

Unlocking the true value of China's pharma market



When it comes to the size of the Chinese pharmaceutical market, figures are no longer hard to find. But determining an accurate value can still be a difficult and frustrating task.

Often the trouble stems not from a shortage of data but rather too much conflicting information. Numerous estimates from various "experts" and "reputable sources" have emerged recently, although few are accompanied by clear methodology or definitions.

While most sources tend to agree, more or less, on growth rates, figures for the actual current size of the Chinese drug market can vary considerably. For 2005, for example, these ranged from a \$13 billion estimate from IMS up to an official figure of \$27 billion. This article aims to help executives better understand the market by analysing estimates from several sources.

First it is necessary to understand one important fact – no single current source possesses a sufficiently large data pool or reliable statistical base to give a precise picture of the entire market. In my opinion, official statistics come closest, but the bureaucratic nature of data compilation can still affect accuracy and value.

There are now several independent, high-quality data services covering specific segments of the China market, for example the hospital and retail pharmacy channels. But while such markets in urban areas may be well monitored, there has not been any systematic data collection from suburban and rural markets, or from other urban sales channels.

Additionally, for certain segments, such as over-the-counter and ethical drugs, western medicines (WMs) and traditional Chinese medicines (TCMs), data availability and reliability still present problems, hampered by the fact that pharmaceutical regulations and

classifications are still being developed and are inconsistently enforced.

Currency exchange rates also need to be considered. The yuan is tending to appreciate against the US dollar and has already risen by 5% or so this year. If the Chinese government further loosens controls, the yuan could rise further, affecting market size in foreign currency terms. An exchange rate of Yuan8 per US dollar has been used in this article.

...overall market

The only authoritative reference for the total size of the Chinese pharmaceutical market is official statistics, which provide information on overall sales including domestic and foreign companies. These suggest that sales of all drugs, including WMs, biochemical drugs and TCMs, skyrocketed from just Yuan4.9 billion (\$600 million) in 1980 to around Yuan220 billion (\$27.3 billion) at ex-manufacturer prices in 2005.

Many projections for the overall market are likely to be based on these official statistics, and Wicon International has also come up with its own estimate as part of the *China Pharmaceutical Guide 2006* (co-published with *Scrip*).

A number of government agencies are involved in the collection and compilation of official statistics, including the National Reform and Development Commission (NDRC), the State Food and Drug Administration (SFDA) and the State Statistics Bureau, with NDRC being the lead agency in recent years.

These have mandatory requirements for the reporting by pharmaceutical companies of data on sales, output and other information, on which the official figures are based. Some companies – especially state-owned ones – have a tendency to manipulate the data in their filings, but government statistics nevertheless provide a valuable, solid basis for an overall picture of the market.

Much has been said and written about the burgeoning potential of the Chinese pharmaceutical market. But are these comments based on an accurate assessment of the current market?

James Shen investigates.

IMS publishes national and regional hospital drug purchase audits based on data collected from 728 representative hospitals nationwide, all of which have at least 100 inpatient beds and are located in large and medium-sized cities.

Using in-house statistical models, IMS puts the size of the Chinese hospital drug market at \$13.3 billion in 2005 (at purchase prices), up by 20.4% over 2004. It estimates that the hospital market for drug products will grow by between 15% and 18% in 2006.

However, it is likely that the IMS figures significantly underestimate the size of the hospital market, as the firm monitors only larger hospitals in urban areas. It is important to note that it has no coverage of smaller hospitals and clinics, especially those in suburban and rural areas, thus undermining its ability to give a precise picture of the entire Chinese hospital market.

The Chinese Pharmaceutical Association (CPA) publishes national and regional hospital drug purchase audits based on data from more than 400 representative hospitals nationwide. The CPA's estimate for the hospital sector, at purchase prices, is around \$15 billion. Again, its projection has the same weakness as IMS's, with data collected only from bigger hospitals in urban areas, and may underestimate the true size of the Chinese hospital market.

Nevertheless, the IMS and CPA data give a good picture of the market made up of large and medium-sized medical institutions in urban areas.

The Southern Medicine Economic Institute (SMEI) is an affiliate of the SFDA with privileged access to official data, and is the only organisation in China that can confidently claim to monitor retail sales at more than 2,000 pharmacies nationwide. It publishes national and regional sales audits.

It has projected the size of the retail pharmacy sector at \$10 billion in 2005, including sales of WMs, TCMs and health foods. With the market share of health foods estimated by SMEI at around 11%, the size of the Chinese retail pharmacy market for drug products is therefore some \$8.9 billion. The price basis of this estimate was not announced but is believed to be based on retail prices.

The SMEI has released little information about its methodology for collecting and compiling retail pharmacy data, so it is hard to comment on its reliability.

In 2005, IMS acquired United Research China (URC), a local market research firm specialising in retail pharmaceutical sales. IMS/URC publishes a retail pharmacy sales audit on the basis of data collected from six separate retail channels covering OTC sales in more than 400 Chinese cities. However, an estimate for the size of the Chinese retail pharmacy market is not available from IMS/URC, which explained to Wicon that its market data is expressed as a model with multiple parameters. It said that a simple projection without such parameters could be misleading.

The China Association of Non-Prescription Medicines is a semi-official organisation of OTC companies in China which collects information from 350 member firms and conducts OTC market research.

The association has estimated the Chinese OTC drug market to be worth \$7.3 billion (Yuan60 billion) in 2005, with an average growth rate of above 20% over the past five years. The price basis of this estimate is unclear, but it is likely to be at the wholesale or ex-manufacturer level, since the data is probably based on information filings from members.

Nicholas Hall & Co, the UK market research and information company, specialises in the global OTC drug market and publishes DB6, a global OTC database. Unlike the retail pharmacy audits, the mainstay of DB6 content is manufacturer interviews, with data subject to continual review and verification. Nicholas Hall also collates data via pharmacy/retail fieldwork, contacts with trade associations and conference and seminar programmes.

DB6's estimate for the Chinese OTC market in 2005 is \$4.75 billion, up by 13%. Its data covers OTC drug sales through all OTC outlets (authorised supermarkets are allowed to sell certain types of OTC medications, for example), and is expressed at ex-manufacturer prices.

The sharp difference between the above two estimates may be the result of current ambiguities in the definition of the Chinese OTC market. The first is likely to be based on total retail

pharmacy sales of drug products, while the second may be more reliable as it takes into account products approved by the SFDA as OTCs and all outlets that sell OTCs. A difference in price basis could also account for the discrepancy.

Wicon estimates the size of the entire Chinese pharmaceutical market to be \$21 billion at ex-manufacturer prices.

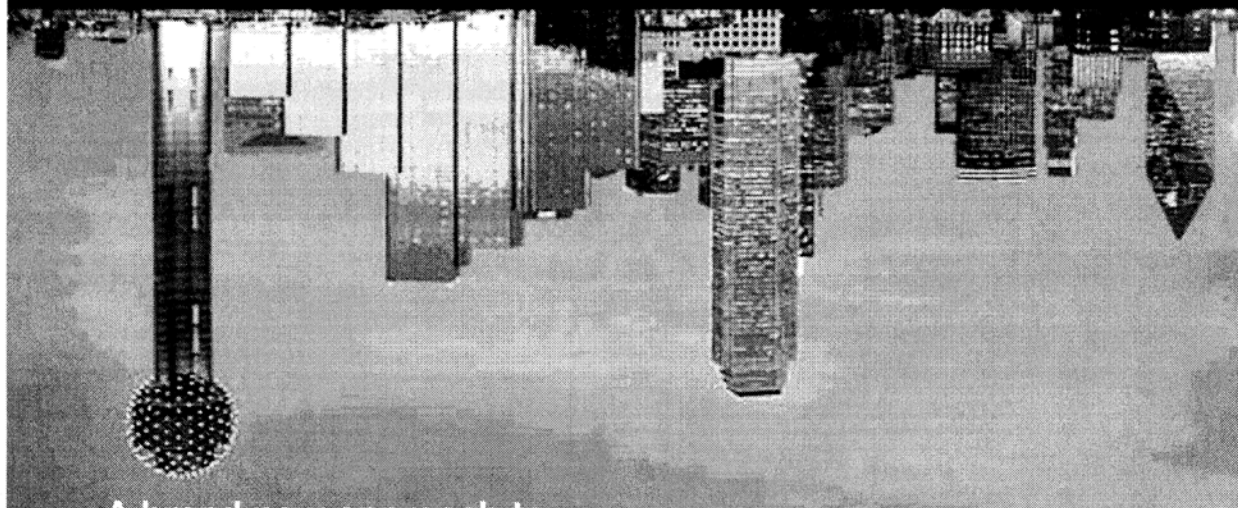
This figure has been derived from official statistics, which we believe are relatively reliable when it comes to estimating overall pharmaceutical market size since they are compiled from compulsory government information filings by all Chinese pharmaceutical manufacturers.

However, our estimate is not a precise one and should only serve as a ballpark reference. It was derived from a simple calculation as follows:

Total pharmaceutical industry sales (official) – total export sales (official) + drug import value (Chinese customs statistics) = overall Chinese pharmaceutical market size at ex-manufacturer prices.

James Shen is the president of Wicon International, which publishes Pharma China (a specialised English news service for the international pharmaceutical industry, www.pharmachinaonline.com), and with Scrip has co-published the China Pharmaceutical Guide 2006.

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