China Remains a Promising Market for Life Sciences Companies

With the rising costs of doing business, increasing competition between both local and multinational corporations (MNCs), and dwindling talent force in China, many organizations are looking to neighboring regions in Asia to better serve their offshore needs. However, our global life sciences team believes that China still bears many opportunities for life sciences companies to reap significant rewards.
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With national healthcare expenditures expected to reach $1 trillion in 2020, China remains an attractive destination for many multinational corporations (MNCs) operating in the life sciences sector.¹ Our life sciences practice leaders have observed that demand for healthcare in China is growing for a number of reasons, not the least of which is the comprehensive reform aimed at improving healthcare infrastructure and extending insurance coverage to China’s growing population.² China offers life sciences organizations access to a large volume of patients whose medical needs have gone unmet for many years, as well as opportunities for innovation through government-backed research and development programs. The life sciences industry in China, however, is not without its challenges. We recommend that MNCs carefully evaluate the implications and costs associated with building best-in-class leadership teams in China before entering or further increasing investment activity in the region.

Growing Population of Healthcare Consumers

China’s middle-class is “projected to increase from 29 percent of urban households in 2005 to 75 percent in 2020.”³ The emerging middle-class adds to the subset of individuals who have the ability and flexibility to purchase healthcare products and services in China. Moreover, the healthcare reform (first introduced by the Chinese government in 2009) offers insurance coverage to all Chinese citizens, 95 percent of whom have already benefited from this policy change and received coverage.⁴ The rise of the consumer middle-class, coupled with the increasing population of insured Chinese citizens, presents both MNCs and local life sciences organizations with the opportunity to address and satisfy the medical needs of a large volume of patients.

China’s Research and Development Incentives

Our clients have indicated that they expect demand for pharmaceuticals and medical devices to continue to increase as more Chinese citizens seek treatment. With this in mind, it comes as no surprise that the Chinese government has targeted the biomedical industry as an area of strategic growth that will likely bolster its GDP. The government provides incentives for both local organizations and MNCs to invest in research and development (R&D) in hopes of creating new products to satisfy the impending demand for medical services. The Chinese government offers preferential services, such as “expert advice, public facilities, financing, and academic exchange,” and has relaxed certain barriers to clinical trials to get new products to market faster.⁵ Many MNCs are finding it difficult to compensate for decreased revenue streams as their patents for “blockbuster,” or brand name, highly profitable drugs expire. To offset the drop in their returns, several companies are reducing their workforces and scaling down expensive R&D initiatives in their native countries.⁶ Considering that the majority of pharmaceutical products consumed in China are generic drugs, MNCs are counterbalancing their decreased revenues by taking advantage of their expiring patents and creating low cost, generic alternatives for the growing population of healthcare consumers in China.⁷

With a much larger pool of patients to treat, China provides MNCs and local organizations with an opportunity to earn huge returns by developing drugs and medical devices geared toward the specific needs of the Chinese population. For that reason, our life sciences leaders encourage MNCs to partner with local organizations through mergers, acquisitions and

joint ventures to tap into the local pool of senior executives and share knowledge and expertise. By collaborating with local Chinese executives, senior leaders at MNCs can gain insight into the unique needs of the population in China and tailor R&D initiatives to address those region-specific needs. Additionally, local organizations’ familiarity with the clinical trial processes, regulatory mandates, and industry framework will allow companies to bring new products to market faster and promote and sell directly to the growing network of local hospitals and community care facilities. In fact, many MNCs, such as Eli Lilly, Pfizer, Merck & Co. and Novartis, are already setting up clinical testing and R&D operations in China, partnering with local organizations to better understand the needs of the local population, and capitalizing on the R&D incentives and services offered in the reform.8

Challenges to Doing Business in China

Although China is poised to become one of the largest healthcare markets by 2020, we strongly advise MNCs to think critically about the human capital requirements needed to be successful before growing their presence too quickly. Perhaps the most important factor to consider is the talent landscape in China, a region where senior leaders with the right blend of competencies are becoming increasingly more difficult to source. With several MNCs entering China and local Chinese life sciences companies experiencing higher profits, we have observed demand for best-in-class talent in China to far exceed supply. As such, the cost of hiring and retaining key executives is disproportionately high. We recommend that MNCs develop robust talent acquisition and retention strategies to set realistic expectations on the cost of doing business in China.

Developing a Strategic Action Plan for Investing in China

Despite the rising cost of talent, increasing competition between MNCs and local life sciences organizations, and growing aggregate cost of supporting a much larger pool of insured patients, many believe that China stands to lead the life sciences sector globally within the next decade. Companies would be smart to create strategic talent pipelines to build best-in-class teams as the war for talent in the life sciences sector in China wages. To remain competitive, MNCs must attract and retain key senior leaders with insight into the needs of an emerging consumer class, experience navigating the legal complexities of a market in the midst of healthcare reform, and the ability to translate and lead between headquarters and operations in China.

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About Susan Oliver

Susan Oliver is a senior partner at NGS Global. Co-located in the firm’s Atlanta and San Francisco offices, she focuses on senior-level assignments in the pharmaceutical, biotech, medical device, diagnostics and healthcare services industries. Ms. Oliver also leads the firm’s Life Sciences Practice in the Americas. A significant portion of her work in the life sciences arena is with early stage and clinical stage venture-backed companies.

Ms. Oliver has placed numerous technical, operations, sales, marketing, pharmaceutical, engineering and medical device professionals. She has an excellent understanding of specialties that are of critical importance to life sciences companies, including quality assurance, regulatory and clinical affairs, technology, bioinformatics, and distribution.

Prior to the formation of NGS Global, Ms. Oliver was a senior partner at Nosal Partners LLC. Ms. Oliver was previously a founding partner and senior executive search consultant at Oliver John Partners, where she conducted numerous senior-level assignments for life sciences, advanced technology, consumer products, pharmaceutical manufacturing, marketing and distribution, Internet, and pre-IPO companies. Before co-founding Oliver John Partners, Ms. Oliver was a senior consultant in the San Jose office of 54th Street Partners - the consulting division of the venture capital firm Global Accelerator.

Ms. Oliver was previously a senior associate in the San Francisco office of Korn/Ferry International, where she became a key member of the firm’s Consumer Products and Advanced Technology Practices. Prior to joining Korn/Ferry, Ms. Oliver worked in the San Francisco office of Heidrick & Struggles.

Ms. Oliver graduated from Idaho State University in 1991 with a degree in Sociology.