



ASIA-PACIFIC LIFE SCIENCES

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Executive Insights

Asia-Pacific Hospital Priorities 2019: An Evolving Landscape for Medtech Companies

L.E.K. Consulting recently conducted its inaugural APAC Hospital Priorities Survey in collaboration with APACMed¹ with approximately 400 hospital executives across both public and private hospitals in key countries² across the Asia-Pacific (APAC) region. This survey was launched with the aim to establish a robust understanding of hospitals' priorities in a rapidly evolving APAC healthcare landscape and serve as a compendium of macroeconomic trends that can provide context for the industry's business development efforts and strategic thinking across key markets in APAC.

Results from the survey have provided insight into three key themes that will shape the evolution of the provider landscape, with corresponding implications for medtech companies in APAC. These themes are:

- Rising emphasis on cost management and streamlining of hospital operations across APAC
- Greater provider-medtech collaboration opportunities to develop more integrated services and solutions beyond the provision of products alone

- Improvement in patient access to healthcare through alternative sites of care or telemedicine

In this L.E.K. *Executive Insights*, we provide an overview of the key trends in APAC, with features on Southeast Asia, India and Australia. Publications that deep-dive into the Chinese, Japanese and Korean markets will follow.

The APAC Hospital Priorities Survey is a part of L.E.K.'s global hospital priorities series that includes coverage of the U.S. and European markets as well.

Trend 1: Rising emphasis on cost management and streamlining of hospital operations

Healthcare costs across APAC have risen steadily at approximately 6% per year since 2010.³ Unsurprisingly, cost management has emerged as one of the key strategic priorities over the next three years, especially among hospital providers in developed APAC countries⁴ (Figure 1).

Based on our survey, there is still much room for hospitals to streamline the purchase of medical supplies within both developed and developing⁵ APAC countries. For example, more than 80% of respondents from Japan perceive the purchasing of medical supplies to be unstandardized, which is substantially higher than the U.S. figure of approximately 40%. The survey also illustrates that developing countries are more likely to embrace more streamlined procurement processes, which is largely driven by lower purchasing power and greater need for cost efficiency in countries such as Indonesia and Thailand.

APAC Hospital Priorities 2019: An Evolving Landscape for Medtech Companies was written by **Fabio La Mola**, L.E.K. Partner (Singapore), **Stephen Sunderland**, L.E.K. Partner (Shanghai), **Patrick Branch**, L.E.K. Partner (Tokyo), **Arathi Sasidharan**, L.E.K. Principal (Singapore), and **Harjit Gill**, APACMed (Singapore).

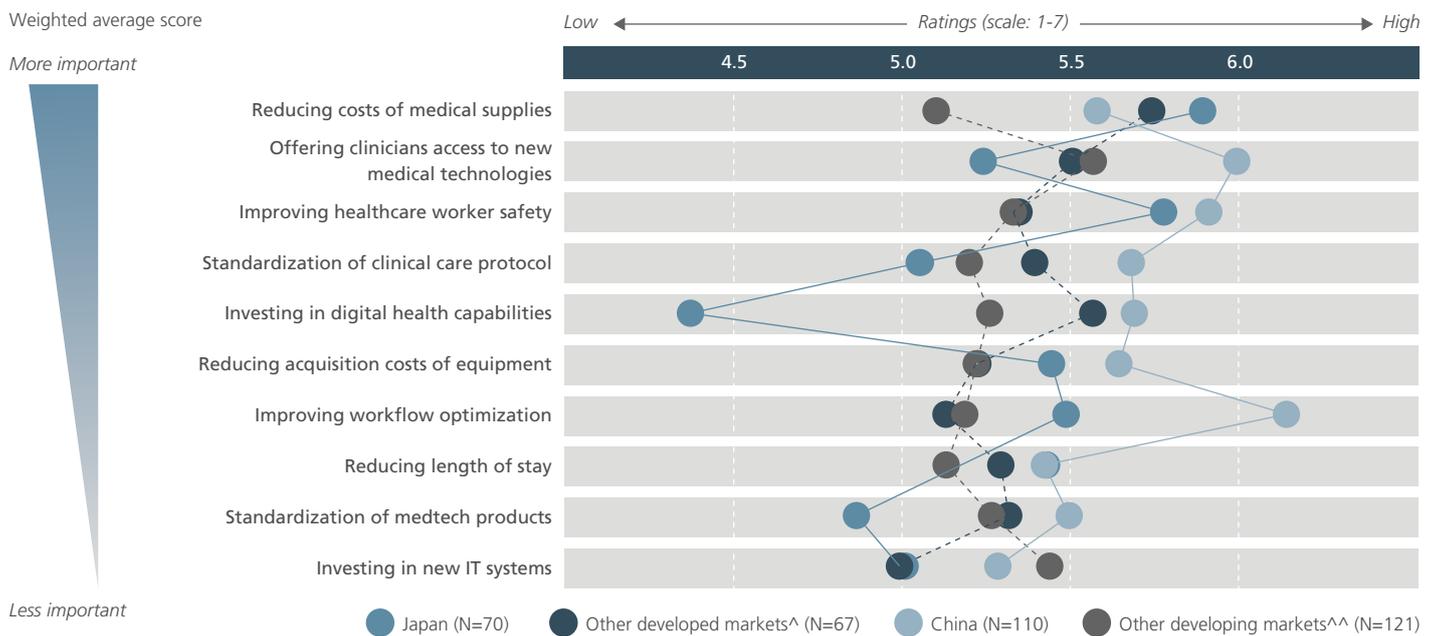
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Figure 1
APAC hospital strategic priorities over the next 3 years* (2019)



Note: *Question: How important are the following strategic priorities for your hospital over the next 3 years?; ^Other developed markets include South Korea, Australia and Singapore; ^^Other developing markets include India, Indonesia and Thailand
Source: L.E.K. 2019 APAC Hospital Priority Survey

Hospitals across APAC countries have implemented various initiatives in an effort to streamline the procurement process, optimize hospital operations and manage costs.

1. In late 2018, the Chinese government piloted a volume-based centralized procurement program in all public hospitals in 11 cities, which may potentially impact the procurement of products from multinational companies. Currently, only two of the 25 (10%) pharmaceutical companies that were awarded contracts under the program are multinational companies. The Beijing central government has also updated procurement policies as of 2019 to reflect preferences for procurement from domestic small to midsize enterprises to support local production.
2. There is also a burgeoning use of group purchasing organizations (GPOs) in Japan, South Korea and Australia. The GPOs often comprise private networks of hospitals that aggregate their purchasing power in order to negotiate better prices. The survey indicates that currently 50%-60% of hospitals across Japan and South Korea have established supply contracts with GPOs. Australia has also centralized purchasing at a state level through various state

procurement agencies, such as Health Purchasing Victoria and HealthShare NSW.

3. Our survey results further indicate that the outsourcing of diagnostic imaging, laboratory and pharmacy services is expected to increase by 10%-20% over the next three years. The trend toward greater outsourcing of services will offer providers in APAC the potential to further streamline operations and manage costs more effectively.
4. Other cost-management initiatives include procurement standardization of more commoditized medical supplies such as surgical equipment, medical consumables and pharmaceutical drugs.

Overall, the trend toward cost management and streamlined hospital operations is likely to be more pronounced in the future as hospitals continue to pursue multiple cost-management strategies, such as experimentation with volume-based centralized procurement, greater participation in GPOs and greater outsourcing of select services. The ways in which medtechs can respond to these trends will be further explored in a later section of this paper.

SEA: Growing need to reduce healthcare costs

Figure 2

Top areas where hospitals would like medtech companies to help

Percentage of respondents who ranked area as top 3



Note: *Question: Please rank 3 focus areas where you would like medtech companies to help you in achieving your hospital goals

Source: L.E.K. 2019 APAC Hospital Priority Survey

Lackluster budget outlook for public hospitals in Southeast Asia (SEA).

In Indonesia, a majority of public hospital respondents (approximately 80%) are expecting the budget deficit to further deteriorate in the next three years. This is reflective of the Indonesian Social Insurance Administration Organization's (BPJS) recent budget deficit of US\$1 billion that led to a government bailout.⁶ Similar to Indonesia, a majority of Singapore respondents (approximately 80%) expect budget deficits. While there has been increased expenditure for healthcare workers and technology and in the expansion of medical safety nets, respondents don't believe that this will be sustainable in the long term.⁷ Thai public hospitals have relatively mixed views on the budget outlook — about 50% expected a negative budget outlook given the poor financial performance of public hospitals, where in 2017, 18 state hospitals in Thailand were declared bankrupt with debt ranging from US\$3 million to US\$13 million.⁸

Interest is high for medtechs to offer risk-sharing programs to reduce cost.

In light of the lackluster budget outlook in SEA, 40%-50% of respondents in key SEA countries have expressed interest in medtechs offering risk-sharing programs designed to improve outcomes, reduce costs and lower risk (Figure 2). Additionally, more than 50% of respondents from Singapore also indicated interest in low-cost products (Figure 2).

Purchasing reform and trends toward outsourcing are other avenues used to manage costs in SEA. In line with the broader APAC trend, a majority of hospitals in SEA seek opportunities to streamline the purchasing of medical supplies. For example, only about 37% of respondents in Indonesia and about 50% of respondents in Singapore perceive their hospitals to be highly standardized (i.e., rated 6 and above out of a maximum score of 7) compared to about 65% of respondents from the U.S.⁹ Survey findings indicate that surgical equipment, diagnostic imaging equipment and clinical support appliances are among the top categories of medical supplies that hospitals are looking to standardize. Outsourcing of diagnostic imaging and laboratory services is an alternative strategy that has been widely adopted by most SEA hospitals to manage costs. Outsourcing is expected to continue increasing especially in Thailand as more than 25% of respondents expect increases in outsourcing over the next three years.

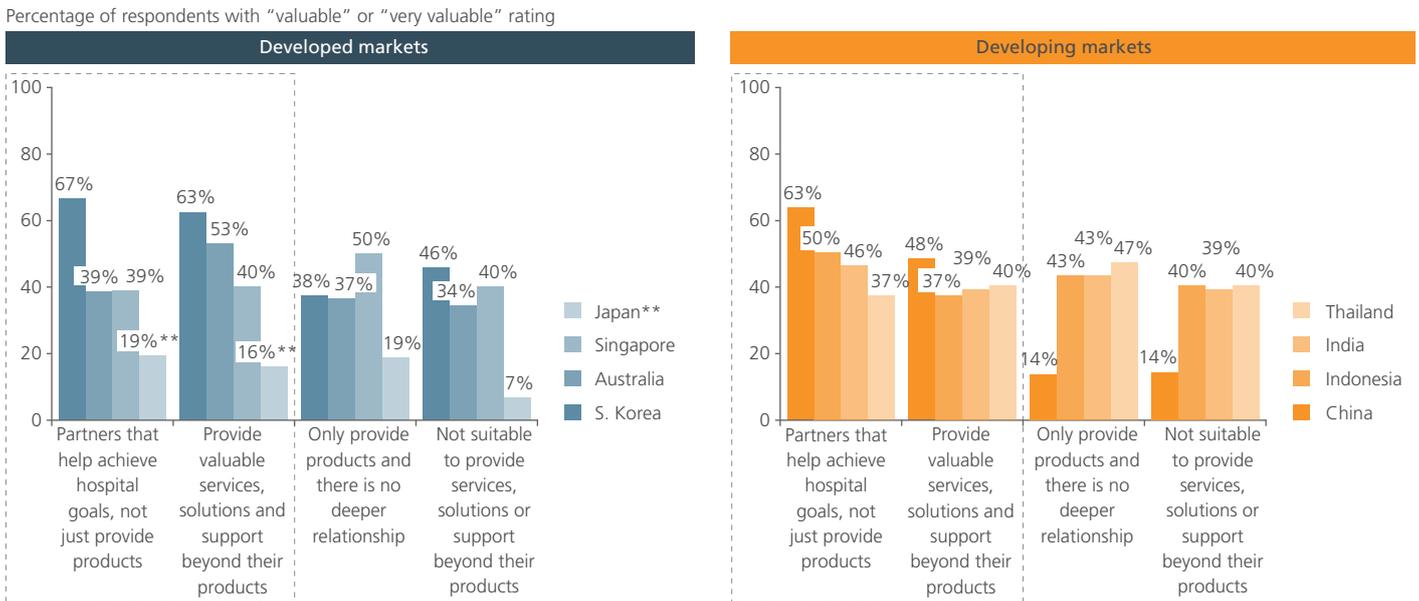
Trend 2: Growing expectations for medtech to provide integrated medtech services and solutions

Hospitals across both developed and developing APAC countries have indicated that medtech companies that provide solutions and support beyond products to empower hospitals to achieve their overarching goals are highly valued by healthcare providers (Figure 3).

There is also interest among hospitals in medtechs that can offer both innovative products that improve outcomes and solutions that reduce product costs. This goes hand in hand with the growing desire to use outcome-based payments in APAC. While outcome-based payments have been mainstream in the U.S. since the early 2010s,¹⁰ APAC has witnessed an increasing engagement in or experimentation with outcome-based payments only in recent years. With the exception of Japan, 60%-80% of hospitals across APAC expect to use outcome-based payments in the next three years. The expected overall higher adoption of outcome-based payments, especially in developing countries, can be attributed to China's recent rollout of case-based payment initiatives across hospitals with public reimbursement (Figure 4). This presents an opportunity for medtech companies to focus on the development of a differentiated portfolio with demonstrated outcomes to cater to the evolving needs of healthcare providers.

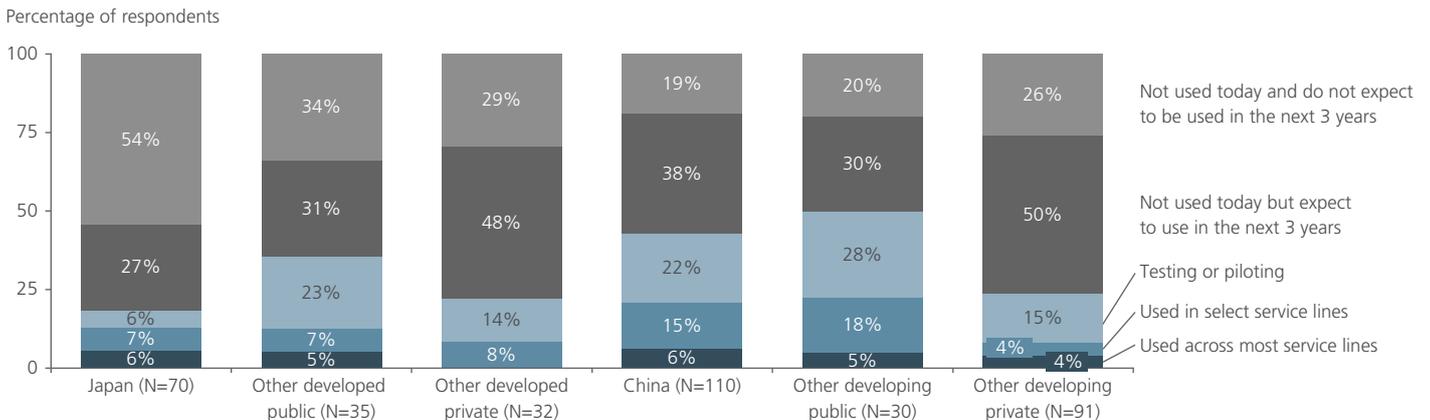
Medtech companies have started to expand into the provision of integrated services and solutions and have moved beyond the provision of products alone. For instance, Medtronic's Care Management Services remotely monitors patients using Medtronic products to enable value-based care at home. This exemplifies how medtech companies can leverage technology, connected data, the ubiquity of network connectivity and patients' desire to

Figure 3
Ideal relationship with medtech companies*



Note: *Question: Please indicate the extent to which you agree or disagree with the following statements regarding your hospital's relationship with its medtech suppliers (With "1" = "not at all valuable" and "7" = "very valuable"); Sample size: China (110), Japan (70), Australia (32), South Korea (25), India (61), Indonesia (30), Thailand (30), Singapore (10), ** Upon inclusion respondents selecting "5", at least 50% of respondents from Japan agree that their partners either help hospital goals or provide valuable services, solutions and support beyond their products
Source: L.E.K. 2019 APAC Hospital Priority Survey

Figure 4
Current usage of outcome-based payment on medtech offerings*



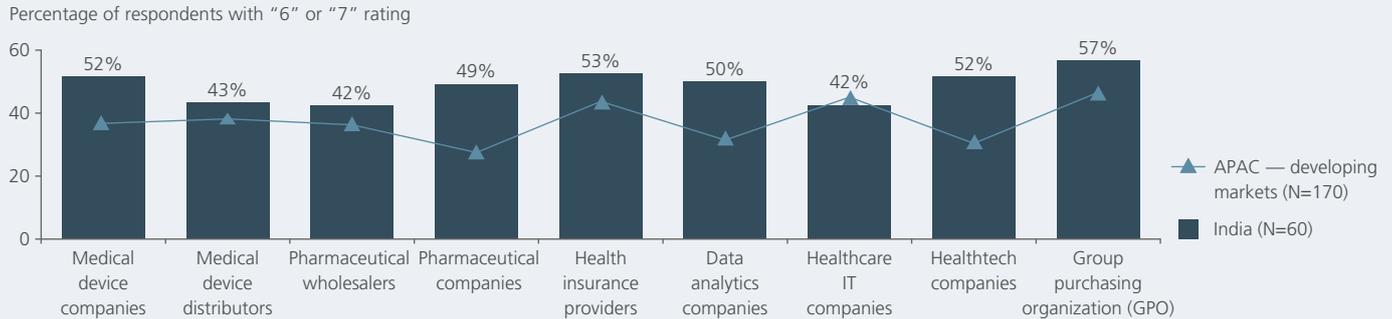
Note: Other developed countries include South Korea, Australia and Singapore, and other developing countries include Indonesia, Thailand and India; *Question: Please describe the extent to which your hospital is engaged in case-based payment (e.g., SDP, DRG) and/or outcome-based payment (e.g., risk sharing, gain sharing) around offerings provided by medtech companies and results/metrics connected to or impacted by those offerings
Source: L.E.K. 2019 APAC Hospital Priority Survey

be engaged in their own care to deliver above and beyond their product offerings.¹¹ BD's Infusion Analytics Services program is another example of how medtech companies can use electronic medical record connectivity, smart pump programming software and clinicians to provide value-added services.¹² The program not only evaluates patient safety practices but also ensures adherence to hospital guidelines.

Overall, the development of innovative and integrated medtech services and solutions is most certainly a critical strategic imperative that can fortify greater alignment with providers' needs. More important, a differentiated solutions portfolio has the potential to offset imminent product commoditization risks of selected medtech products such as surgical equipment and medical consumables.

India: Opportunities for provider-medtech collaboration

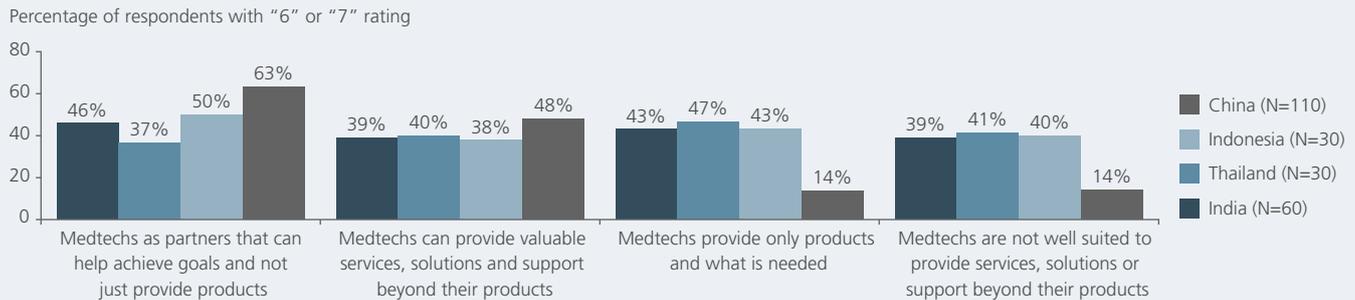
Figure 5
Likelihood of working with an external service provider by type* (2019)



Note: *Question: In general, how likely is your hospital to work with each of the following external product suppliers/service providers/partners? Please rate on a scale of 1 to 7 in which "1" means "not at all likely" and "7" means "very likely"

Source: L.E.K. 2019 APAC Hospital Priority Survey

Figure 6
Developing markets: Ideal relationship with medtech companies* (2019)



Note: *Question: Please indicate the extent to which you agree or disagree with the following statements regarding your hospital's relationship with its medtech suppliers (With "1" = "not at all valuable" and "7" = "very valuable")

Source: L.E.K. 2019 APAC Hospital Priority Survey

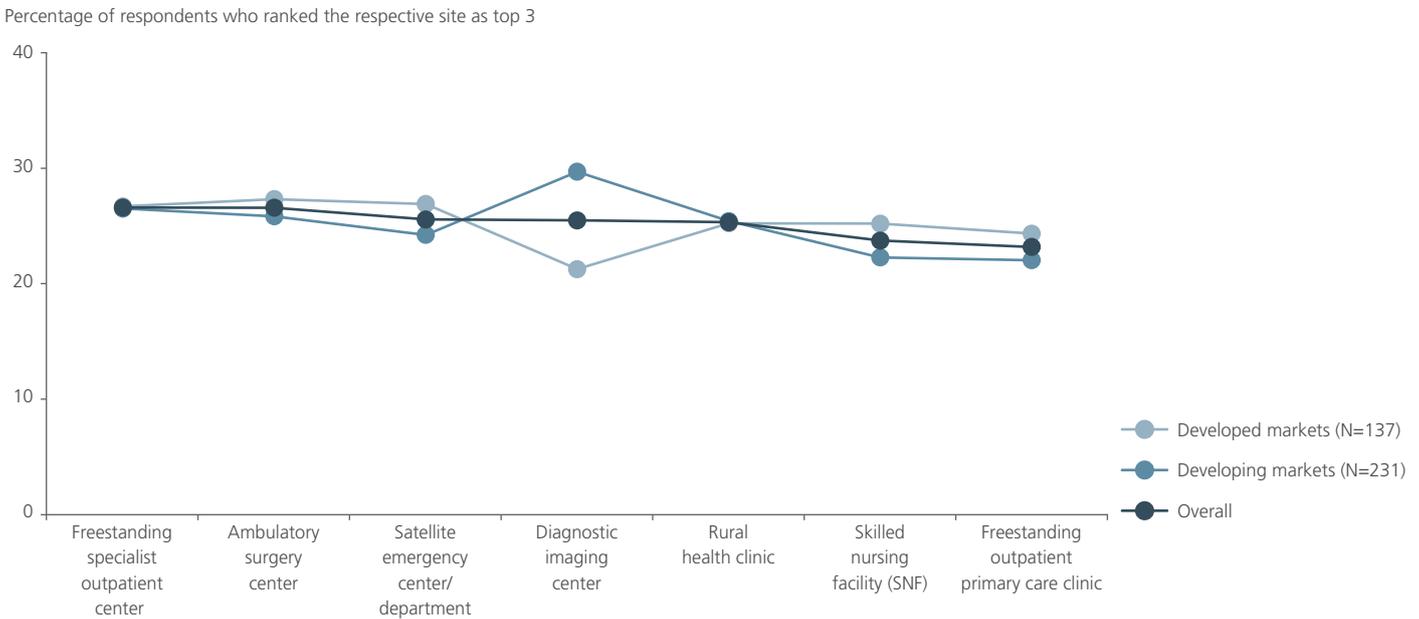
High willingness to work with external providers. There is greater opportunity for medtech companies to engage in partnerships with hospitals in India compared to other developing APAC countries. More than 50% of respondents from India indicated strong willingness in working with medical device companies, which is relatively higher than the average of approximately 37% of respondents across developing markets in APAC (Figure 5).

Improvement in patient outcomes and lowering costs are potential areas of collaboration. Based on our survey, 50%-60% of respondents are keen for medtechs to help with broader provider goals that include helping hospitals increase their range of innovative devices to improve patient outcomes, engaging in risk-sharing programs designed to lower operating costs, and standardizing medical products across their organization. Medtech providers such as Medtronic and Siemens Healthineers have actively established risk-sharing programs, such as managed equipment service (MES)

contracts, with hospitals in India in recent years. Not only do they manage all equipment concerns, such as procurement, on-site expertise and maintenance, but the MES contracts often include a risk-sharing agreement where payment is contingent on meeting clinical or economic outcomes defined prior to contract signing.¹³

Hospitals in India have mixed perceptions on medtech's value-add. The ideal relationship with medtech companies varies across developing markets in APAC. In China and Indonesia, medtech companies are viewed as partners that can help achieve goals and provide valuable services beyond their products, while in Thailand, medtech companies are perceived mostly as product providers. However, in India, a similar proportion of respondents perceive medtechs as either partners or product providers (Figure 6). Moving forward, there is an opportunity for medtech companies in India to take a proactive role in better positioning themselves as valued partners to hospitals.

Figure 7
Alternative sites of care hospitals are pursuing in the next 3 years* (2019)



Note: *Question: Please select the top 3 alternative sites of care that your hospital is looking to pursue over the next 3 years; Others include on-site/worksite clinics, assisted living facility, rehab facility, home health services; Developed markets include Japan, South Korea, Australia and Singapore; Developing markets include China, India, Indonesia and Thailand

Source: Global Times, Ministry of Public Health Thailand, L.E.K. 2019 APAC Hospital Priority Survey

Trend 3: Improving access to healthcare through either alternative sites of care or telemedicine

Going forward, the demand for medical devices and equipment will no longer be restricted to traditional hospital settings. Healthcare providers are seeking to channel patients to alternative sites of care or use telemedicine in efforts to expand patient access to healthcare services and alleviate overcrowding in tertiary hospitals. Therefore, it is imperative for medtechs to look beyond the traditional hospital channel and adapt their current offerings to serve alternative and remote sites of care.

Alternative sites of care. Overall, hospitals are looking to set up alternative sites of care such as specialist outpatient centers and ambulatory surgery centers either to provide better access for remote patients or to ease hospital overcrowding. Developing countries have also expressed greater interest in establishing diagnostic imaging centers over the next three years (Figure 7).

Telemedicine. The use of telemedicine is expected to expand significantly in APAC given the growing recognition of the benefits of incorporating telehealth into care delivery as seen in markets such as the U.S. Of the SEA hospitals surveyed, 80%-90% have indicated a greater willingness to adopt telemedicine in the foreseeable future. In China, IT and digital investments

are driven by public policy to address the doctor shortage. In Singapore, private healthcare provider Raffles Medical Group launched RafflesConnect in January 2019,¹⁴ a 24-hour telemedicine platform to offer consultations with doctors. In Thailand, THB 180 million has been allocated to purchase and install digital equipment as part of the telemedicine program for rural communities.¹⁵ Clearly, government funding and support is often a crucial enabler of telemedicine development and adoption, which is evident in the case of Australia.

Australia: Telemedicine — healthcare access for rural populations

Strong growth outlook expected for Australia's telemedicine market. The telemedicine market in Australia is currently valued at approximately US\$580 million and is expected to increase by 20% per year over the next five years.¹⁶ Government funding has contributed significantly to the positive outlook of the telemedicine market in Australia. The Australian government has committed approximately US\$30 million in general practitioner telehealth consultations, which will provide greater healthcare access to patients in remote areas.¹⁷ Additionally, the Australian government has

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announced provision of about US\$300 million over three years starting in 2021 to support more flexible care models, which will allow the elderly to receive services such as telehealth consultations and electronic prescriptions.¹⁸

Emerging telemedicine innovations through partnerships and increased receptivity toward telemedicine among providers. With continued government support, there are a multitude of telemedicine applications and initiatives that will emerge as a result of partnerships and sustained innovation. Ellume, an Australian digital diagnostics company, has partnered with QIAGEN to develop a tuberculosis testing solution. The detection technology is powered by a quantum dot nanoparticle, which is a digital platform built by integrating optics, electronics, biologics and software.¹⁹ Other successful telemedicine applications include the Emergency Telehealth Service, which has been implemented by Western Australia Country Health Service. It addresses the challenge of providing access to specialist emergency care in remote areas through 24/7 video and voice call services.²⁰ Providers' interest in adopting telehealth is expected to grow alongside emerging innovations and partnerships. Based on our survey, at least 75% of respondents expect their hospital groups to commence telemedicine and telehealth pilots going forward.

With the growth of telemedicine in Australia, there is an undeniable need for medtechs to adapt their offerings to serve the nonhospital-based channels.

Future implications for medtech companies in APAC

These emerging trends offer food for thought on key imperatives and questions to be considered in order for medtech firms to continue to thrive in the region.

Trend 1: Rising emphasis on cost management and streamlining of hospital operations

In efforts to counteract the impact of more streamlined procurement and hospital operations due to the rising influence of centralized decision-makers (e.g., hospital management and procurement), medtech companies should consider the following: How can hospitals improve the efficiency of their operations in the context of increasing pricing pressure? Which of the customer segments (e.g., public vs. private hospitals, geographies) should be prioritized given their lower susceptibility to standardization? What are the key concerns of decision-makers within prioritized customer segments? How should medtech companies adapt their value propositions and product portfolios (e.g., capital vs. consumables) to reflect greater interest among stakeholders in issues such as cost control and improved clinical and economic outcomes along clinical continuums? What are the capabilities (e.g., new commercial skills, datasets needed for medtechs) to adapt their value propositions and effectively reach various

stakeholders within hospitals and throughout the broader healthcare system?

Trend 2: Growing expectations for medtech to provide integrated medtech services and solutions

Today, there are greater expectations of medtech companies to deliver value beyond product offerings and to serve as partners to hospitals — to either drive healthcare outcomes or manage costs. Portfolio solutions have become especially critical as medtech companies take steps to offset market access and pricing risks for medtech products that are more susceptible to standardization and commoditization. The key areas for consideration include the following: Which hospital segments/departments will value a partnership with medtechs? What are the goals and unmet needs of prioritized hospital segments/departments? How should the product portfolio evolve to offer innovative yet integrated solutions for key customer segments?

Trend 3: Improving access to healthcare through either alternative sites of care or telemedicine

The rise of telemedicine and the emergence of alternative sites of care continue, and widespread adoption across APAC countries is simply a matter of time. Therefore, medtech companies need to be proactive about shaping their future strategies, taking into account the following areas of consideration: How should the product portfolio be adapted to serve the needs of emerging alternative sites of care? How should the business model and channels of distribution be adapted in order to serve these alternative sites of care? How should countries be prioritized based on their varying degrees of telemedicine penetration over the next five years?

Parting thoughts

The Asia-Pacific healthcare landscape is undisputedly diverse and rapidly evolving. In spite of nuances in each market, cost management and a greater desire for more innovative and integrated medtech solutions are central themes that have emerged across many Asia-Pacific markets. Indeed, there has never been a greater need for medtech companies to rethink and develop a coherent yet tailored strategy to account for nuances among developed and developing Asia-Pacific markets.

Editor's Note: The APAC Hospital Priorities Survey is a part of L.E.K.'s global hospital priorities series that includes coverage of the U.S. and European markets as well. The articles can be accessed from the following links:

[10th Annual Hospital Study: A Retrospective and a Glimpse Into the Future](#)

[E.U. Hospital Survey: Opportunity for Medical Devices and Digital Health Companies](#)

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Endnotes

- ¹ APACMed is a regional trade association representing the medical device, equipment and in vitro diagnostics industries across Asia-Pacific
- ² APAC market coverage includes Australia, China, India, Indonesia, Japan, Singapore, South Korea and Thailand
- ³ World Health Organization — Global Healthcare Observatory data repository
- ⁴ Developed countries include Australia, Japan, Singapore and South Korea
- ⁵ Developing countries include China, India, Indonesia and Thailand
- ⁶ Government Steps in to Bail Out BPJS (2018)
- ⁷ Singapore Budget 2019: Budget Deficit of S\$3.48b Expected for FY19 (2019)
- ⁸ 18 Thai State-run Hospitals Are Broke and in Massive Debt (2017)
- ⁹ [L.E.K. insights — 10th Annual Hospital Study: A Retrospective and a Glimpse Into the Future \(U.S.\)](#)
- ¹⁰ [L.E.K. insights — 10th Annual Hospital Study: A Retrospective and a Glimpse Into the Future \(U.S.\)](#)
- ¹¹ Medtech Needs to be Solutions-oriented, Not Product Driven (2018)
- ¹² BD — Infusion Analytics Services
- ¹³ New Healthcare Model Reframes Relationships, Risk-Sharing, Between Providers and Companies (2017)
- ¹⁴ RafflesMedicalGroup Launches Healthcare Platform (2019)
- ¹⁵ Thailand Launches Telemedicine Programme in Rural Areas (2019)
- ¹⁶ Mordor Intelligence: Global Telemedicine Market (2019-2024)
- ¹⁷ Telehealth Changes Improve Remote Australians' Access to a Doctor (2019)
- ¹⁸ Building Stronger Regional Communities — Health (2019)
- ¹⁹ Australian Digital Diagnostics Firm Partners with QIAGEN on TB Testing Solution (2019)
- ²⁰ WA's Emergency Telehealth Service: Global Leader in Virtual Emergency Care (2018)

About the Authors



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L.E.K. APAC Life Sciences Centre of Excellence is an initiative developed by L.E.K. and supported by Singapore's Economic Development Board to drive thought leadership and innovation to elevate the APAC life sciences ecosystem.

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