

Executive Insights

Asia-Pacific 2021 Hospital Priorities: Settling Into the New Normal

L.E.K. Consulting conducted the 2021 APAC Hospital Priority Survey with 411 hospital executives across both public and private hospitals in countries¹ across the Asia-Pacific (APAC) region. The fieldwork was executed in collaboration with GRG Health.² This article aims to provide an overview and understanding of the rapidly changing landscape in which hospitals are operating and identifies key trends within the region. Insights are provided into how hospitals across the region have adapted to the impact of the COVID-19 pandemic, and how this has shaped their priorities for the future.

Given these insights, the following trends have emerged from the survey:

- Shifting priorities to manage the impact of the pandemic
- Accelerating adoption of digital health solutions to expand capacity and improve clinical decision-making
- Leveraging digital channels to maintain engagement with physicians

This article also features the cost containment efforts for pharma products through the use of VBP (volume-based procurement)

and the NRDL (National Reimbursement Drug List) in China, and through the introduction of formulary guidelines in Japan.

Trend One: Shifting priorities to manage the impact of the pandemic

The COVID-19 pandemic has had a profound impact on hospitals; with hospitals having been caught unaware, they have naturally placed a higher priority on emergency preparedness going forward. However, there is also a clear need to shore up finances and maintain the hospital as a safe place for human capital. Other items that were on the typical hospital executive's agenda, such as offering clinicians access to new medical technology and standardization of clinical care protocols, have fallen down the list of priorities versus the immediateness of readiness and financial recovery. Medtech and pharma companies should expect greater scrutiny of economics and sensitivity on direct and immediate budgetary impacts compared to pre-COVID-19 times.

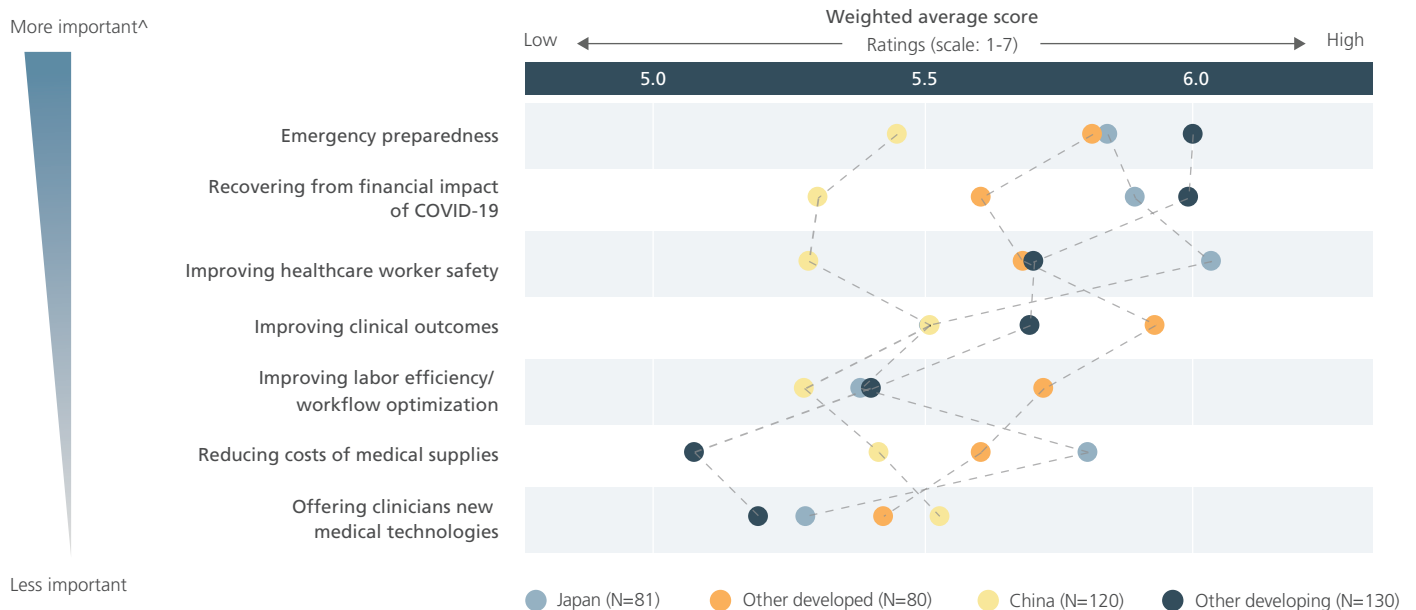
The top three strategic priorities in the region are emergency preparedness, recovering from the financial impact of COVID-19 and improving healthcare worker safety (Figure 1). Among these priorities, emergency preparedness remains a crucial, ongoing priority. Despite being able to control the spread of the pandemic initially, many countries have still been hit with subsequent waves that are proving harder to control.

Hospital spending over the next three years is expected to decrease. Due to ongoing uncertainty, the share of hospitals planning to increase spending fell from 30%-40% to 15%-25%. Although most hospitals in the region are showing more

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Figure 1
Hospital priorities



*Question: How important are the following strategic priorities for your hospital over the next 3 years?

Other developed markets include South Korea, Australia and Singapore, and other developing markets include India, Indonesia and Thailand; ^Ranked based on percentage of hospitals that chose "6" and "7-Very Important"

Source: L.E.K. 2020 APAC Hospital Priorities Survey

conservative planned spending compared to last year, Australia and China indicated planned spending sentiment that was similar to that of the previous year. On average, about 40% of hospitals in both countries intend to increase spending across all categories. Pandemic response aside, governments in the region have been trying to rein in healthcare costs. A specific example, which is explored in the feature box on page 5, is drug cost management policies in China and Japan.

Further, the pandemic-driven downturn in elective surgeries and patient consultations has affected hospital revenues. Much uncertainty regarding future patient volumes also remains. While the easing of restrictions and the implementation of new standard operating procedures have allowed some elective surgeries and outpatient consultations to resume, hospitals are unable to predict possible future surges that may cause a change of operational posture and priorities. As a consequence, this year also saw a reduction in planned capital expenditure for medical devices and equipment, especially for diagnostic imaging equipment, and to a lesser extent clinical support appliances. Compared with last year's survey, fewer hospitals expect an increase in capital expenditure over the next three years. However, this is not true across all medical device categories; nearly 7 out of 10 of those surveyed are expecting to spend more on medical consumables, up from 5 out of 10 in the previous year. Similarly, more hospitals are planning to increase spending on implantable medical devices this year compared to the previous year.

Hospitals are also planning to cope with the backlog of deferred procedures. In Australia, for example, the return of patients

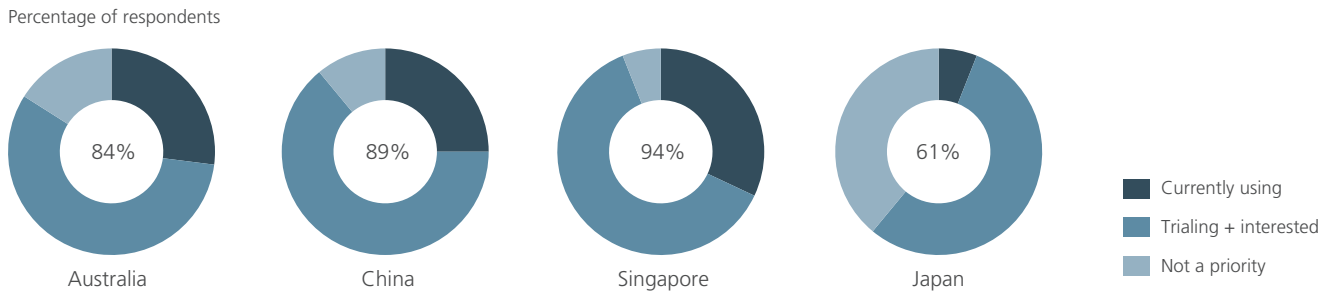
to hospitals has caused increased wait times to between 240 and 365 days for nonurgent elective surgeries.^{3,4} Hospitals are looking to their business partners to help with these types of challenges; a third of respondents ranked improving efficiency as one of the top three areas for which they are looking to medtech companies for help. This is in line with overall priorities, as 52% of hospitals indicated improving labor efficiency to be a top 5 priority. Hospitals have also indicated the increased use of digital solutions, which is covered in the next section.

Trend Two: Accelerating adoption of digital health solutions to expand capacity and improve clinical decision-making

The pandemic, with its restrictions on patient mobility and accompanying risk aversion to hospitals, has brought about an increased acceptance of digital health for all stakeholders. This has led to accelerated adoption of solutions such as teleconsultation, artificial intelligence (AI)-aided image analysis and remote patient monitoring. Although hospitals see the value of digital health solutions, concerns such as changing the standard of care and ensuring interoperability need to be addressed for wider acceptance and adoption.

COVID-19 has made hospitals more willing to test out new solutions. Patients are more receptive to digital alternatives, and governments see the benefit of greater adoption. Increasingly, regulations are being eased and reimbursements are being formalized for digital health solutions.^{5,6}

Figure 2
Percentage of hospitals for each stage of digital health solution adoption



*Question: Digitalization of hospitals is gaining traction in many countries. What digital health solutions have you adopted/would you like to adopt? Pie chart values are the average for patient diagnosis, patient treatment, remote patient monitoring, primary care and specialty-care patient consultation. Percentage is the sum of those who selected "currently using," "trialing" and "interested, exploring how this can be adopted"
Source: L.E.K. 2020 APAC Hospital Priorities Survey

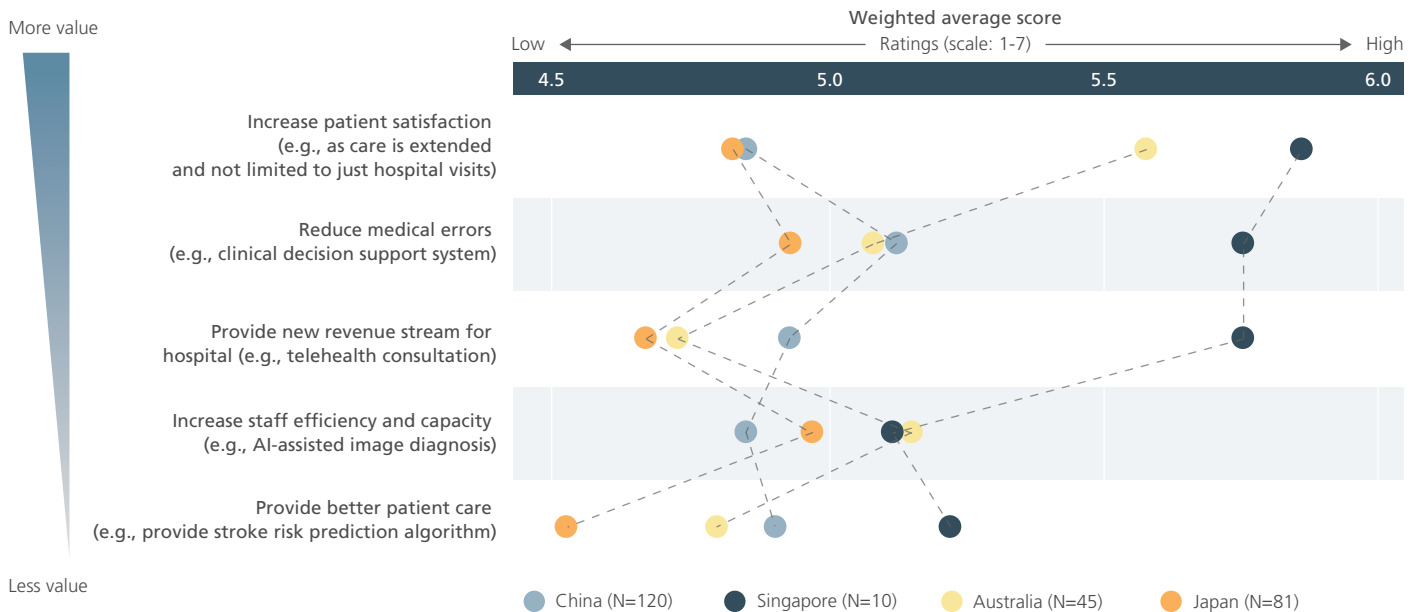
Overall, hospitals are increasingly turning to digital health solutions to strengthen their service (Figure 2), with around 1 in 4 hospitals in Australia, China and Singapore already using digital health solutions in patient diagnosis, treatment, remote patient monitoring and consultations. Even in Japan, where the percentage of hospitals currently using digital health solutions remains low, around half of hospitals are trialing or interested.

Some recent examples of digital solutions being deployed to cope with a surge in patients seeking diagnosis and treatment for COVID-19 are AI image analysis by Chinese company Infervision to identify potential COVID-19 patients,⁷ remote patient monitoring by Biofourmis for real-time vital signs and

symptoms tracking for patients waiting for swab test results,⁸ and robot assistants for food and drug delivery in Indonesia⁹ and India¹⁰ in order to limit healthcare workers' exposure to infectious patients.

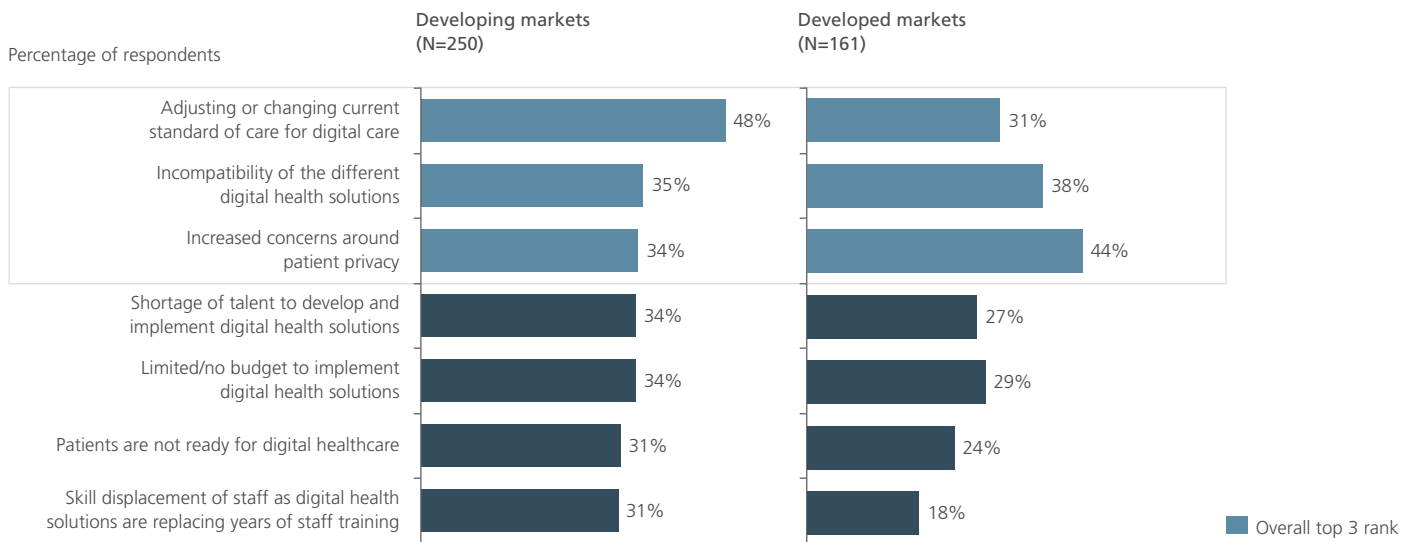
Hospitals see the most value from digital health in the reduction of medical errors and increased patient satisfaction (Figure 3). To realize such value, 65% of hospitals are increasing spending on hospital digitalization. For example, Philips IntelliSpace Critical Care and Anesthesia was introduced in Indonesia last year, in order to minimize medical errors.¹¹ In South Korea, a smart hospital uses its digital infrastructure to track its personnel in real time for more efficient staff deployment.¹²

Figure 3
Value of digital health adoption



*Question: What value do you think digital health solutions will likely bring about for your hospital?
Source: L.E.K. 2020 APAC Hospital Priorities Survey

Figure 4
Concerns for digital health adoption



*Question: What are your concerns for digital health adoption?
Source: L.E.K. 2020 APAC Hospital Priorities Survey

Despite the increased adoption of digital health solutions, concerns remain, and three key areas stand out: adjusting the standard of care for digital care, the interoperability (or lack thereof) of different solutions and increased concerns around patient privacy (Figure 4).

Of greatest concern for hospitals in the region is the adjustment of the current standard of care in order to integrate digital health solutions. In the traditional care setting, patients would physically go to hospitals to receive care. However, with care shifting away from hospitals and with increasing availability of newer solutions such as electrocardiogram-enabled smart watches, remote monitoring solutions and at-home testing kits, care can now be given while patients and physicians are physically apart. Given this shift, hospitals must adjust workflows and standard of care protocols to accommodate these changes.

Another top concern is the interoperability of the different digital health solutions. With each company developing its own solution — some using their own proprietary system and some on different open systems — each is capturing and storing data in different ways, which prevents data integration and communication. To ensure solutions being developed can be integrated with other systems, vendors should develop their solutions according to interoperability standards.

The third top concern is patient privacy (e.g., data protection), and companies must also pay attention to regulatory developments in the region, given that data leaks have occurred in countries like Singapore and Australia.¹³ To mitigate the risk of such breaches, governments in the region are stepping up efforts to regulate the protection of patient data. Recent efforts to do so include those of Indonesia,¹⁴ Singapore¹⁵ and Thailand.¹⁶

As digital health adoption continues to gain traction, medtech and pharma companies will need to continuously work with stakeholders to develop products and services and to address key concerns (patient privacy, product compatibility, etc.). Changes in workflow will need to be considered with the shift in customers' (patient, hospitals, physicians, community care facilities, etc.) preferences and the adoption of digital tools as care extends beyond and/or shifts away from the hospital. With care circles expanding and users taking more control of their health, the data aggregation and back-end processes will need to ensure interoperability with existing and emerging digital platforms, be compliant and be user-friendly.

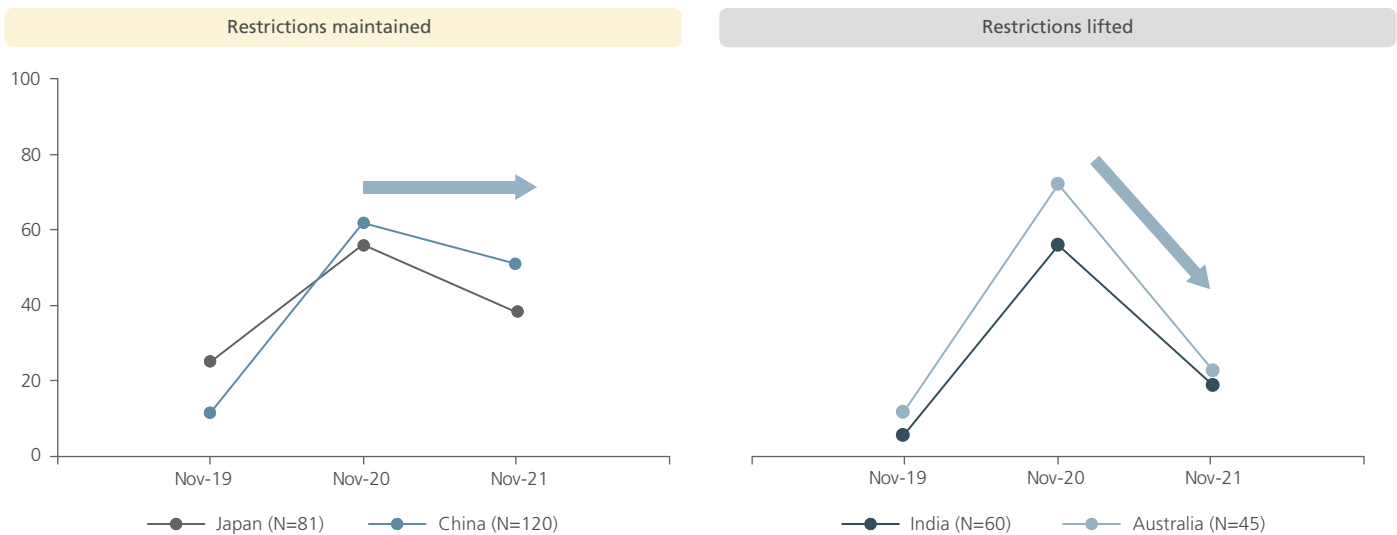
Trend Three: Leveraging digital channels to maintain engagement with physicians

Due to restrictions on physical access to healthcare institutions during the pandemic, physicians have increasingly engaged with sales representatives via digital channels. In most APAC markets, leaders expect a return to "normal" by the end of 2021. In China¹⁷ and Japan, however, these restrictions on sales access are expected to persist (Figure 5).

Yet the new normal will likely be one where the use of digital channels remains high. In all markets surveyed, more than 20% of hospitals are already using digital tools to interact with pharma and medtech companies. In South Korea, Australia and Singapore, this figure is close to 40%. Informal channels play an important role; the informal channels used by physicians and sales representatives tend to be broadly used social applications such as WeChat in China, LINE in Thailand and Kakao Talk in Korea. This has in turn resulted in efforts to formalize these

Figure 5
Restrictions on sales access

Percentage of respondents who selected "Significant restrictions on access of sales reps to clinicians and/or facilities"



*Question: Please select which of the following best describes your hospital's approach to managing suppliers' (e.g., pharma, medtech) sales/marketing representatives access to your facilities (choices provided: no restriction, minimal restrictions, significant restrictions)
Source: L.E.K. 2020 APAC Hospital Priorities Survey

communications channels, for example, through official microsites and mini-apps embedded in WeChat.

Considering this shift toward digital channels, medtech and pharma companies need to rethink their sales operating models and — more broadly — their go-to-market strategies. For example, implementing remote selling could allow them to expand their geographical coverage while reducing travel. Strategies such as this can simultaneously improve productivity and cost-effectiveness, and extend customer reach and satisfaction. Financial benefits can accrue to hospitals, patients, shareholders or all of the above. Medtech companies, particularly those that are selling highly sophisticated devices that require hands-on support, will need to leverage digital tools to the extent of being innovative around how to incorporate augmented reality (AR) or virtual reality (VR) technology to simulate their presence and support as if they are beside the physician/surgeon.

With severe limitations on and uncertainty over in-person interactions, companies are adapting their strategies to maintain customer engagement. Some strategies that multinational companies MNCs are using include utilizing AR/VR technology for virtual "hands-on" device training and subject matter microsites that compile curated information. This information can be shared with target users in a tailored manner depending on their needs; for example, junior physicians prefer materials to improve their basic surgery skills, whereas senior physicians are more interested in advanced surgery techniques and complex cases. Depending on the strategy used, who the target providers

are and the patients they serve, such information will need to be tailored to fit users' needs and preferences.

Impact of pharmaceutical cost-containment policy measures in China and Japan

In both China and Japan, notwithstanding the ongoing pandemic woes, governments are continuing their ongoing efforts to contain drug costs. In China, we provide insights on the effects of VBP and NRDL policies. In Japan, the government recently announced further efforts to push for more hospitals to have formularies as well as increase usage of generics and biosimilars.

Japan's Ministry of Health, Labour and Welfare recently committed to creating guidelines for formularies by 2022. The lack of guidelines and manpower has been cited by hospitals^{18,19} as one of the main factors holding them back from establishing formularies. With this drug formulary effort, the government aims to further encourage the use of generics and biosimilars. These two trends are supported by data from our study. Generic drugs are the second-highest priority for purchasing standardization by hospitals, following medical consumables. In addition, of the hospitals that have access to both originators and biosimilars, 6 out of 10 prefer biosimilars.

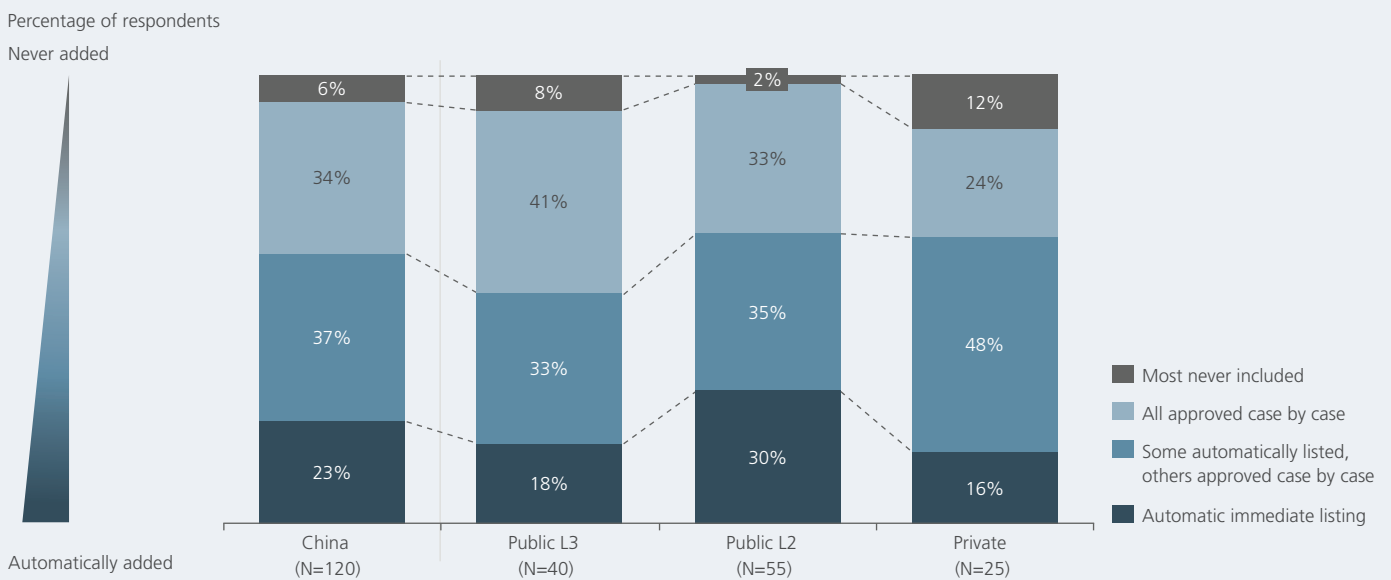
In China, there is an ongoing and accelerating effort to reduce "bought-in" costs for pharma and medtech using VBP, which has been shown to drive down prices by 90% or more.

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Lower prices have been made possible as pharma and medtech companies minimize sales and marketing costs. In pharma, where VBP is already more established, L.E.K.'s analysis shows pharma companies are visibly cutting back on commercial investment for VBP drugs (63% reduction in sales visits), implying the need for more cost-effective detailing. In contrast, VBP drugs that do not win the tender face a limited market as VBP covers about 70% of the market volume in relevant molecules/products. This represents a stark contrast to the pre-VBP markets where premium brands were able to secure both a price premium and high market share.

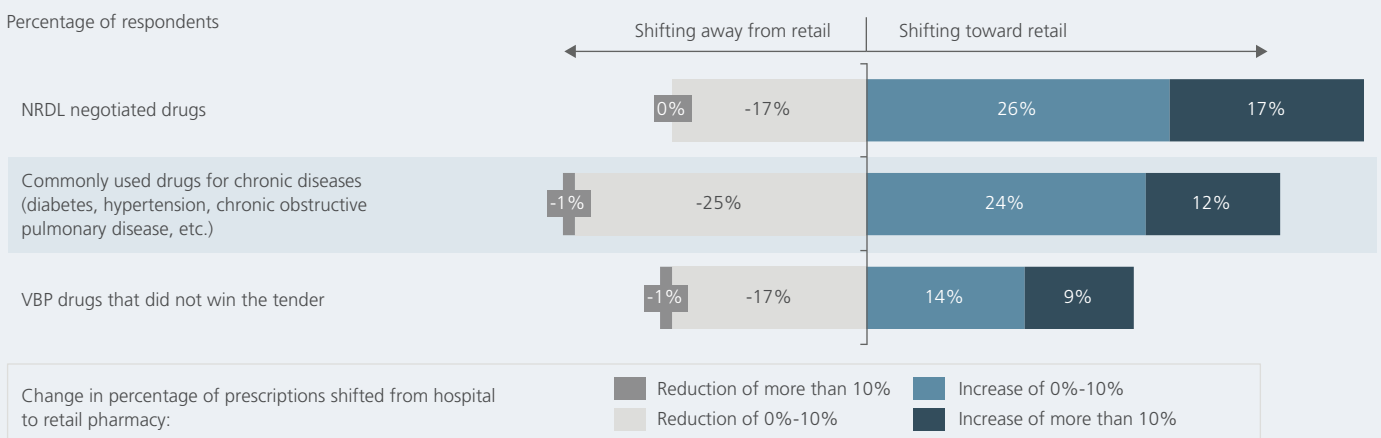
Cost savings from drug procurement using VBP have in turn allowed for faster and wider coverage of innovative drugs in the NRDL. To become part of the NRDL, drug prices are also negotiated substantially lower in exchange for access to a wider market due to much improved affordability on a national basis. NRDL has shortened the timeline for innovative drug market access, but immediate hospital listing is not yet universally guaranteed (Figure 6). In reality, there are still barriers to listing, and prescriptions can "escape" to retail pharmacies (Figure 7); how to effectively capture the market outside the hospital has now become a key question for many pharma MNCs.

Figure 6
NRDL facilitates addition into hospital formulary



*Question: What are the considerations for drugs negotiated to get on the National Reimbursement Drug List (NRDL) to get onto the hospital formulary, if they are not on the formulary before negotiation?; Public L3 refers to public level 3 hospitals, which are hospitals with 500 beds and above; Public L2 refers to public level 2 hospitals, which are hospitals with 100-499 beds.
Source: L.E.K. 2020 APAC Hospital Priorities Survey

Figure 7
Change in prescription from hospitals



*Question: How many prescriptions of each drug type have shifted to retail pharmacies?
Source: L.E.K. 2020 APAC Hospital Priorities Survey

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Key considerations to shape medtech and pharma strategy

The provider context in APAC is evolving rapidly and remains uniquely uncertain. Medtech and pharma companies need to address a range of important issues as they develop their strategies for the coming period.

- How have your customers been affected by COVID-19, and how have their priorities, financial health, spending patterns and purchase behaviors changed as a result? Which of these changes are transient and which are likely to be permanent?
- What are the implications of any changes for your product portfolio and service offerings? Where are you better? Where are you less well positioned? How can you capitalize on your strengths while reinforcing weaker parts of the offering? How can you create win-wins for your customers at this unprecedented time?
- What imperatives does the shift to digital create? In terms of where and how care is provided, how do customers prefer to engage? With the array of diagnostic and therapeutic approaches now possible, how should you respond?

- Given changing hospital and healthcare provider (HCP) access as well as engagement preferences, how does your commercial model need to evolve, especially in those markets where COVID-19 has precipitated a radical departure from previous norms? Building on the prior point, how do you need to incorporate digital engagement into your commercial model going forward?
- How is the emergence of new purchasing models — VBP and NRDL in China, group purchasing organizations and formularies in Japan — likely to affect your portfolio and engagement strategy? How should your plans and capabilities evolve as a result?
- Overall, what is required to lead and win in this fast-changing market environment and in this diverse region? How can you continue to stay relevant and create value for your HCPs and their patients?

2020 has put APAC's healthcare systems to the test, and the outlook is fundamentally uncertain. Keeping your finger on the pulse of hospital executives' views will continue to be a key to success for medtech and pharma companies as the ecosystem settles into this new normal.

Acknowledgments

Thank you to GRG Health (Growman Research Group) for the fieldwork contribution.



Endnotes

- ¹ APAC market coverage includes Australia, China, India, Indonesia, Japan, Singapore, South Korea and Thailand.
- ² GRG Health is a research firm specializing in the healthcare space.
- ³ <https://www.watoday.com.au/politics/western-australia/crisis-point-covid-19-blamed-as-wa-hospital-ramping-hours-reach-new-record-20201208-p56lp9.html>
- ⁴ <https://www.smh.com.au/national/nsw/hip-and-knee-replacements-overdue-as-nsw-starts-on-surgery-backlog-20201207-p56ld7.html>
- ⁵ <https://www.servicesaustralia.gov.au/organisations/health-professionals/services/medicare/mbs-and-telehealth>
- ⁶ https://economictimes.indiatimes.com/wealth/insure/health-insurance/3-changes-in-health-insurance-from-oct-1-that-will-help-policy-holders/articleshow/76770101.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
- ⁷ <https://www.wired.com/story/chinese-hospitals-deploy-ai-help-diagnose-covid-19/>
- ⁸ <https://www.healthcareitnews.com/news/asia-pacific/moh-deploys-biofourmis-remote-monitoring-platform-covid-19-patients-singapore>
- ⁹ <https://www.thejakartapost.com/life/2020/04/17/made-in-surabaya-raisa-robot-ready-to-help-serve-covid-19-patients.html>
- ¹⁰ <https://opengovasia.com/india-develops-robot-to-assist-frontline-covid-19-healthcare-workers/>
- ¹¹ <https://www.philips.com/a-w/about/news/archive/standard/news/press/2019/20191114-philips-announces-first-installation-of-intellispace-critical-care-and-anesthesia-system-at-kasih-ibu-hospital-in-bali-indonesia.html>
- ¹² <https://www.koreabiomed.com/news/articleView.html?idxno=9734>
- ¹³ <https://www.straitstimes.com/singapore/info-on-15m-singhealth-patients-stolen-in-worst-cyber-attack>
- ¹⁴ <https://www.thejakartapost.com/news/2020/09/02/indonesia-to-conclude-data-protection-bill-in-november.html>
- ¹⁵ <https://www.technologylawdispatch.com/2020/05/privacy-data-protection/singapore-proposes-significant-changes-to-its-data-protection-law/>
- ¹⁶ <https://www.lexology.com/library/detail.aspx?g=dbdbb8b0-db11-4228-8322-f4e0d6af1604>
- ¹⁷ <https://www.nmpa.gov.cn/directory/web/nmpa/xxgk/ggtg/qtggtg/20200930163955170.html>
- ¹⁸ <https://pj.jiho.jp/article/243496>
- ¹⁹ <https://pj.jiho.jp/article/241030>

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