



IBM Institute for Business Value

Growth and collaboration

*Embracing new challenges facing China's
life sciences market*

Overview

The Chinese government continues to invest in reforming its healthcare ecosystem. A key element of these reforms is the essential drug list (EDL), intended to reduce drug costs. The new EDL environment will create challenges and opportunities for pharmaceutical companies, pharmaceutical distributors and hospitals, as well as trigger changes in how they operate and compete. Integration and collaboration supported by information sharing will be required across four areas: new differentiated services development, operational excellence, sales effectiveness and supply chain optimization.

China's changing healthcare system

The Chinese healthcare system is experiencing unprecedented change and growth. As government-led healthcare reform aims to establish a more transparent, tightly controlled and patient-oriented system, pharmaceutical companies, distributors and hospitals will be forced to go through dramatic changes, which, while challenging, could bring unprecedented opportunities.

As part of this healthcare reform, approximately 30 percent of the basic government healthcare organizations have implemented the national essential drug list (EDL) system and another 60 percent are in the process of implementing the system. Because the system involves a structured bidding process, the average drug price has decreased by 25 to 30 percent.¹

With the development of basic healthcare organizations, the pharmaceutical industry is poised for rapid growth. Pharmaceutical companies should seize the opportunities before them by improving their sales coverage and expanding into new markets. China's drug distribution market is also experiencing change in the form of rapid integration. Mergers and acquisitions have resulted in a top tier of powerful, large distributors. Facing heavy market pressures and numerous regulations, these distributors will be challenged to successfully optimize their distribution capabilities in an expanding network while, at the same time, explore innovative value-added services in response to shrinking



profits. Hospitals will also be affected, as rationalized drug prices will lead to sharp revenue declines for them. As a result, they should focus on service management improvements and new sources of revenue.

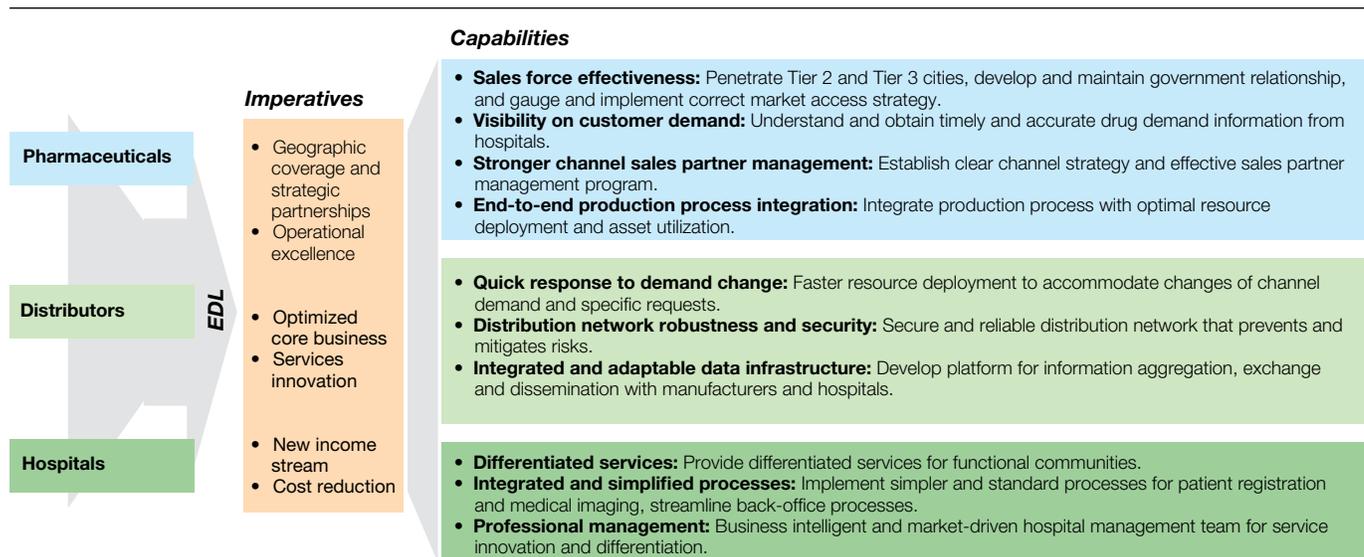
Because each player in the EDL environment has the potential to help the others, collaboration is essential. Four areas in which they should work in close cooperation are: new differentiated services development, operational excellence, sales effectiveness and supply chain optimization.

Transformation through collaboration

To succeed in China's EDL-driven environment, key stakeholders need to develop and strengthen some strategic capabilities (see Figure 1). Mastering these capabilities will require mutual collaboration and close cooperation among the various market stakeholders.

New differentiated services development

Drug distributors can provide outsourcing services for hospitals associated with drug application, pharmaceutical affairs and pharmacy management. Hospitals too must develop new differentiated services by simplifying noncore managerial processes and focusing on drug research, treatment service innovation and the promotion of integrated patient services. Distributors can also provide pharmaceuticals with fee-based, value-added services by taking advantage of their competitive edge in supply chain management and other areas.



Source: IBM Institute for Business Value analysis. 2009.

Figure 1: Strategic capabilities key stakeholders should develop and strengthen.

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Operational excellence

Distributors can provide pharmaceuticals with drug demand data and channel sales information that the manufacturers can use to forecast sales volumes and devise manufacturing plans. As another example, hospitals can assist pharmaceuticals in understanding patient demands by offering information on drug application and efficacy.

Sales effectiveness

Pharmaceuticals can establish strategic partnerships with distributors to explore new markets, particularly second- and third-tier cities where it is important to develop relationships with local governments and quickly strengthen sales coverage capabilities. Distributors can provide pharmaceuticals with timely and reliable data to help them select channel strategies and implement effective channel management processes.

Supply chain optimization

As distributors are required to obtain robust, secure and reliable capabilities in logistical networks and integrated data architecture in response to increasing geographic coverage and expansion, hospitals can help them forecast their scope of network distribution and improve resource optimization by providing relevant information. Also, through collaboration, distributors can help pharmaceuticals improve supply chain effectiveness, fine tune procurement processes, optimize warehouse and inventory management, drive changes in operations, reduce costs and enhance competitiveness, so as to forge an integrated, flexible and demand-driven supply chain network.

How can IBM help?

- **Supply Chain Transformation** solutions integrate the extended supply chain (from a company's product development functions, business partners and third party providers, as well as front-line care providers/patients) to enable production and distribution of innovative therapies. The solution set includes supply chain visibility, enterprise asset management, and track and trace.
- **Sales and Marketing Transformation** solutions help clients define and implement new business models, supporting processes and technologies while emphasizing and enabling a core set of business intelligence capabilities. They also address contract management, customer relationship management and master data management.

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Reference

- 1 Chen, Zhu. “Press conference at the 3rd Session of the 11th National People’s Congress in 2010.” March 8, 2010. <http://news.sina.com.cn/o/2010-03-09/181417190648s.shtml>