When Doctors Refuse to See Sales Representatives: How China’s Pharmaceutical Market Responds
Tumultuous change in the past year has greatly impacted China’s pharmaceutical market, and in turn, the activity of both domestic and multinational companies in the country. Events include the release of the latest essential drug list or EDL 2012, new GSP (good supply practice) standards, the pricing review of approximately 60 domestic and multinational pharmaceutical manufacturers and anti-bribery investigations of various pharmaceutical companies. Of these, the investigations have proved the most high-profile and the most alarming area of concern for pharmaceutical manufacturers. This is because the behaviour of physicians has significantly shifted, complicating their willingness to work with corporate players.

Specifically, medical practitioners now show a growing reluctance to meet with MNC sales personnel. Similarly, they are also less willing to participate in meetings, seminars and conferences, accept lecture fees and give out any personal information.

In response, many of the largest MNC players are evaluating their physician interaction model in China. Some of the key changes are to stop physician speaker fee payment and sponsorship of physicians for academic meeting participation; to remove revenue target-related KPIs for sales personnel and restructure compensation and benefits with less weight on achievement of revenue targets.

It’s too early to tell how the results of their actions will affect sales volumes. Recent results suggest for some, the impact has been significant, others less so. What is certain is that merely amending KPIs and incentives are not sufficient in coping with the changing China pharmaceutical market.
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A Closer Look at China’s Pharmaceutical Market and the Role of the Physician

The government has demonstrated an ongoing commitment to expand the healthcare system in China – from coverage and affordability for patients to service quality and operations efficiency – as well to limit the costs that patients pay.

The fact is that physicians remain overwhelmingly underpaid and overworked. As civil servants with a capped salary in China, they typically see dozens upon dozens of patients a day and yet take home a mere RMB5,000-8,000 a month, on average.

Meanwhile, more and more MNCs are entering the Chinese market; the government is broadening healthcare coverage by creating a multi-tiered system, whereby patients are perhaps triaged to different levels of hospitals; and we see the face time between the patient and doctor steadily declining.
Issues for MNCs to Consider

In light of these trends, the questions companies must ask themselves are:

1. How do you change your operating model to meet these changes?
2. What are you doing to meet the evolving demands of physicians?
3. How are you adapting to decreasing face time between the patient and the doctor?

To drive business, MNCs need to consider the following:

(1) The implications of macrotrends

With the government’s push towards expanded healthcare coverage for the country, several effects are coming into place:

a. Hospital groups are forming, and significant activities around public hospital restructuring/privatization are being seen. With private investment pouring into hospitals and the public’s higher expectations of these institutions, the question becomes how MNCs can take advantage of this shift, e.g. matching premium private hospitals’ value proposition with MNC product offerings. What does more money mean for physicians at these hospitals? What are the implications for pharmaceutical MNCs’ strategy? Moreover, in the short-term, for instance, these hospitals may serve as a gateway to patients who have more money to spend on both insurance coverage and higher-end treatments.

b. Another key trend is the transformation of reimbursement, with the Chinese government piloting various schemes to control healthcare spending. Take for example, the pay-per-disease approach, whereby medical insurance does not cover any payments beyond a pre-defined level per disease. A related initiative is reimbursement pre-payment. Medical insurance bureaus pre-pays the allocated total reimbursement budget to the hospitals, and this allocation amount is calculated based on schemes, such as using per capita medical expenses as calculation basis. Any expenses beyond pre-payment budget is absorbed by hospitals, while any savings may be kept as incentives.

c. Physicians are being rated against a number of factors for salary and promotion consideration, ranging from the number of patients they treat to the quality of care and service, as well as the academic research and publications they produce. In other words, medical practitioners have a diversifying set of key performance indicators to meet in order to advance.

(2) The evolution of physicians’ needs

We have observed in China a shift in physicians’ clinical needs from product-centric to solution-centric, similar to the mature markets. The latter concentrates on how to provide therapies to diseases (versus merely on how to treat their symptoms). More specifically, physicians practicing in big city, big hospitals are requesting information beyond product efficacy, and are looking to acquire knowledge on providing better therapy solutions to patients.

Physician’s new needs cannot be fulfilled by a sales force alone. Pharmaceutical companies must consider all facets from the physician to multichannel approaches, marketing and medical affairs. How are corporations supporting physicians? Can they help to offer broader research support or improvements in operation efficiencies, etc.?

(3) Decreasing face time with physicians

As face-to-face (F2F) interactions between the big city, big hospital physician and patient is clearly in decline, it becomes worthwhile to consider mixed channels for communication. Technology-enabled trends from the Western world can be translated here. Invest in how digital solutions, e.g. the use of web, mobile, social networks, wireless devices, and physician portals, can play a role in liaising with technology-savvy physicians, and potentially with other key stakeholders. At the same time, tailor the traditional sales forces F2F approach for physicians in the broader market. In the long run, implementing approaches will set physicians and institutions ahead – such solutions will manage a patient’s disease, and not just address symptoms.
Private healthcare institutions are blooming

- Deregulation of private healthcare institutions uncovers the market potentials in China
- Diversified types of ownership
- International healthcare institutions
- Local / international PE
- Public & Private Partnership (PPP)
- Expanded therapeutic areas
- From specialized hospitals to general hospital which will contribute 64% of private hospital revenue in 2017
- Develop market for health recovery centre and senior centre

Industry insights

Short-term impact
- Provide premier healthcare services to consumers with commercial insurance coverage who afford high-end treatment, expensive Rx and good service
- PPP provides a platform for senior prescribers to operate on different sites

Long-term impacts
- Public hospitals might improve services to face competition from private institutions
- Provide another career development channel to physicians with higher salary

Source: PwC interview and analysis
Physician’s needs are clearly evolving, driven by changes to the healthcare system performance measures, promotion criteria and higher levels of public scrutiny.

Generally, physicians have expressed further improvements can be done, and MNCs could interact more effectively with physicians to fulfill their needs.

In contrast, pharmaceutical company sales and marketing spending remains steadfastly oriented towards face-to-face product retailing. Spending continues to rise, along with the rise of the total sales force. Other channel investments remain stubbornly low by companies, and are frequently considered additive rather than genuine alternatives.

So when will the tipping point be reached? When will alternative channels (e.g. call center, web and social media) actually replace face-to-face selling and meetings?

The evolution towards multi-channel approaches in many other markets has been slow with mixed results. But the China market has characteristics that suggest potential for more rapid evolution. These characteristics include increasing time and compliance presence, experience and trust in other channels (the most notable of which is digital).

Equally, there is potentially greater scope for product and service bundling, outcomes/value payments as increasingly exist elsewhere. These will take time, but are likely to play an increasingly important role.
For full details on how we can help, please visit www.pwccn.com

If you would like to continue the conversation, please contact our team.

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