



CHINA DETOX

How western healthcare systems can slim down according to the Chinese role model

Improving healthcare and increasing life expectancy without the costs skyrocketing: China is currently pursuing this goal. The Western healthcare sector should not only take a look at how the Chinese are approaching this task; it would do well to actively participate in the development. This experience can be used to modernize its own, often dogmatic systems and business models and, at the same time, exploit market opportunities in China.

High life expectancy without spiraling costs: Is that even possible?

Industrial countries in the West have demonstrated how not to reach the healthcare sector's major goal: The life expectancy in these countries has only increased in very small steps since 2010 – by 0.2 years in the United States and 0.6 years in Germany. In contrast, the health care costs per capita have exploded by around 20 percent over the same period. (see exhibit)

And there is no end in sight. Western healthcare systems are still strongly insisting on their established treatment and reimbursement methods. At the same time, the aging process of our society is progressing and the extra cost for the treatment of chronic and multimorbid patients is on the rise.

China's healthcare sector, meanwhile, is facing other challenges: It wants to increase the overall life expectancy, which is currently at 76 years, by a considerable amount through better healthcare provision – despite the fact that typical lifestyle diseases like type 2 diabetes, hypertension and arteriosclerosis are becoming increasingly common and have only been treated to a limited extent thus far.

Early treatment is a must have

However, Western industrial nations should not equate these supposed deficits

with a lack of capabilities on China's part. In fact, on several occasions, China has adapted and used technological developments at a rapid pace, both to bring about change in its own country and to independently create added value in combination with global marketing.

This effect can be observed across many industries: In the area of electromobility, for example, the Chinese manufacturer BYD sold 30 percent more e-cars than Tesla in 2016. With regard to mobile payment systems, an area dominated by Alipay and WeChat Pay, China has reached a transaction volume of 5.5 trillion U.S. dollars – almost 50 times as high as in the United States.

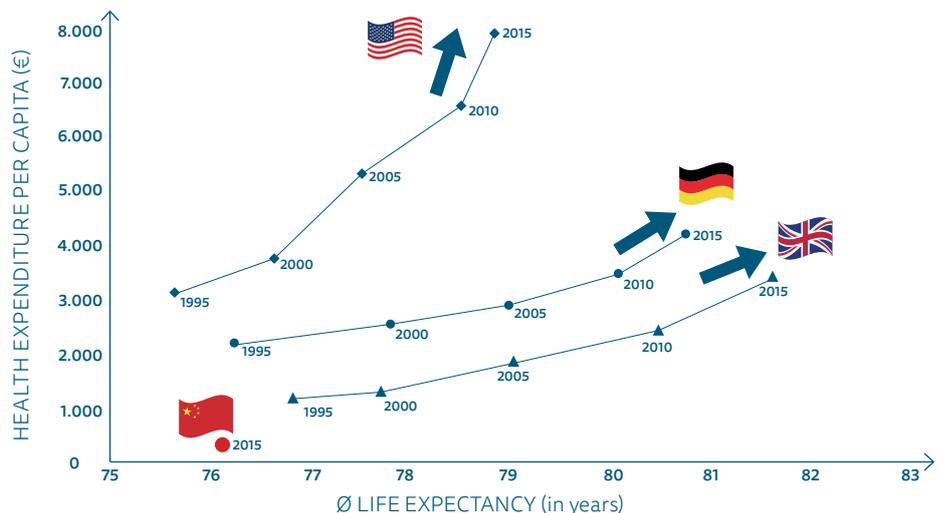
And the healthcare sector also shows: China is not just catching up, but rather introducing promising new approaches that could lead the way to the right formula for Western players, too.



Novel approaches in medical technology and treatment methods in China question the efficiency of Western healthcare systems while offering opportunities for leaner and healthier structures.

COST FEVER IN WESTERN HEALTHCARE SYSTEMS

Review 2010-15: Only small gains in life expectancy while enormous increase in healthcare cost/capita. Not any longer a satisfactory model for the aging populations in Europe and North America.



Petri dish with a good breeding ground

The conditions for changing China's healthcare system are favorable:

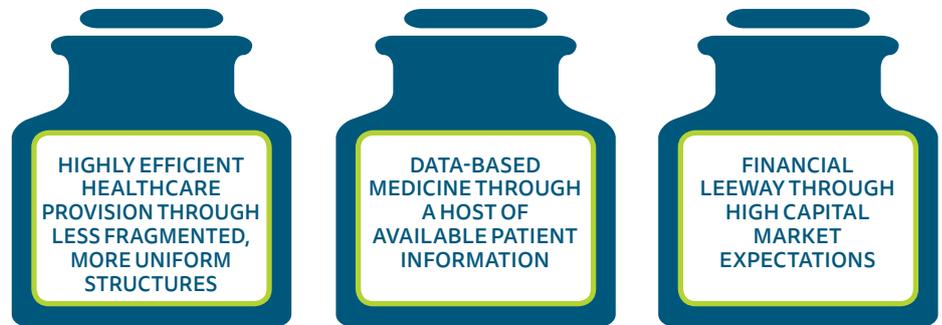
- The healthcare system is highly centralized, with almost all examinations taking place at hospitals, which are often ten times bigger than those in the West. These larger units can work more cost-efficiently than doctor's offices or small clinics, for example due to economies of scale when it comes to using expensive diagnostic equipment.
- China relies on digitalization and big data like no other healthcare system. The rapid development of data-based medicine is accelerated by two factors: 1) Large numbers of patients like those found in China enable a faster and more robust validation of ideas and tests. 2) Simple access to patient information, since the protection of personal data is subordinate to the common good.
- China uses multiple arbitrage for the acquisition of know-how and technologies in the West. Driven by very positive capital market expectations, the high multiple valuations provide financial options. Chinese players use this leeway to grow outside their home market, as for example Creat Group/Shanghai RAAS in its acquisition of British blood plasma player BPL and envisaged purchase of German peer Biotest AG.

The formula for the West

These characteristics of the Chinese healthcare sector also provide a unique opportunity for the West. The prerequisite is that local pharmaceutical and health

NEW CHINESE MEDICINE AN ALTERNATIVE FOR THE WEST?

Three characteristics of modern Chinese healthcare that those responsible in the Western healthcare sector should look at more closely.



care companies as well as investors, health insurers, national ministries and healthcare institutions regard China not only as a market but as a potential recipe for a healthy trimming.

National authorities should watch this experiment closely and use their results to draw conclusions for the rules and regulations in their own healthcare sectors. All other players should take an active part in the Chinese experiment and promote greater integration between the different areas of the healthcare system, similar to the current practice in China:

- Fosun acts as an integrated pharmaceutical manufacturer with its own hospitals and health insurance division.
- Imaging device manufacturer Neusoft offers not only equipment but also cloud solutions for hospitals and entire provinces.

Furthermore, investors should check their portfolios to determine whether the market positioning of their investments is still

in keeping with the times and examine the threats posed by Chinese providers such as Shanghai United Imaging in the diagnostic imaging sector.

A glimpse at the current developments in China – both in healthcare and other industries – should be enough to shake up the Western healthcare sector. The future requires slim structures, and the Chinese detox is a proper way to make it happen.

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WHAT WESTERN PLAYERS SHOULD DO NOW:

PHARMA AND HEALTHCARE COMPANIES	INVESTORS	POLITICIANS
<ul style="list-style-type: none"> • Gather experience in China, e.g. in the area of data sciences for personalized medicine • Adaption of these results and introduction of innovative business models in the West 	<ul style="list-style-type: none"> • Review portfolios with regard to the developments in the Chinese healthcare sector • Analyze, in which areas Chinese companies can achieve price- or innovation leadership (e.g. robotic surgery, precision radiotherapy) 	<ul style="list-style-type: none"> • Take a close look to the development in China to break up dogmatic structures in western countries • Create efficient structures to ensure a high-quality care in the future