and NRCMI, respectively).

Public health insurance provides several levels of coverage for patients based on severity and expected cost burden. These levels usually include the following (in order of highest to lowest amount of reimbursement):

- Inpatient treatment
- Outpatient severe disease treatment
- Outpatient chronic disease treatment
- Outpatient common disease treatment.

Since the first purpose of medical insurance is to protect patients from financial ruin caused by diseases, inpatient treatments have the best coverage in every medical insurance scheme, followed by outpatient severe disease treatment and outpatient chronic disease treatment. Outpatient common disease treatments have very limited coverage in most regions.

The RDL lists the generic names of drugs, covering both generic and branded versions and offering the same reimbursement and co-payment levels for each. As a result, though the availability of generic drugs helps foreign companies gain access to the RDL, equal reimbursement status for both versions requires the patient to pay a significantly higher out-of-pocket expense for the more expensive branded drug.

In the 2009 revised national reimbursed drug list (NRDL), a negotiation mechanism was put forward for very expensive drugs, especially targeted therapies. The provinces are probably waiting to see how the negotiation mechanism will function in practice. The reimbursement negotiation is supposed to occur between the central government and the manufacturer, but the process is still ongoing and many uncertainties prevail.

The National Development and Reform Commission (NDRC) controls the prices of products in the NRDL and monopoly products.

- For NRDL products, patented products and administratively protected products (applying to some products patented abroad between 1986 and 1992 and not patented or marketed in China before 1993), class I and class II new drugs, maximum retail price is set
- For contraceptive drugs/devices and vaccines under planned production and government procurement, the ex-factory price is set
- For government-controlled narcotics and class I psychotics, the ex-factory price is set by NDRC and the wholesale and retail markup is set by the provincial health authorities.

The pricing authority in each province is responsible for setting the prices of drugs added to the list at that level, as well as for Traditional Chinese Medicine (TCM) and OTC drugs.

Tender purchasing is the main source of drugs purchased by hospitals. Depending on local practice, annual tenders are issued for a province, a city, or a cluster of hospitals within a province to secure lower prices. The retail price for hospital drugs is set at the winning bid price, plus a hospital distribution margin (15 per cent mark-up for a product with a price under RMB500 and RMB75 for a product priced above RMB500). For drugs listed on the reimbursement lists, the retail price must be no higher than the maximum retail price set by the NDRC or provincial pricing bureau.

The Author

Lucy Liu is associate director - market access, Kantar Health China.
DISEASE BURDEN

The burden of chronic diseases in China is rapidly changing, fuelled by an increasingly ageing population and the influence of lifestyle on disease.

In 2000, there were approximately 87 million people over the age of 65, or about 7 per cent of the total Chinese population. By 2030, there will be over 239 million in this age group, accounting for 16 per cent of the population, according to the US Census Bureau.

This demographic shift will have a huge impact on chronic disease. Alzheimer’s disease, cardiovascular diseases and chronic obstructive pulmonary disease (COPD) are all expected to increase dramatically in the next 20 years. The prevalence of Alzheimer’s disease is expected to grow 150 per cent, from 3.8 million people in 2010 to 9.2 million in 2030, state figures from Kantar Health’s Epi database.

China has one of the highest rates of COPD anywhere in the world, and the World Health Organisation’s (WHO) Burden of Disease in China (2006) lists it as the second leading cause of death in China today. An estimated 41.2 million people in China had COPD in 2010, and that number is expected nearly to double to 72.5 million in 2030, according to Kantar Health’s Epi database. Likewise, it reveals that the number of newly diagnosed lung cancer patients in China is expected to double in the next 20 years, from an estimated 622,215 in 2010 to 1.2 million in 2030.

According to the Disease Control Priorities Project (WHO, 2006), chronic and age-related diseases account for over half of all deaths and a correspondingly large proportion of disease burden as measured by disability-adjusted life years (DALYs). Cardiovascular disease and cancers account for over 30 per cent of the country’s total disease burden.

In addition to the ageing population, the changing economic environment is causing rapid changes to lifestyle-related conditions. As more of the Chinese population moves from the lower socioeconomic classes into the middle classes, lifestyle diseases, such as obesity, are becoming more prevalent.

China was once considered to have one of the leanest populations in the world, but it is fast catching up with the West in terms of overweight and obese people. Explanations for this include changes to the traditional diet, reduced levels of physical activity and increasingly sedentary lifestyles. It also has its roots in Chinese social attitudes and culture, which promote the view that excess body fat represents health and prosperity. Between 1992 and 2002, the combined prevalence of the overweight and obese increased from 14.6 per cent to 21.8 per cent using the WHO body mass index (BMI) cut-off point of 25 for overweight and 30 for obese. However, the actual prevalence is higher because the Chinese have the lower cut-off values of 24, for overweight, and 28, for obese, for males and females of 18 years or older, as proposed by the Working Group on Obesity in China. An estimated 240 million Chinese people were considered overweight and another 41 million were considered obese in 2010; by 2030, these numbers are expected to rise to 274 million overweight and 47 million obese, predicts the Epi database from Kantar Health.

The Author

David Robinson is vice president, epidemiology services, Kantar Health.

ONCOLOGY

Oncology is a key contributor to the growth of China’s pharmaceutical market. Cancer is the second leading cause of death in China, as it is in the US, but the oncology market in China faces different challenges to major developed countries in areas such as stage of disease at diagnosis, influence of cost in the selection of treatment practices and the use of molecularly-targeted agents.

Chinese patients typically present in the later stages of cancer, at Stage III or IV. For some cancers, such as breast and prostate, that bias is attributable to the lack of comprehensive cancer screening in China that could detect cancer at an earlier stage. While Prostate-Specific Antigen (PSA) testing and routine prostate exams reveal tumours at an early stage in developed countries, a survey of physicians conducted by Kantar Health for CancerMPact’s ‘Treatment Architecture China’ report found that about 75 per cent of prostate cancer patients there had advanced disease. Without routine screening, prostate cancer detection in China relies on the symptoms and presence of palpable disease. Similarly, Kantar Health found there is no comprehensive early screening...
programme using mammograms in China, so nearly two-thirds of breast cancer patients are diagnosed with advanced disease. The later stage of diagnosis for patients with prostate and breast cancer means the adjuvant markets are immature relative to those in developed countries.

Another factor that affects the oncology market in China is access. With only a portion of the population fully insured, the proportion of out-of-pocket healthcare spending is about 50 per cent, compared with 10 per cent in many developed markets. Direct exposure to the cost of treatment means patients tend to choose the lowest-priced option, such as orchietomy (surgical castration) over hormone therapy in prostate cancer. It also places very expensive drug therapies out of reach for many people, even when the drugs are highly effective. In the US, clinical benefit often drives utilisation. For example, Herceptin (trastuzumab, Genentech/Roche), a monoclonal antibody for breast cancer patients with over-expression of the HER2 biomarker, and Rituxan (rituximab, Genentech/Roche), a monoclonal antibody for non-Hodgkin’s lymphoma, are used in over 80 per cent of their target populations in the US; they are the standard of care, so payers reimburse them. In China, however, neither drug is reimbursed at a national level, leading to use at less than half of that in developed countries, according to Kantar Health’s research. This is a concrete and cautionary example of how market access looms over treatment practice. Companies should temper expectations for the Chinese market and closely monitor coverage expansion and changes in formulary coverage of expensive targeted agents, which will enable further growth.

China also lags behind in biomarker testing. For example, in the US over 90 per cent of physicians report testing for KRAS status to determine a patient’s eligibility to receive Erbitux (cetuximab, Lilly/Bristol-Myers Squibb/Merck Serono) for colorectal cancer. Far fewer Chinese physicians test for KRAS; in the 2009 survey of physicians for the ‘Treatment Architecture China’ report, only 18 per cent of physicians reported testing for KRAS. However, in the 2010 survey almost two-thirds of physicians reported testing, bringing China in line with Japan for testing frequency. The biggest obstacle to biomarker testing in China is access to the test and testing facilities, with reimbursement second. By establishing guidelines and standards or donating testing equipment to hospitals, manufacturers can influence access to biomarker tests.

With its vast population, large economy and high rate of GDP growth, China is a lucrative market for pharmaceutical manufacturers, particularly in the oncology market. Understanding the challenges that are unique to China will be the key to succeeding in the oncology space.

**The Author**

Dr Richard Wagner is senior director, Kantar Health.

---

**PATIENT PERSPECTIVE**

Patients hold a strong belief that any condition which requires medical attention is best treated by a specialist physician, rather than a generalist. For even minor conditions, their natural reaction is to seek out a physician who specialises in that particular area in a Tier III hospital.

This means that the current reform to develop a stronger primary care approach, as in the West, is not strongly supported by public opinion. The majority of consumers are satisfied with the current healthcare system and, while a reasonable level of knowledge exists about the strengthening of the community hospital system, only 19 per cent of consumers believed that they would increase their visits to Tier I hospitals as a result, while 12 per cent said the frequency of their visits would reduce.

This belief in the importance of specialisation is reinforced by the situation found in Tier III hospitals. Upon entering the hospital as an outpatient, a person is presented with the CVs of the lead physicians in each therapy area and encouraged to select a specific physician to treat the condition. This costs more than choosing to accept any physician from the hospital.

The approach of physicians themselves also reinforces the strength of the physician-patient relationship. Physicians are highly aware of what their patients expect in terms of treatment and frequently prescribe to meet that expectation.

---

**“ IN THE CONSUMER’S MIND THERE IS NO CONFLICT BETWEEN TRADITIONAL AND WESTERN MEDICATION. EACH HAS ITS PLACE IN TREATING A CONDITION AND THEY SIT COMFORTABLY SIDE-BY-SIDE”**

---

**Traditional medications**

Traditional Chinese Medicines (TCMs) are very popular. In the consumer’s mind there is no conflict between traditional and Western medication. Each has its place in treating a condition and they sit comfortably side-by-side.

There are a number of deeply-held beliefs that impact perceptions of wellness. These include the concept of inner heat or an energy imbalance that can cause illness, or the concept of ‘Qi’, which is a type of spirit flow. The people believe that when the flow of Qi is smooth, the body will regain its balance. They also believe in balance and harmony, ‘yin’ and ‘yang’ and these views are seen as complementary to the use of Western medication. The role of TCM is to help the user regain this balance and bodily strength. This is thought to be required in both minor illnesses and in chronic diseases and it is not uncommon for patients with diabetes or even cancer to use TCMs.

A large proportion of the population believes in TCM, which is considered safe to use and effective. In addition, it is considered slow to take effect, which is not seen as a negative trait. The philosophy is that TCMs help the body build up its own ability to cure the disease through the righting of the inner balance or spirit, or the strengthening of the immune system to defend the body from contagion or damage. Western medication is seen as treating the symptoms of a disease, while TCMs go to its root. It is therefore common for a prescription to include both Western and TCM products.

TCM is a philosophy, whereas Western medication is a natural science. There are few top TCM practitioners, but many Western doctors. The optimal TCM is tailor-made from loose herbs, which are then made into a tea or soup by the patient. However, this is not a convenient format for consumers, so TCMs are pre-packaged, which compromises their efficacy. In contrast, Western medication is manufactured in batches and is perceived to be fast and effective, but there is also a belief that they could have serious side effects. For Chinese consumers, TCMs are safe and have low side effects, unlike Western medication.

It is important for any Western manufacturer working in the Chinese market to take the TCM belief system into account, as it is fundamental to how Chinese consumers consider their body and
SUPPLY CHAIN AND DISTRIBUTION
Between 2008 and 2010, the pharmaceutical market in China has grown 26 per cent (compound annual growth rate), based on IMS Health estimates.

With continued growth in patient access, supply chain and distribution practices, pharmaceutical companies in China can expect to see significant changes. There will be expansion of the pharmaceutical market outside the major urban centres and the large city-based hospitals resulting in increased distribution costs owing to longer travel distances for the medicines. There will also be an increase in the volume and sophistication of rural hospitals and clinics requiring new chains of more localised distribution partners. In addition, there will be the impact of the Essential Drug List (EDL) being implemented on a province-by-province basis and resulting in different pricing rules and new opportunities and challenges with respect to distribution in each province.

Signs of change in supply chain and distribution practices can be seen in recent IPO announcements by Sinopharm Group Company, the largest state-owned pharmaceutical distributor and the Jointown Pharmaceutical Group, the biggest private pharmaceutical distributor, that both are reportedly raising capital to invest heavily in their distribution capabilities and infrastructure ready for the opportunities in the expanded distribution footprint and increased volumes required to cater for the increased populations accessing the healthcare system.

“The Author
Sarah Phillips is head of health at Ipsos Health.”

“OPTIMISATION OF THE SUPPLY CHAIN CAN ONLY BE ACHIEVED BY HAVING APPROPRIATE SUPPLY CHAIN ANALYTICS BASED ON GOOD DATA SOURCES, INTEGRATED SYSTEMS AND PROCESSES”

Companies are also trying to understand the price/cost implications of the province-by-province level EDLs and to set up the appropriate supply and distribution hubs and relationships to cater for the geographic and volume expansion. Supply chain directors are having to balance the increase in capacity and the cost optimisation necessary in all of their in-country and in-region manufacturing locations, while at the same time ensuring that the appropriate distribution network is in place to get the pharmaceuticals to the new areas of demand.

One of the key findings from Accenture’s recent ‘Global Pharma Industry Supply Chain and Tech Ops’ study involving 25 pharmaceutical and biotech companies around the globe was the fact that optimisation of the supply chain can only be achieved by having appropriate supply chain analytics based on good data sources, integrated systems and processes, as well as rigorous execution of informed decisions. In China’s dynamic and evolving market, this will be a challenge for the coming months. However, the early adopters of excellence in supply chain data, processes and analytics here will see greater returns over the short-to-medium term.

The Author
Anne O’Riordan is managing director APAC life sciences at Accenture.

MARKETING STRATEGIES
Marketing pharmaceutical and OTC products is challenging because of strict advertising regulations, an extremely competitive environment and the often-true perception that China is more similar to a group of regional states than one unified country.

The traditional marketing channels of TV, print and outdoor are expensive and highly regulated. A fractured media market, where many of the most popular TV programmes are regional, means that any TV spend has to take into account each market separately, from Shanghai, Beijing and Guangzhou to start with to hundreds of Tier 2 cities beyond. Popular print media, while boosting high circulations, also suffers the same problem with regions, combined with rates on a par with those in the West. Outdoor advertising also requires strict approval in terms of language and visuals.

“MANY COMPANIES USE EXPERT DOCTORS, SCIENTISTS AND ACADEMICS EITHER TO REPRESENT THEIR BRANDS OR TO WRITE ARTICLES ABOUT THEIR BRANDS”

Supplying journalists with press-ready material and access to experts is a cost-effective way to build product and brand knowledge. As in the US and Europe, many companies use expert doctors, scientists and academics either to represent their brands or to write articles about their brands. The most visible experts sometimes represent multiple brands and are well known within the industry. Expert seminars and press conferences are popular ways to reach consumer and industry.

In 2010, our agency held an event in Shanghai introducing over 100 journalists to products and supplements for life’sDHA, a source of omega-3 for client, Martek Biosciences. The resulting press coverage, in both industry and lifestyle media, as well as on TV, proved a strong case for using PR in China. Finding interesting angles for consumers and the press, such as ‘Healthy tips to follow during the cold Chinese New Year’, helped the PR team spread awareness in a targeted way.

Online e-PR, or social media marketing, is a new and highly aggressive area for pharma and OTC marketing in China. With well over 450 million internet users, and an entire generation growing up with Kaixin001 (China’s Facebook), Sina Microblog (China’s Twitter) and Youku and Tudou (China’s YouTube), marketers have to learn and understand China’s approach to the internet. While the language and tactics may be different from those in the West, smart companies in China must use an integrated approach in combination with their salesforces, as they would in any market.

The Author
Mike Golden is managing director at Adsmith China.