

INDUSTRY FORUM



The Rise of the Retail Pharmacy in China

By Marc Yates, Managing Director, Asia Pacific
The Research Partnership

With the traditional US and European markets plateauing, the pharmaceutical industry is increasingly looking to emerging markets to provide sustained, predictable growth. China is of specific interest, due both to its size and rapidly changing socio-economic environment. In particular the rise of the retail pharmacy in China is presenting many opportunities, making it a hot topic for both marketers and market researchers alike.

So why all the interest in China?

Four prevailing factors are contributing to the changing landscape of the pharmaceutical market in China, thus making it the region to watch:

- Urbanisation
- Ageing population
- Lack of primary care
- Lack of private health insurance

The urban population

One of the challenges of the China market is setting realistic expectations. It is a mistake to think of 1.3 billion consumers, when in fact the majority of people live outside the cities and the rural population simply cannot afford premium priced western medication.

Therefore when considering China one must focus on a subset of the urban population i.e. the growing middle class. The total urban population is predicted to exceed the rural population by the year 2020 and currently an estimated 43% of mainland Chinese live in cities. This makes for an increasingly affluent urban contingent in the region of 700 million living in 60 or so cities, who not only have access to western medications but can now actually afford them.

An ageing demographic

While the situation is not as extreme as in Japan, China has a rapidly ageing population. With life expectancy for both men and women similar to the US, it is predicted by the year 2025 nearly one in four (24%) of the China population will be over the age of 65 years old.

Given that almost 90% of healthcare facilities are in the public sector, caring for the medical needs of this ageing population presents a huge cost implication to the government who is already tasked with trying to contain the spend on healthcare.

Lack of primary care

China is currently a hospital market with no recognised primary healthcare. Patients are free to present to any specialty that they can afford to consult. Between 50%-60% of the cost of healthcare is borne by the individual, so despite reimbursement China is arguably a self-pay market.

This lack of referral is very inefficient and the government, looking to contain its healthcare spending, wants to explore ways to empower the patient to be involved in their own healthcare decisions.

Lack of private health insurance

Although the private health insurance market is growing rapidly it is still very rare to find anyone in China with any coverage beyond the public reimbursement schemes. Therefore the burden is on both the government and the individual to meet the growing cost of healthcare provision.

The Current Retail Market

Currently China is a hospital dispensing market, with only 22% of prescription-only medicines sold via retail pharmacies. This is a completely different situation to the US where in 2009 74% of prescriptions were filled at a retail pharmacy.

In 2010 the retail pharmacy market in China is highly fragmented. There are an estimated 360,000 drug retailers in urban China but only 491 had annual sales of more than US\$7.3 million, accounting for only 0.14% of the total outlets. There are an estimated 2,000 retail pharmacy chains operating 120,000 stores. Therefore two in every three retail pharmacies are sole traders.

Amongst the chain stores there are some familiar names like Walmart and CVS but they account for a small proportion of prescriptions. For example in 2010 Walmart had 187 units in 99 cities in China.

The Opportunity

There are a number of key issues which are proving instrumental in creating opportunities and driving the rise of the retail pharmacy in China:

- Consolidation
- Government policy
- Convenience
- Trust

Consolidation

From a pure economic perspective the retail pharmacy market is ripe for consolidation. Not only is this highly fragmented market inefficient, but new policies are also combining to make the category more attractive to investors. Currently the single biggest player is Nepstar Chain Drugstores with 2,500 stores across China but a recent investor report in the US suggests that the business is undervalued and represents a good investment opportunity.

In addition to Nepstar and Walmart, the Hong Kong based Watson's is looking to consolidate its position in this growing market.

Government Policy

With almost 80% of prescriptions filled at hospital pharmacies one could describe China as a prescribing and dispensing market. This situation is not unique to Asia, with doctors in both Singapore and Malaysia able to write and fill a prescription. However the danger is that the prescribing and dispensing model can lead to abuse and it is for this reason that South Korea separated prescribing and dispensing almost 10 years ago.

The Chinese government wants to change the current hospital reliance on drug prescription, which is their main source of income. Hospitals make the majority of their profit (an estimated 60%) from drug dispensing rather than patient consultation or hospital stays. The government is worried that this model is both inefficient and open to abuse. Indeed many patients privately question whether the medicine they have been prescribed is chosen on its medicinal benefits or its profitability to the hospital.

... hospitals in China are “notorious for padding revenues and doctors’ salaries by prescribing expensive or unnecessary medication, a practice that infuriates ordinary Chinese”

A recent article published by *Reuters* in 2009 put it more strongly suggesting that hospitals in China are “notorious for padding revenues and doctors’ salaries by prescribing expensive or unnecessary medication, a practice that infuriates ordinary Chinese”.

Convenience

As stated before China is a hospital market with no formal primary care/referral model. But what does this actually mean to the patient? With no referral model in place the patient is free to present wherever they can afford. Patients have to make a trade-off as the best doctors are thought to be found in the large Tier 3 hospitals, but these hospitals are expensive and are much more popular. This means that patients seeking treatment not only have to pay more but also need

to spend a long time queuing to see their chosen physician. Typically with travel time and waiting time a hospital visit can take a whole day. In a recent syndicated study conducted by The Research Partnership in China it was found that Type II diabetic patients spend approximately 17 hours per month on the treatment of their condition, with a large proportion being spent on hospital visits.

To reduce the amount of time spent at consultations, patients have started adopting different strategies. The most popular strategy is to visit Tier 3 hospitals for key consultations, typically at the beginning of chronic therapy and at important intervals, and then go to smaller Tier 2 or Tier 1 hospitals for more routine visits. Tier 1 & 2 hospitals are more convenient because there are many more of them plus they can be less busy. More importantly if the patient only wants to refill their prescription why do they need to go a Tier 3 hospital, after all they are free to present wherever they like and they hold their own medical records?



“Nowadays, Chinese people don’t trust Chinese medications. They trust Western brands more as they have a better reputation”

Trust

Over the last few years China has been hit by a number of very high profile food and drug scandals which have rocked consumer confidence. In 2007 Zheng Xiaoyu, Head of the China State Food and Drug Administration was executed for taking bribes to approve sub-standard medicines including an antibiotic, which was blamed for at least 10 deaths. Additionally there have been scandals involving tainted infant formula and even pet food in the US.

The impact of these events has served to undermine consumer confidence in Chinese manufactured products. Huang Jianshi, Assistant President of the Chinese Academy of Medical Sciences sums up this consumer sentiment saying “Nowadays, Chinese people don’t trust Chinese medications. They trust Western brands more as they have a better reputation”.

This distrust combined with the suspicion that hospitals may not have the patients’ best interest at heart is leading consumers to look for what they consider more reliable alternatives.

The Retail Pharmacy Age

The combination of these factors suggest that the rise in the importance of the retail pharmacy is inevitable. The money men smell an opportunity, the government wants to change the current hospital dispensing model and the consumer wants a trustworthy, convenient alternative.

However the rise of the retail pharmacy is not without its challenges. Moving away from the hospital model represents a huge leap for many patients which although not perfect, is very familiar. Many patients are concerned about both the ability and the impartiality of the retail pharmacist. The question is does the retail pharmacist have a sufficient level of knowledge and the experience to do the job as well as the hospital pharmacist? Perhaps an even bigger challenge is the issue of impartiality—the perception is that the retail pharmacist is there to make a profit, so can they put this behind them and put the patients’ best interests first?

While there are challenges many industry insiders believe that the combined desire of private industry, the government and the consumer will overcome these obstacles and that it is a question of when and not if the retail pharmacy will rise.

The impact on Market Research

The question to market researchers is what does this change mean to conducting primary research in China? Well, it very much depends on your objectives. If you want to understand factors that affect prescribing decisions then you will still need to interview those at “Doctor in Charge” level and above in Tier 2 and Tier 3 hospitals, as they are the ones who initiate prescriptions. However if you want to understand prescribing behaviour, patient characteristics, prevalence and patient understanding then perhaps the pharmacist can be included. Furthermore, if patients do start using retail pharmacies on a regular basis then they could be a good place to intercept the patient to recruit them for primary research.

Overall I believe that retail pharmacies will grow in importance over time and the pharmaceutical industry will try and leverage this channel as much as they can. Therefore market researchers should closely monitor developments and identify opportunities that allow us to get closer to the patient and understand prescribing trends. ^