

## The Chinese Healthcare System

Interview with Fred Bai  
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Interviewer: John Walter, TMTG

JW: If you only had three words to characterize the Chinese healthcare system, what would those be and why?

FB: The first word I would use to describe the Chinese healthcare system is dynamic. The overall economy in China is growing rapidly, as in healthcare. The living standards are improving year after year, and healthcare is an integral part in this improvement. There is both a government and general public desire to put money into the healthcare system. On average, investment in medical equipment has sustained an annual growth rate of 20%.

The second word I would use to describe the Chinese healthcare system is transformation. China's system is changing to an American type of system. In the past, the government operated most industries. Government intervention is slowly decreasing, although this still represents a significant barrier to enter the Chinese market. This change in the Chinese economic system to become market based has resulted in greater investment by the private sector. With the recent medical reforms in China, we are starting to see more private hospitals and more investment. Joint ventures of public and private entities have changed the healthcare system. Patients pay for an increased portion of their care. In the 1980's, 30% of the government healthcare investment was dedicated to medical devices; today it is 7.7%.

The third and final word I would use to describe the Chinese healthcare system is variance. There is a significant difference in the level of care and in investment between the high-end, mid-level, and low-end of the healthcare market. This difference comes from several sources: the significant growth rate differences among rural and urban cities; large variations in income across the country that reinforces the variation in services and equipment available in hospitals at each level.

JW: In what ways does the healthcare system, as described with the three words from Question 1, impact medical technology adoption?

FB: The dynamic economic conditions will support rapid growth in medical technology. The transition to a market-based economy makes hospitals and other healthcare organizations much more responsive to patient demand. Both GE and Siemens are introducing new equipment in the technology market as a response to demand for their products and services.

The variance among healthcare institutions has led to a distinct difference in needs across the segments: as I mentioned, there is a significant difference between the urban and rural situations. In the high-end market, Level III hospitals, market share will be captured by the large international conglomerates such as GE, Philips and Siemens. Mid-level hospitals, Level II, benefit from joint ventures between international medical equipment companies and local production companies. One such China joint venture is with GE and produces CT equipment. The low-end segment, which is extremely price sensitive, is best served for the time-being by local manufacturers.

JW: Which medical technology market is currently growing the fastest: therapy devices, diagnostics, imaging or information technology?

FB: Digital diagnostic and imaging equipment. DR is growing fast in China, and has seen rapid growth, especially over the last two years. Digital radiology equipment is experiencing a fast adoption rate. Diagnostic equipment feeds this growth.

The government is investing significantly in information technology, which is also an area of high growth. This is particularly the case as hospitals invest to share knowledge.

Dedicated therapy-based equipment is not growing as fast. In the next five years, equipment that combines diagnostic and therapy capabilities will likely grow fast. Siemens sells such equipment.

**JW:** If you were to segment the technology buyers, what would be those segments?

**FB:** There are three ways to segment the Chinese market. The first is by hospital. Hospitals in China are divided into three levels; Level I, Level II and Level III. Level III hospitals the high-end hospitals, Level II hospitals are "community" hospitals and Level I hospitals are the local, basic care hospitals. International companies should target Level II and Level III hospitals.

The second way to segment the Chinese market is by region. The markets differ from region to region in their growth rates and demand for technology.

The third way to segment the Chinese market is by ownership: public versus private. Many new private institutions have been recently created.

**JW:** What are the most significant factors that will impact the medical technology market within the next 5 years?

**FB:** Two key factors will impact the medical technology market. The first is government policy to reform healthcare and payment systems to become more market driven. This includes increased funding of healthcare initiatives.

The second key factor is competition. Vendors with the ability to manufacture their technologies in China will much more easily move from the high-end level to the larger Level II market. Significant price competition at all hospital levels broadens the equipment available.

With the increased competition from the multi-national medical technology conglomerates/companies, technology will ultimately trickle down to the Level I hospitals; benefiting small cities and small care centers.

**JW:** Which medical technology vendors seem to be the most successful in China today? Why?

**FB:** Each of the major international diagnostic imaging vendors is pursuing a different strategy: Siemens, GE and Philips have a much higher market share in China than the others.

Some multi-national vendors have pursued localization strategies and are manufacturing equipment in China through joint ventures. This has provided strong and growing brand recognition. Localization also allows vendors to keep prices low and gain market share.

**JW:** What are the key barriers to entering the Chinese medical technology market?

**FB:** The key barriers to the Chinese market include: strong competition among technology companies in an already highly segmented market; high price sensitivity among customers, and especially important, the value of established relationships.

**JW:** Given the importance of healthcare development in China, do you foresee that a Chinese organization will seek to purchase an international medical device company in the next 5-10 years?

**FB:** This will not likely happen for various reasons. A significant technology barrier exists in the medical device field. One of the largest healthcare organizations is located in northern China. Despite its size and success, a very large gap still exists between that organization and the leading international vendors such as GE and Siemens.

In addition, a significant cultural barrier exists between China and western countries. That barrier is exemplified by the challenges faced by a Chinese computer company (Lenovo) acquisition of IBM's personal computer division. The acquiring Chinese company discovered the magnitude of significant localization issues in working with a western company. Culture clashes persist in the management of the Chinese and western employees. China is still at the very beginnings of a market economy, so there is still a long way to go for a Chinese company to be able to acquire and successfully manage a western company.

Lastly, there is a financial barrier. Chinese employees are accustomed to low wages, while previous IBM employees benefit and expect a high, west-

ern-level salary. Different expectations such as these represent a significant barrier.



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