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The New Map – Shifting geographic priorities for healthcare companies operating in Asia

Overview

Up until the COVID period (2020-22), healthcare companies from outside the APAC region had been placing a lot of attention on – and making a lot of investment into – the Chinese healthcare market. Other markets played 'second fiddle', either due to limited growth prospects (Japan), limited size (Korea, Taiwan, ANZ), or lagging maturity (much of the rest of the region). However, as geopolitics and operational realities in China have come to the fore, and the situation elsewhere in the region has become more promising, many healthcare companies are adjusting their posture to reallocate more attention and investment on markets other than China to drive growth and profitability. Patrick Branch, a Japan-based strategy consultant, explains in more detail.

The Old Map

Up until recently, the typical attitude towards the Asia market among MNC pharmaceutical companies looked much as follows. The Chinese market represented both present and future: It was already large, a reasonable proportion of the market was welcoming to innovation, and it promised much future growth of this already sizeable base. Japan on the other hand, while big and profitable, had seemingly stalled, with growth prospects and margins being encroached upon by pricing reform. Other developed healthcare markets in the region were too small to really be material for the typical MNC. Emerging Asian markets, despite large populations, were simply too poor to be of great interest; to the extent any of India, Vietnam, or Indonesia could be said to be the future 'China', that was a prospect some 20-30 years in the future.

As such, senior management attention and corporate investment was drawn towards China. Japan – while meaningful to quarterly sales and earnings – promised little future benefit and rarely popped up on the executive agenda at headquarters in North America and Europe. Other Asian markets barely registered.

What has changed?

The big shift in the regional equation has been the China 'surprise' - or rather series of 'surprises' that have shaken many of the assumptions that had guided thinking up until recently. Companies are rethinking their entire China strategy due to an economic slowdown following COVID, an increasingly challenging pricing, access and procurement landscape, a riskier and more restrictive operating environment (for MNCs in particular), and worries around the implications of any geopolitical escalation for staff and assets situated in China.

Meanwhile, Japan's market is showing signs of promise. The macroeconomy has turned a corner after decades of deflation and low growth, volume fundamentals remain sound, risks and surprises are relatively slight, the thrust of future pricing reform is targeted at the non-innovative portion of the market, there is the possibility of new payment models to support access to potential 'budget busters', and a local innovation landscape is finally taking root. Commitments to increase defence spending and prop up the flailing birth rate do not (yet, at least) seem to be encroaching on willingness to spend on drugs.

Elsewhere in the region, the other developed but hitherto marginal regional markets are getting richer and older, whilst churning out more innovation, and are demanding more attention from pharma executives. The promise of the large but still emerging markets such as India, Vietnam, Thailand is no longer as distant as it once was, with growing portions of these countries' populations increasingly demanding - and being able to afford - innovative pharmaceuticals.

Furthermore, the context has shifted outside of Asia. The United States' attractiveness appears diminished by the impact of the IRA, although the market will no doubt remain a beacon for industry revenues and profitability. Key European markets such as Germany may face future funding pressures as governments get to grips with the end of the peace dividend and the potential need to channel funds away from parts of healthcare where they have until now been relatively generous.

Suddenly, markets such as Japan, but also Korea and Taiwan, offer the potential for meaningful growth and profitability gains in the face of pressures elsewhere, and a means to diversify some of the risks emanating from what have been traditionally lynchpin geographic markets.

The New Map

MNC pharma companies are for certain reassessing how they think about their Asia portfolio; China is no longer the shining star, Japan is no longer a declining cash cow, and other markets demand more attention. Some relative reallocation of attention and investment is warranted between these markets given the shifts described above, and, with that, a more nuanced strategy for the region than that which has prevailed historically.

China remains important but the stakes are high; expectations – at least in the near term – are diminished, companies are treading far more carefully when it comes to new investment and are increasingly ringfencing their operations from those elsewhere, while much effort is being put into understanding the plethora of risks around the market and the range of scenarios these present.

Japan is attracting a resurgence of attention and investments, as companies reassess the potential for growth in the market as well as how to maximize margins - and are making investments accordingly. Other regional markets are similarly attracting more attention, with companies scaling up in markets where there is the promise of nearer-term, significant returns (e.g., Korea) whilst purposefully working on their posture in those markets (e.g., India) where the bulk of the returns are expected over the longer term.

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About the Authors

Patrick Branch

Patrick Branch is a Partner in L.E.K. Consulting's Tokyo office and a member of the firm's Life Sciences practice. He works with businesses and investors in the biopharmaceutical, medical device and broader healthcare sectors. He advises clients on a range of topics, including commercial strategy, corporate and business unit strategy, pricing and market access and M&A. Patrick joined L.E.K. in 2007 and has worked in the firm's Tokyo, Singapore, New York and Boston offices.

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