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The rise and rise of MedTech in Asia: How to thrive in the world's fastest-growing market

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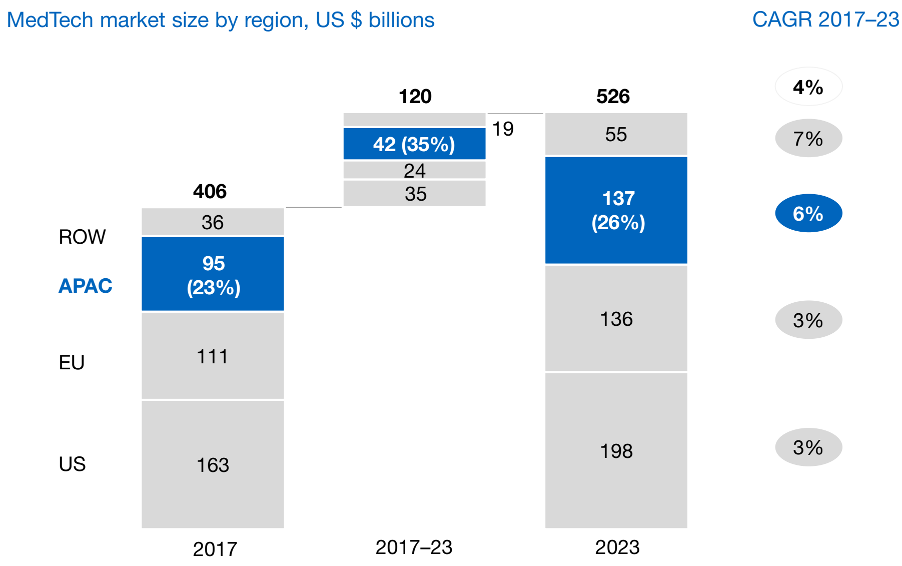
Asia is a region of stark contrasts, with approximately 4.5 billion people – some 60 percent of the world's population – living in countries with a rich diversity of economic, political, and demographic constituents. With its 48 countries evolving (often rapidly) their political, economic, and healthcare systems, Asia can be a puzzling region to operate in, presenting a steady flow of surprises (and, frequently, challenges).

Cut through the noise, though, and we find that Asia is on the rise in MedTech just as it is in other industries – indeed, Asia today already represents 23 percent of the global market. Within the next five years (by 2023), Asia will eclipse Europe to become the second-largest regional market. During that period, Asia will also be the major growth engine among global MedTech markets, contributing 35 percent of total incremental growth (Exhibit 1).

Exhibit 1

APAC will become the second-largest regional market for Medtech, contributing 35 percent of the growth over the next six years.



SOURCE: HRI; McKinsey analysis

Put simply, the strong fundamentals of rising healthcare demand and wealth in the region will override short-term dislocations at country or sub-regional level, which are bound to happen. The region is also increasingly recognized as a major source of product technology innovation as well as for its innovative business models and unique healthcare ecosystem. Nevertheless, success in Asia does not come easy – on the contrary, it requires agility, innovation, and long-term commitment to stay abreast of trends in this fiercely competitive market.

To take the pulse of where Asia MedTech stands today, and to understand its challenges, opportunities, and priorities, we surveyed 160 APAC presidents and Asian country general managers from some 30 multinational MedTech companies via a survey conducted amongst members of APACMed and selected executive interviews. This paper summarizes insights on how MedTech can thrive amid the challenging and complex external environment in Asia, step up on innovation, commercial, and strategic capabilities, and embrace the next wave of growth in the region.

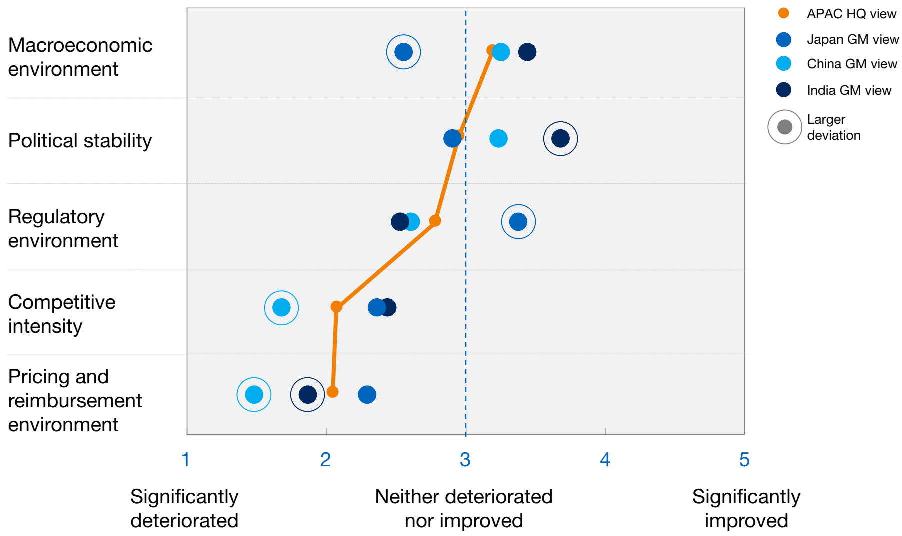
1. Underlying market growth trumps challenges: growth outlook remains optimistic

Asia MedTech executives paint a mixed picture of overall market trends. While there is optimism on overall economic environment and political stability, the sentiment is clearly negative, especially on pricing (Exhibit 2). As indicated in the survey, APAC leaders are critical of market developments over the past two years: some 80 percent of APAC executives reported that the pricing and reimbursement environment has deteriorated or significantly deteriorated during this time (100 percent for China general managers and approximately 85 percent for India general managers).

Exhibit 2

APAC leaders are less optimistic about the market environment.

How has your market environment changed in the last 2 years along the following dimensions?



SOURCE: McKinsey 2018 Business Sentiment Survey (n=155)

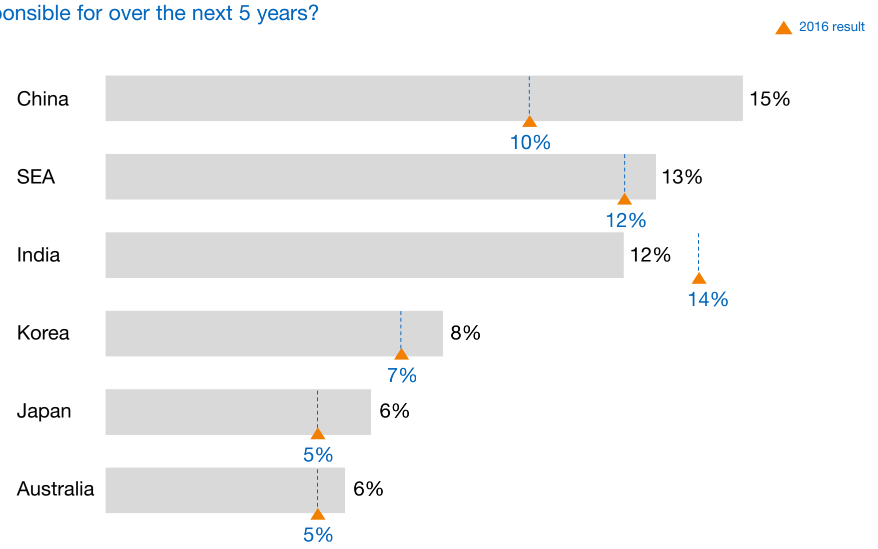
Meanwhile, the growth outlook continues to be optimistic across the region: executives across every country or region, with the exception of India, project a higher growth compared to our survey two years ago. On average,[1] companies are expecting to grow at 15 percent in China, 13 percent in SEA, and 12 percent in India over the next five years (Exhibit 3).

1 Mathematical average of the growth expectations of the surveyed companies. Note that this does not represent market growth. Generally, a lower growth rate is indicated by more well-established companies, while higher growth is indicated by emerging companies.

Exhibit 3

APAC leaders maintain an optimistic growth outlook.

What growth rate do you expect for your business in the geographic regions you are responsible for over the next 5 years?



1 Median of individual company's average CAGR expectation for each market.

SOURCE: McKinsey 2018 Business Sentiment Survey (n=155)

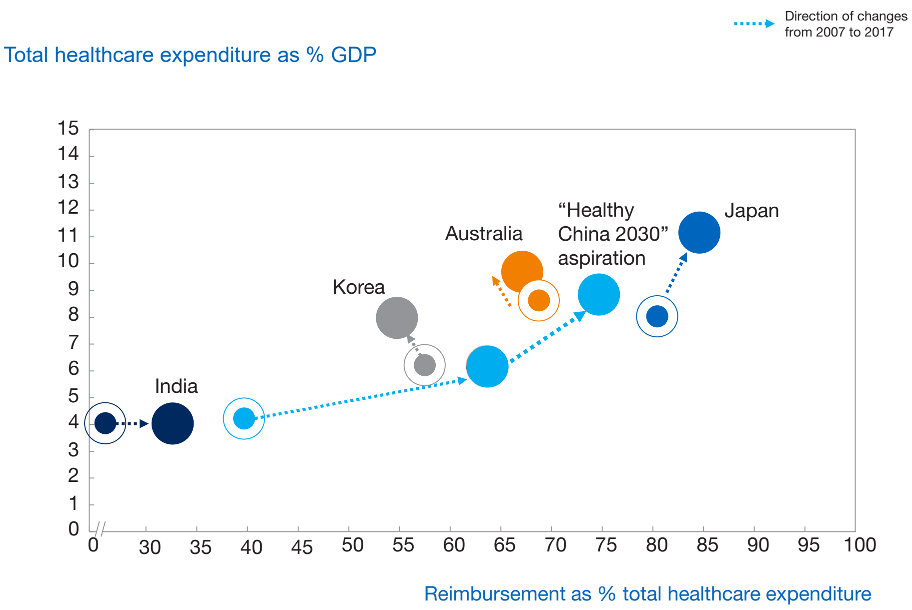
At first glance, the widely perceived pricing pressure seems at odds with these optimistic growth projections. However, there are several factors that can help manufacturers mitigate the often headline-catching pricing measures devised by policy makers. First, it is worth pointing out that, due to the devolved and cyclical nature of the process, price cuts are generally not across the board; this is because provinces and cities conduct their own tenders approximately every two years, on a subset of medical product categories each time – this means that price cuts do not apply to all provinces for all products in a given year. Indeed, price cuts usually affect specific products: these are often in their mid-to-late life cycle when they appear on the radar of regulators due to high volumes and the existence of several alternatives on the market – in other words, products on the verge of commoditization. A well-balanced portfolio with innovative products launching at a healthy pace mitigates price erosion of commoditized products. Moreover, the prices (and price cuts) that people talk about usually refer to end-customer prices, that is, the price to healthcare providers or patients. In a market where distributors play a significant role, and where there are often wide margins in the value chain, such price cuts need not necessarily be absorbed by manufacturers alone. Indeed, recapturing value from distribution channels is a common theme in the region, and each price cut provides an opportunity to reset the margin structure between manufacturers and distributors. Manufacturers with robust value propositions and customer pull for their products have managed to mitigate the impact of price cuts by adjusting channel margins.

While headwinds such as pricing pressure provide certain challenges, strong growth drivers considerably outweigh them: on the demand side, overall healthcare coverage is expanding rapidly across Asia. China has reached 95 percent coverage with its basic medical insurance since 2011, now focusing on service quality upgrade and well-being; India has announced that it will roll out healthcare insurance to nearly 100 million families; Korea's healthcare reform is pledging to grow healthcare spend; and Indonesia has covered nearly 200 million people with health insurance.

On the supply side, both in-patient volumes and out-patient volumes have mostly remained stable in developed countries, while steadily increasing in developing countries. Overall, market penetration in Asia is still very low, with large headroom for further growth (Exhibit 4).

Exhibit 4

Healthcare spending and reimbursement in APAC countries are growing, narrowing the gap with the West.



SOURCE: BMI; Press search

2. Grappling with the Asia market: three hard nuts to crack for MedTech leaders

a) The blessing and curse of premium-oriented portfolios

MedTech companies are inherently product innovators. Cutting-edge innovation is unequivocally seen as a key success factor for multinational MedTech companies across APAC – driving business growth, brand image, and recognition with key opinion leaders.

At the same time, APAC executives – especially general managers in China and India – feel their existing portfolios don't adequately meet the needs of their customers. A locally relevant portfolio targeting lower-tier customer segments is thought to be equally important to fully tap into local market opportunities. While confidence in premium innovation is high, only 30 percent of companies expressed confidence in their ability to develop locally relevant products that would allow them to scale in broad market segments (Exhibit 5).

Exhibit 5

Only 30 percent of companies expressed confidence in their ability to target new patient segments with market-appropriate innovation.

SOURCE: McKinsey 2018 Business Sentiment Survey (n=155)

While expanding their footprint in APAC markets, multinational companies will ultimately have to provide answers to mid- and lower-tier customer needs. Failure to do so will not only constrain growth but risks companies being challenged, even in their core business, by nimble local competitors – these often start their business by filling the void in lower-tier market segments but tend to quickly close quality and capability gaps to leading MNC players. This conundrum of premium versus "value segment" products is not new; in fact, companies have experimented with organic and inorganic approaches for over a decade. Our survey results suggest that the code for success has yet to be cracked by most companies.

b) Weaning off the traditional distributor-led commercial model

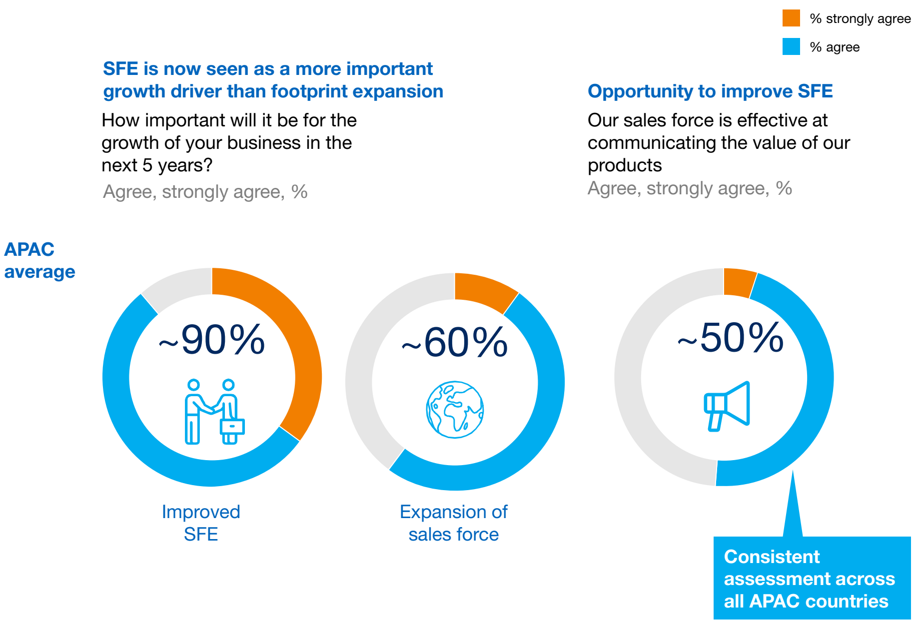
The growth of MedTech in Asia has been largely driven by a single commercial model: growing the sales force plus expansion and heavy reliance on distributor networks. In many of Asia's key markets, those days are gone and the focus is rapidly shifting towards more effective selling, diversification of capabilities across the commercial, service, and clinical range of roles, and gaining back control over customers from distributors who have evolved far beyond their core distribution capabilities and effectively control most commercial activities.

Policy makers in many markets are taking an interest, too, and arguably have moved faster than the industry on several fronts – for example, the role of distributors and the value they capture in the healthcare system (widely seen as disproportionately high) has led to restrictive policies in China (the so-called "two-invoice policy"). Decision making is moving from clinicians towards more institutionalized processes as is the case with more mature markets. New forms of reimbursement (DRGs) and data-driven approaches are fundamentally at odds with a traditional commercial model that puts physician relationships at the center.

It is therefore no surprise that industry leaders want to shift to more sophisticated commercial models. However, this task won't be without challenge: only 50 percent of APAC executives have confidence in their current sales force effectiveness, suggesting that basics of commercial excellence leave room for improvement. The vast majority, however, agree that stepping up sales force effectiveness will be more important than expanding footprint (Exhibit 6).

Exhibit 6

Executives prioritize sales force effectiveness over footprint expansion.



SOURCE: McKinsey 2018 Business Sentiment Survey (n=155)

Executives also believe that a range of capabilities will gain importance over the next three years. These include clinical selling and key account management (KAM) – capabilities that are already an integral part of many organizations, yet need to be further developed. Beyond that, multichannel selling, e-detailing, and healthcare economics and outcomes research (HEOR) are on the list of capabilities that will gain relevance in the next few years. This suggests that business model innovation should be top of mind for leaders, and the industry ought to be in a state of feverish activity, building capabilities and developing business model innovation. Interestingly, while the former is true – a large majority of executives testifies to the importance of business model innovation – the latter is not: fewer than half of the surveyed executives believe that their organization is actively pursuing new business models.
In summary, the industry is still in a relatively early stage of transformation from its traditional commercial model and moving towards sustainable future models, while balancing potential risk of business disruption on several fronts.

c) Finding the right response to Asia's digital leap

The digitization of Asia's societies is progressing at unprecedented speed. In terms of scale and the impact of digital on everyday life, Asia – led by China – has eclipsed every western market, including the United States. With digitization pervading every aspect of society, healthcare should be no exception. There is clear evidence that physicians are spending increasing time gathering information online (specifically, via mobile). Patients are turning to digital channels to gather health-related information. Asian digital behemoths, as well as specialized digital healthcare players, are already building an ecosystem of connectivity, information, and services that extends, in the example of China, to virtually every physician, consumer, and patient in the country.

It is thus unsurprising that manufacturers are embracing this digital landscape in multiple ways: as a channel, as a means to educate at scale, in order to listen into customer sentiment, and so on. Indeed, pharmaceutical companies have experimented with this for a while and have developed a wide range of models that leverage digital ecosystems.

In contrast to many people's expectations, however, most MedTech companies in APAC seem to be sitting on the fence when it comes to digital: fewer than 20 percent of executives believe that they are using digital tools and technology appropriately to drive their business. This figure is unchanged from our earlier survey two years ago. Over the intervening period, China (for that example) has experienced a mobile payment revolution: telemedicine has become a service reimbursable through public health insurance; the government is moving tendering and pricing information online; and leading digital enterprises have built businesses valued at USD 1 billion plus by moving physician consultations online or managing public healthcare data through advanced analytics (AA) and artificial intelligence (AI).

Against this backdrop, MedTech's relative inertia in the face of the digital revolution is surprising. The root causes range from fundamental skepticism (some of the APAC leaders interviewed were unconvinced of the investment returns from digital) to difficulties in prioritizing among a bewildering array of digital use cases, as well as problems sourcing the talent needed to get started on a digital transformation. For starters, leaders realize that ecosystem partnerships will be an important element of their businesses going forward: 50 percent of executives believe they will forge such partnerships over the next three years (versus only 10 percent reporting they have done so in the past).

3. Setting the stage to ride the growth wave: three no-regret moves that MedTech leaders can make now

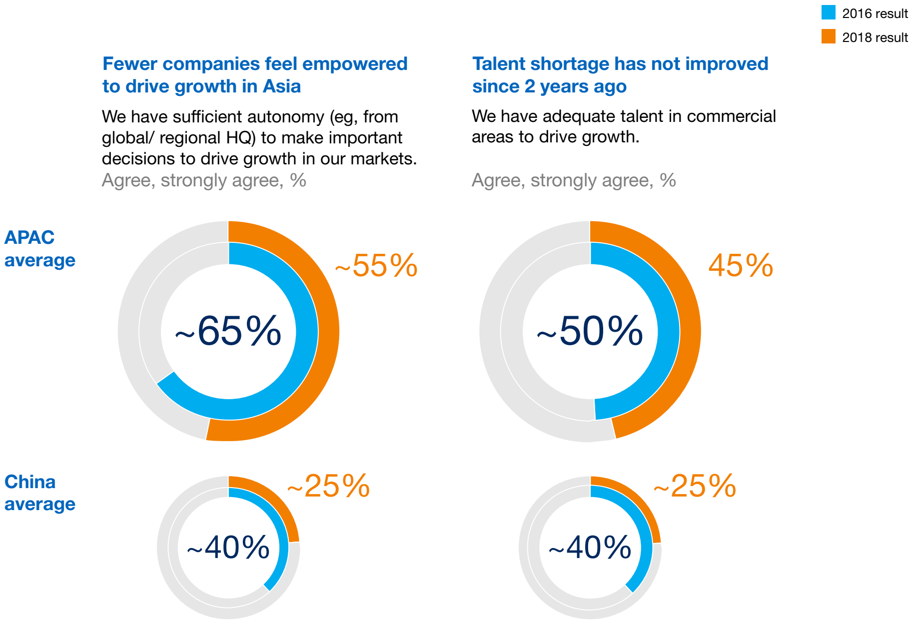
As Asia's MedTech market continues to grow and mature, so too will the stakes for MedTech leaders. The industry will continue to grapple along the way with the challenges discussed above. In this context, we should expect to see a relentless focus on data and the potential of HEOR to drive local value, while MedTech companies only have to look to the success of adjacent sectors such as pharma for examples of how partnerships can enable them to move forward with digital. While there are perhaps no cookie-cutter recipes for success for an industry as diverse as MedTech, in a region as diverse as Asia, we believe there are several no-regret moves for companies to set the stage for a successful business trajectory in Asia.

1) Build localized, agile organizations and over-invest in talent

While it is perhaps impossible to accurately predict every disruption – both major and minor – in Asian markets, it is entirely possible to create local organizations that are able both to react in an agile way and exhibit resilience to external and internal challenges.
To do so, companies need to do two interrelated things. First, they need to build local organizations that have sufficient autonomy to shape the local business to reflect local market requirements. Decision making that requires alignment beyond the market (or region) needs to happen at pace and with a minimal number of stakeholders involved. While this sounds obvious, the reality is a fair level of skepticism among local executives regarding their perceived autonomy and ability to make essential business decisions. Only about half of executives agree that they have the required autonomy to make the right decisions for their businesses – in China, only a quarter think they do (Exhibit 7). While this reflects subjective views of local leaders, we believe they have a point: we commonly see organizations with complex decision-making processes at a disadvantage in highly dynamic markets where customers have little patience for internal process and the red tape of their suppliers. Complex, rigid pricing approval mechanisms are one obvious example, but issues as simple as using specific local media or communication channels can create significant friction and frustration in organizations with overly rigid global processes. The fact that organizations with senior global representation in Asia experience better communication and decision-making points to the importance of smooth local-global collaboration – this is a lever to empower Asia that surprisingly few companies are using at the moment.

Exhibit 7

Autonomy and talent challenges have not improved over the past two years.



SOURCE: McKinsey 2018 Business Sentiment Survey (n=155)

Of course, the enabler of autonomous, trusted local organizations is talent – especially leadership that is able to empower a local organization to grow and innovate, while still being able to communicate with regional and global stakeholders effectively. This turns out to be a real bottleneck: fewer than half of APAC executives agree that they get the required talent to drive growth in their businesses, a situation largely unchanged over the past few years (Exhibit 7). The talent shortage is felt in both the sales organization (especially middle managers) and in commercial support functions such as regulatory, market access, strategic marketing, digital, and medical.

To make matters worse, the shortage is even more pronounced in the countries that matter most for absolute growth – especially in China where competition for key talent has become more intense, as skilled executives increasingly choose entrepreneurship or opt to join new entrants to the healthcare ecosystem, rather than traditional MedTech companies.

The response should be an over-investment in talent in Asia: systematically identifying high-potential talent, succession planning, rotating future leaders from Asia into other regions early in their careers, top-notch leadership development (including extensive 360-degree feedback and coaching programs to sharpen leadership profiles), individualized retention programs for critical roles, and full use of best-practice HR tools and processes as enablers for a successful people strategy. In reality, we see room for improvement in most Asia MedTech organizations and hence consider this an important area for investments into future business success in Asia.

2) Play as a partner in the healthcare ecosystem

MedTech companies are facing pressures as healthcare systems mature and payers institutionalize. Technology players are entering the healthcare space, expanding the healthcare value chain beyond diagnostics and treatment, and defining new points of value along the value chain. In this environment, a position as “product vendor” is risky and bound to be disrupted, particularly as innovation gathers pace. What’s more, it is evident that MedTech companies struggle to stay on top of fast-paced health systems innovation in certain areas, perhaps most notably in the digital space.

Traditional MedTech product manufacturers must therefore rethink their role and the way they deliver value to the healthcare ecosystem. We believe that a big part of winning models will be the ability to partner with other players in the healthcare ecosystem. Most companies have dedicated teams and clear processes for traditional business development (for instance, M&A). By comparison, explicit partnership strategies and processes to scan ecosystems for value-added partnership scenarios, accompanied by efficient execution, seem far less common. We believe that this is a missed opportunity, especially when contrasting MedTech with the pharmaceutical industry where innovative partnerships, often involving multiple parties, are used much more often to the benefit of all partners (as well as patients and healthcare providers). Especially in times where asset valuations make traditional M&A transactions hard to underwrite, partnership strategies should be devised with equal rigor. This will offer a plethora of opportunities to increase reach and leverage in the healthcare ecosystem while closing or circumventing an organization’s capability gaps.

3) Data, data, data: getting ready for a value-based healthcare world in Asia

Many of Asia’s healthcare systems are doubling down on healthcare coverage and access. At the same time, they are taking more interest in the value they get for the outlay of public money. In Japan, the government has pledged to tie pricing and reimbursement more closely to outcomes. In China, the government is leading a major push from acute care towards prevention as well as towards case-based payments and DRGs as major reimbursement models. In Indonesia, government has instituted a capitation system that pays the equivalent of USD 1 a month per person to healthcare facilities in order to provide primary care coverage for patients. Australia is among the leading systems in the world regarding health economics research and related funding models. In brief, Asia is moving towards more sophisticated ways to manage healthcare funding. On the back of digitization and rapidly improving data transparency at scale, some of these markets might soon surpass western systems in their ability to aggregate and analyze healthcare data.

Many MNCs are realizing premium prices for their products based on physicians' and patients' belief and experience that they offer superior quality and safety. This is bound to change – increasingly, customers and regulators will ask for conclusive evidence of clinical as well as economic outcomes to justify pricing and use of products. While it is hard to predict precisely when such approaches will become the norm in major Asian markets, the majority of executives are witnessing an expansion in related discussions and pilots. Once systems start to move, the shift could be both profound and rapid. Companies should invest now in generating evidence that demonstrates the value of their products to patients, providers, and healthcare systems. Only then will they be prepared for future moves in pricing and reimbursement. Even better, companies that invest in demonstrating value may be able to shape future policies rather than simply reacting to them.

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The authors would like to thank the Asia Pacific Medical Technology Association for the opportunity to produce this report for the Asia Pacific MedTech Forum 2018.

Pharmaceuticals and Medical Products Practice
October 2018

Design contact: Visual Media Europe
www.mckinsey.com