

## Prescription for healthier growth

### *Shaping China's life sciences market*

*Change is in the air for China's life sciences industry, as is continued growth. This climate, as well as the government's heavy investment in healthcare reform and its goal to create a more innovative and competitive industry, will greatly impact the market's key players. We examine the implications for those operating in China and outline recommendations in the key areas of innovation; manufacturing quality; and sales, marketing and distribution.*

China's life sciences industry is viewed as a key growth engine both within China, as well as globally. It is also undergoing massive changes, due partly to China's intention to invest heavily in healthcare reform. As these changes unfold, we believe:

- Increased social insurance for healthcare will lead to more accessible and affordable services for rural populations, migrant workers and urban residents.
- There will be more efficient and effective delivery of healthcare services. Introduction of primary care in urban areas and a three-tier rural healthcare system will result in new customers and changes to the channel mix.
- There will be increased attention on pricing controls, availability and safety of prescription drugs due to changes in regulations and the establishment of national pricing, listing and bidding guidelines.

The life sciences industry is also being shaped by the government's efforts to boost innovation and competition. These efforts are increasing the focus on and consolidation of research and development (R&D) resources, which we believe will lead to a more vibrant R&D market. In addition, revision of China's good manufacturing practices (GMP) and good supply practices (GSP) will increase quality and compliance standards, lifting requirements for manufacturers and distributors.

To succeed in China's rapidly changing life sciences market, we recommend organizations focus on increasing capabilities in three important areas: innovation, manufacturing quality; and sales, marketing and distribution.

### **Innovation**

**Organizations should strengthen R&D capabilities, taking advantage of national and regional attention and China's immense talent reserves.** For domestic pharmaceutical companies to evolve from generics to

innovation, they should build up talent while developing their own innovation model. We have identified various strategies they could follow, including the hybrid model, which enables domestic companies to exploit the low cost base in China and offer outsourcing services to third parties to subsidize the revenue required to fund R&D activities. Another strategy involves forming strategic alliances and licensing deals with multinationals and academia to develop and market a profitable portfolio, with an eventual goal of moving toward global markets.

Given the importance of the China domestic market to sales and the potential of China's innovation abilities, multinational companies should evaluate opportunities to actively source within China's innovative base. They should implement an effective biopartnering strategy by proactively searching for partners in China, understanding the unique interests of Chinese R&D organizations and facilitating interaction with global partners.

### **Manufacturing quality**

**Companies must transform their manufacturing capabilities to move toward proactive quality management, lower operational costs and effective regulatory compliance.** In an environment where GMP standards are being increasingly refined, improved and enforced, achieving high-quality and compliant manufacturing is no



longer a differentiator, but a prerequisite. Leading domestic pharmaceutical companies can help improve compliance and increase quality by 1) being familiar with compliance requirements, particularly if entering international markets; 2) setting up and implementing effective quality management processes and systems; and 3) maintaining training records and resource qualifications.

Leading domestic pharmaceutical companies should also take a structured approach to managing compliance strategically and tactically. Strategically, they can analyze risk diagnostics to identify root causes of failure, quantify product risk and measure revenue impact. From a tactical standpoint, they can help transform the industrialization process by building quality into products and processes using science, systems and technology.

## Sales, marketing and distribution

**Commercial operations can improve access, scalability, affordability, responsiveness and safety through improved channel and logistics management.** Life sciences players are being challenged to provide affordable, quality, safe drugs. In addition to building

effective sales management and channel strategies, there is a need for tighter collaboration between manufacturers and distributors. The complexity of China's market makes it more challenging for sales and marketing to get the right information and data to the right people at the right time. To address these changing market needs, life sciences companies need to assess their ability to bid and list products effectively, assemble aligned and professional sales teams, and implement expanded marketing programs.

## Conclusion

The China life sciences market is facing unprecedented change and growth. The government's heavy investment in healthcare reform and its goal to create a more innovative and competitive industry will greatly impact the market's key players. As leading players prepare to compete in one of the world's largest markets, they can look to our recommendations to assist them in executing efficiently and effectively in three key areas: innovation; manufacturing quality; and marketing, sales and distribution.

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- **IBM Supply Chain (SC) Transformation Solutions:** Integrate your company's extended supply chain functions, from drug product development through distribution to patient.
- **IBM Life Sciences Sales and Marketing Transformation Solutions:** Transform your commercial strategy through operations capabilities using solutions designed to help define and implement new business models, supporting processes and technologies while emphasizing and enabling a core set of business intelligence capabilities.

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