

## Report: Medical tourism – Chinese patients proliferate internationally

In 2015 there will be more than 100m outbound trips of Chinese from Mainland China, a number that has doubled in just 5 years despite a structural slowdown in GDP growth. This wave of humanity and wealth is transforming the global tourism and aerospace industry for sure, but it is also having some profound effects in other, perhaps less obvious, sectors. Helen Chen and Stephen Sunderland of L.E.K. Consulting in Shanghai analyse the market.

The number of mainland Chinese seeking medical treatment abroad has also increased rapidly. Greater awareness of healthcare issues and costs, increasing disease prevalence, higher levels of personal wealth, and a greater willingness by individuals to invest in their own better health has underpinned a growing interest in their overseas healthcare options.

There is no definitive data, but our analysis indicates that fully 100,000 Chinese citizens travelled internationally in 2014 alone for the primary purpose of seeking medical treatment overseas. Millions more are leveraging their international business and leisure trips with healthcare objectives, whether that be for a nose-job in Seoul, a check-up in Taipei, or for cancer drugs from Hong Kong.

The fundamental drivers of growth in China's outbound medical tourist industry continue to be strong, and most observers, including L.E.K.'s healthcare team in China, believe that a continuing growth trajectory of 15-20% each year over the next 3-5 years is readily achievable.

Leading healthcare market participants clearly share this positive view – witness the Mayo Clinic's partnership for outbound patients and the proliferation of offerings from medical travel agencies. These are the companies already reaping rewards from tapping this massive and highly mobile patient population.

### Getting Wealthy ... and Healthy

Many families leverage their personal connections to access leading physicians and receive "fast track" treatment in China's leading, and well respected, large public hospitals. However, demand for treatment by this select group far outstrips supply, and there is widespread distrust of the capabilities and standards of care available from lower tier institutions. With the increasing affluence delivered on the back of three decades of turbo-charged export and investment driven economic growth, upper-middle income Chinese patients now have the financial resources to seeking overseas medical treatment.

These healthcare consumers are now choosing travel internationally, both to dodge the queue at their local hospital, but also seeking superior treatment. China's medical tourists tend to be cash rich, paying out-of-pocket either from their own resources or pooling financial support from family members. Private health insurance cover is still limited to a fraction of the population, and only a handful benefit from insurance coverage that is valid internationally for non-emergency care.

The majority are still from Tier 1 cities such as Shanghai (22m population), Beijing (12m), and Guangzhou (11m) where incomes are significantly than the national average, and wealth tends to concentrate. We are also seeing, however, increasing demand from patients in lower tier cities, such as Hangzhou (pop. 6m), Tianjin (pop. 11m) and Wuhan (pop. 10m), where availability of good quality healthcare can be even more limited than in Tier 1 urban areas. China's southern provinces in particular have contributed a good share of cross-border patients arriving in private

clinics in Hong Kong and Macau, which benefit from very easy access and a shared language.

### **Spending Faster but More Wisely**

The total spend of Chinese patients on treatment overseas has, if anything, increased even faster than the volume of patients. For example, Singapore's Tourism Board reported a significant jump in total spending in medical treatment from Chinese patients from approximately US\$4 million in 2009 to approximately US\$21 million in 2013, a 52% CAGR. Several leading hospitals in Singapore have incorporated into their strategic plans building their inbound business with Chinese patients for more serious diseases such as cancer treatment.

China's patients, locally and abroad, have in recent years demonstrated greater discernment and a willingness to select healthcare providers based on quality of service and treatment result. China's medical tourists are increasing their average length of stay, and with it their average spend per visit.

### **Four Types of Tourism**

Our analysis identifies four broad types of outbound medical tourism from Mainland China. Each type of trip has distinct demands in terms of treatment, care quality, price points, and trades these factors off differently.

**1. 'Quality at any cost':** This type of trip is generally less price sensitive and is willing to travel long distance to receive the most advanced medical technology and the best renowned physicians or surgeons. Physician reputation, hospital track record and specialization are considered far above cost for patients in this segment. Typically these patients are travelling for major one-off inpatient treatment

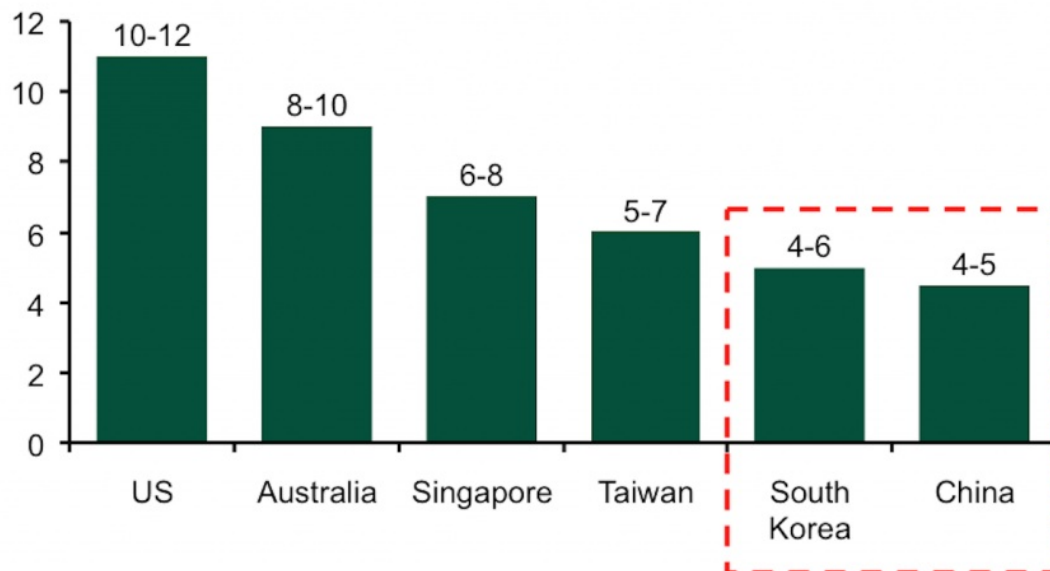
**2. 'Value for money':** Patients making trips in the value for money segment are searching for better treatment quality at more competitive prices compared to those available in Mainland China. This can include those travelling abroad for severe diseases, such as cancer screening and treatment, as well as more routine procedures, such as plastic surgery.

For example, Chinese patients often opt to travel to South Korea for their medical aesthetic procedures. Treatment costs are substantially the same as in China (see Exhibit 2) but China's patients recognise South Korean physicians as having far greater experience.

## Figure 1: Comparison of Nose Surgery Cost by Destinations

### Nose surgery cost by destination (2014)

Thousands of US dollars



Source: L.E.K. analysis, Seoul TouchUp

Overall this segment is currently relatively small, but with significant growth potential in the coming 3-5 years as providers become more sophisticated in the promotion of their 'core procedures' to China's consumers.

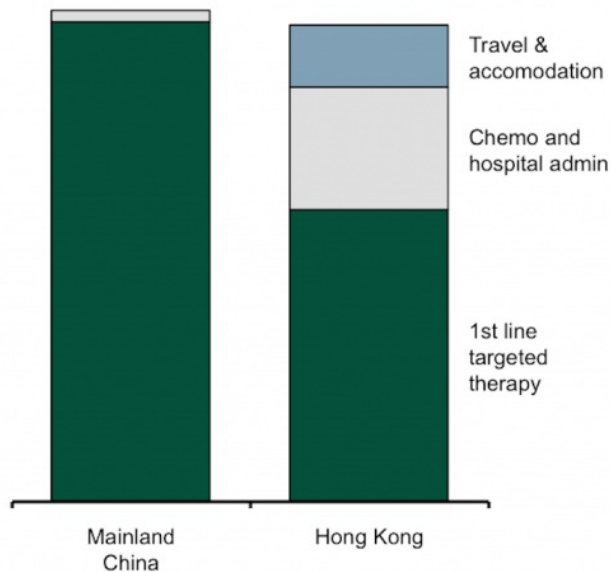
**3. 'Prescription drug runs':** Mainland China suffers from a lengthy queue for product registration and onerous approval process for innovative drugs and medical devices. Whilst there are signs of some acceleration, many of the latest therapies remain unavailable to China's patients. Moreover, the regulatory costs, import duty / tax regime and value chain structure in Mainland China are such that by the time the patient receives the treatment, it can be much more expensive than neighbouring countries.

The Chinese consumers making international 'buying runs' have very specific needs, and they typically work to a very constrained budget. Destination and service provider selection is determined quite rationally by these consumers based on overall cost of treatment, proximity and language barriers.

Hong Kong and Macau are particularly popular destinations amongst Chinese patients for drug prescriptions. As well as frequent flights and familiarity, these destinations benefit from not requiring visas for travellers from the Mainland. It is relatively well established and low cost to simply obtain a prescription from a local private clinic without requiring referring by physicians in China or help from medical agencies. So important has this business become to pharmacists in these destinations that there are reports of pharmacies dispensing high value prescription drugs even without prescription.

## Number of China patients coming for drug prescriptions in Hong Kong is expected to grow faster than those having surgery and second opinion

**Figure 2: Cost of breast cancer treatment using targeted therapy (2014)**



Source: L.E.K. interviews and analysis

For example, the overall cost of 1<sup>st</sup> line targeted therapy for breast cancer in Hong Kong is still cheaper than on the Mainland (see Exhibit 3), even when taking into account travel and accommodation costs. This evaluation also excludes the most important benefit in terms of a better expected treatment outcome from faster access to more experienced oncologists.

A faster drug approval process in Hong Kong and other South East Asian countries also delivers earlier access to the latest drugs, well before they are launched in China. For example, Chinese melanoma patients are referred by doctors to receive Zelboraf in Hong Kong - there are no other alternative treatments available in Mainland China. Similarly Gardasil, an HPV vaccine, is popular amongst Chinese women, but the nearest destination where it is legally available is Hong Kong.

**4. 'General check-ups':** The last type of medical tourism trips are those who travel abroad for medical check-ups, or to seek a second opinion for initial diagnosis and prognosis undertaken in China. These trips are generally combined with leisure trips.

Medical travel agencies, such as Saint Lucia or Hope+Noah, are favoured as offering a price-competitive check-up package and tour, and are aligned to leading hospitals in popular international leisure destinations, such as Japan, Taiwan, and Singapore. Many high-end check-up centers in China, such as Ciming Oasis Health Management, have also begun to refer patients overseas for more advanced diagnosis and second opinions

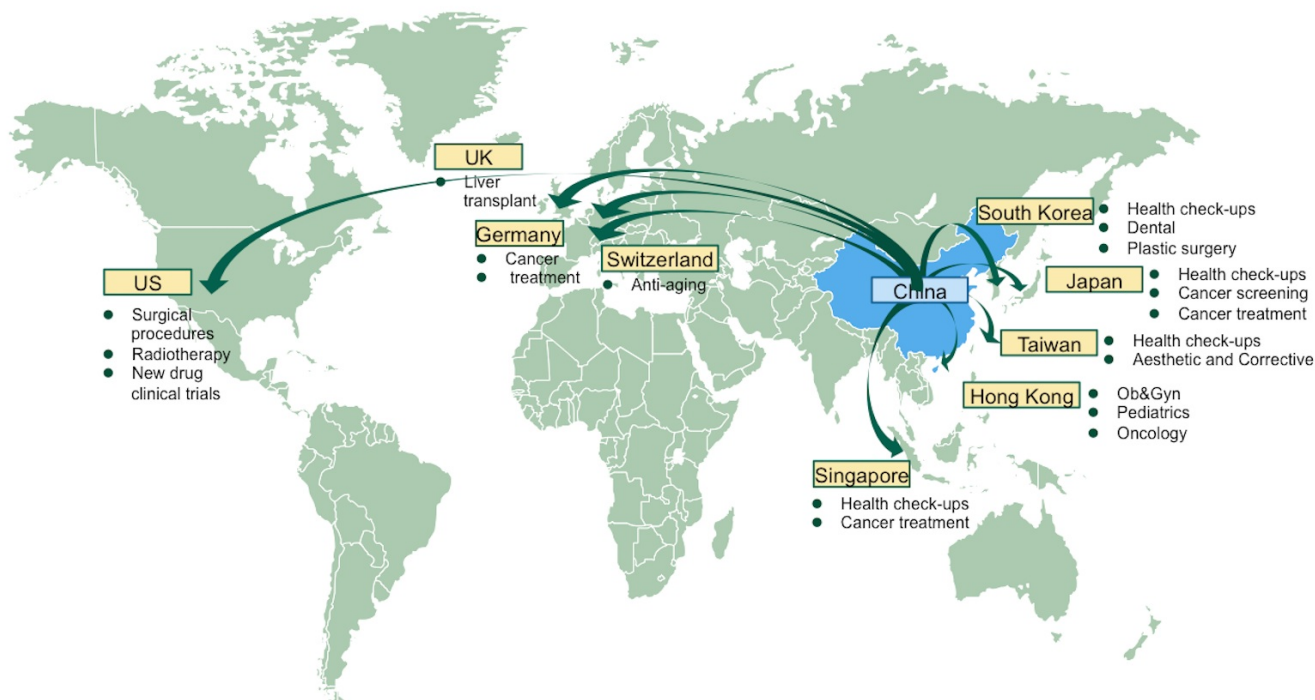
### **What Destination for My Disease?**

The US and Germany have long been favoured destinations for top notch and most innovative treatment for major treatment or surgery. This is particularly appealing for those with life threatening diseases such as cancer or heart disease.

Singapore has rapidly established itself as a leading medical tourism hub. A combination of value for money with international standard medical services has driven this well connected city state to prominence as a popular healthcare destination for chronic disease treatments, including cancer screening and treatment, heart and kidney disease.

Japan is known for cancer screening and oncology related treatment, while South Korea is famous for plastic surgery and Taiwan for aesthetic and corrective procedures such as micro cosmetics.

**Figure 3: Popular destinations for Chinese medical tourists**



Source: L.E.K. analysis

### Getting into the Flow

Many leading hospitals have already started to implement initiatives to attract patients from Mainland China, albeit on an incremental / low commitment basis. A range of US and European hospitals have leveraged leading China-based medical agents to refer patients. These agents have also facilitated the administrative and logistic processes for patients and providers alike. For example, MD Anderson Cancer Center works with multiple different Chinese medical agencies to refer patients from mainland China, including Saint Lucia, Vanta Consulting, Hope+Noah, and Hanxiang Medical.

A more active approach has been to set up a structured partnership that can leverage an international provider's brand. For example, the US-based Mayo Clinic had seen small but increasing numbers of patients from Mainland China, from 100 in 2012 to 400 in 2014. In seeking to turn a trickle into a flood, Mayo established partnership with Hong Kong based medical investment group Medisun in 2015 to attract Chinese patients to its Rochester campus. In collaboration with Medisun, Mayo can now provide consultation services in Hong Kong and Mainland China.

On a shorter haul route from Shanghai, Parkway Pantai Group, the leading hospital group in Singapore, has also put more emphasize on attracting more cancer patients from Mainland China. Parkway leverages its own clinical network in China for referrals alongside China-based medical agents. It has also customized a range of inpatient services for

inbound Chinese patients, for example Mandarin-speaking nurses and Chinese meals, as well as travel support in the form of visa applications and extensions for Chinese patients.

Several medical agencies have also leveraged digitalization to break down barriers and improve care. For example, Haoeyou.com has adapted its online consultation platforms to enable Chinese patients to interact directly with overseas physicians via video conference, phone calls or emails for post-surgery follow-ups. This lowers the risk of mis-communication and subsequent mis-treatment, and also contributes to high levels of patient satisfaction.

### **Success from Strategic Differentiation**

The outbound Chinese medical tourism market offers major growth opportunities across a plethora of healthcare market participants. Whilst medical travel agencies may be the most direct beneficiaries, this wave of sophisticated and selective additional demand will provide opportunities for healthcare service providers, pharmaceutical and medical technology companies, infrastructure owners and leisure industry participants too. It is not enough to simply rely on these consumers to find you – understanding and addressing these various types of demand head on will lead to more certain and better outcome.

To deliver success, we recommend that you answer five strategic questions that are needed to address both ‘where to play’ and ‘how to win’ in this fast evolving market:

- Which segments of China medical tourist demand should we target?
- What is our value proposition for Chinese patients? Where should we focus our product / service offer? How can we differentiate vs. alternative destinations and providers? (i.e., therapeutics areas or treatment types)
- Which channels should we use / collaborate with?
- How can we attract those target patients? Where should we market? Which marketing messages will resonate most strongly for our target group, and why?
- What new capabilities do we require, and what would we need to change about our business today, to access this large and fast growing profit pool?

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