



China Distribution System – Drug/OTC/Device

February 25, 2010

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Table of Contents

- ❑ Intro to China/key markets
- ❑ Building your distributor team
 - ❑ Areas to focus on
- ❑ Find the right distributors
 - ❑ Medical devices
 - ❑ Drugs
- ❑ Medical distribution channels
 - ❑ Hospitals
 - ❑ Drugs
 - ❑ Medical Devices
 - ❑ Pharmacies
 - ❑ Drugs
 - ❑ Medical Devices
- ❑ Drug channel distribution in China market – case studies
- ❑ Difference in selling drug/OTC/devices
 - ❑ Distribution flow
 - ❑ Pricing
- ❑ Listing
- ❑ Bidding
- ❑ Reimbursement
 - ❑ Tips for success and pitfalls to avoid

China

1.3 billion population

31 provinces

666 cities

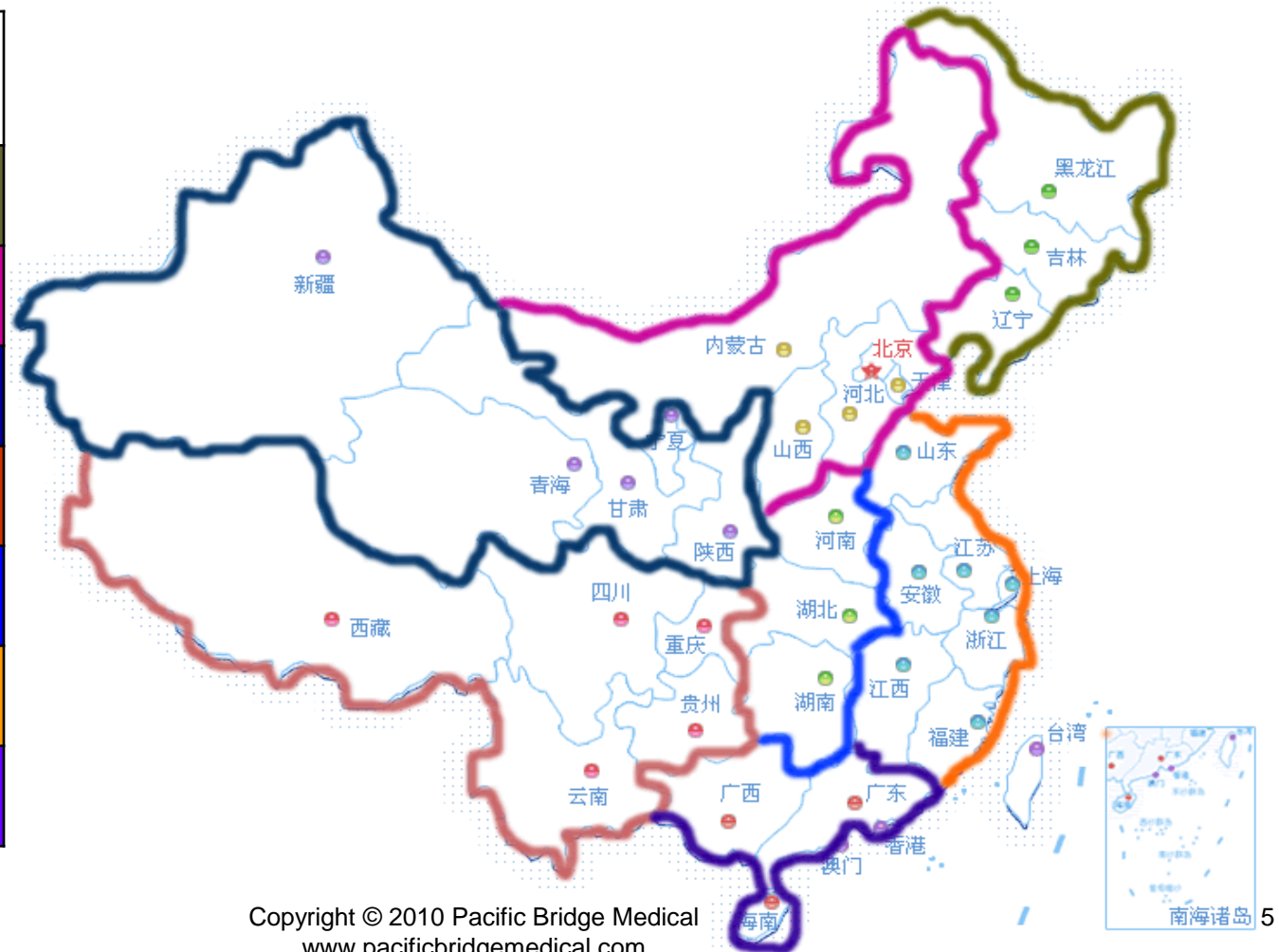


Build your distribution team

Building your distribution team

-Regional differences in China

Region	# of Provinces
N. East	3
North	5
N. West	5
S. West	5
Middle	3
East	7
South	3



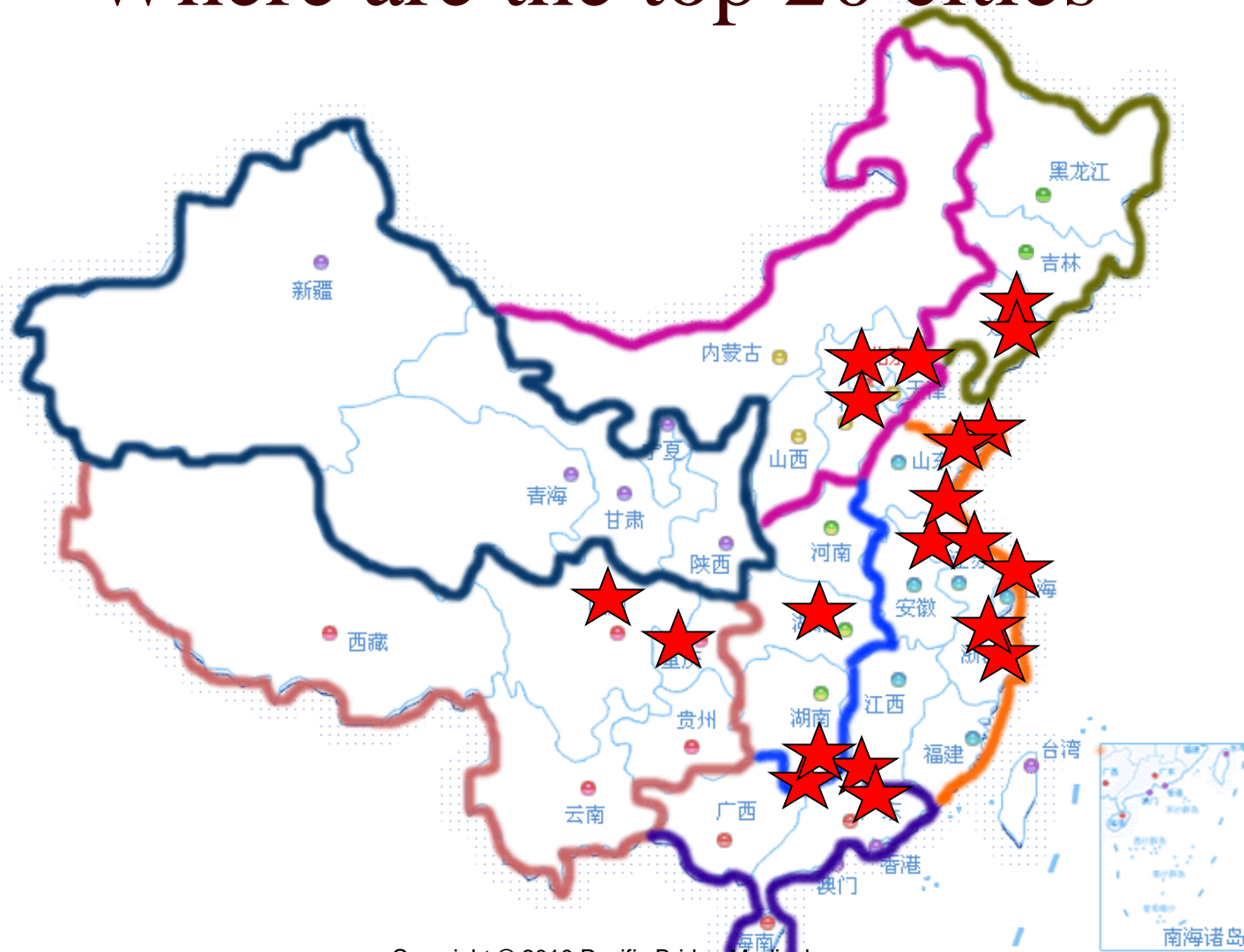
Top 10 cities with GDP ranking


GDP Ranking	Name of city	Region	Remarks	Population (,000)
1	Shanghai	East	Municipality	18,580
2	Beijing	North	Municipality	16,330
3	Guangzhou	South	Capital city of province	10,040
4	Shenzhen	South	Coastal city	8,760
5	Suzhou	East	With heavy foreign investment	6,240
6	Tianjin	North	Municipality	11,150
7	Chongqing	South West	Municipality	28,160
8	Hangzhou	East	Capital city of province	7,860
9	Qingdao	North	Coastal city	7,570
10	Wuxi	East	With heavy foreign investment	5,990

Top 11-20 cities with GDP ranking

Rank	Name of City	Region	Remarks	Population (,000)
11	Fushan	South	With heavy foreign investment	6,100
12	Ninbo	East	Coastal city	5,640
13	Wuhan	Middle	Capital city of province	8,280
14	Chengdu	South West	Capital city of province	12,570
15	Dalian	North	Coastal city	6,080
16	Shenyang	North	Capital city of province	7,620
17	Nanjing	East	Capital city of province	7,410
18	Dongguan	South	With heavy foreign investment	6,940
19	Tangshan	North		7,240
20	Yantai	North	Coastal city	6,510

Where are the top 20 cities





Building your distribution team

Recruiting the right salespeople

- Where: Top cities
- Sales manager
- Sales supervisor
- Sales representative

Finding the Right Distributors in China

How do you find the right distributor for medical devices

- A book (CD room disc) with listing 4089 medical device distributors
 - Official name: 医疗器械代理企业名单数据样本
- **Information provided**

Name	Registration Date
Legal person	Address
Connecting person	Telephone
Registered capital	Fax.
Employee	
Economic type: Ltd.co	
Main product	

How do you find the right distributor

Medical device (cont.)

- ❑ There are no accurate numbers for the number of medical device distributors nationwide
- ❑ Almost all medical device distributors are privately owned
- ❑ There are one or two directories listing medical device distributors

How do you find the right distributor for drugs

- A book (CD-rom disc) has a listing of 380,000 drug distributors:
 - *2008-2009* 医药代理商名单分享合作
- The same information provided as that of device distributors (slide 4), such as name, legal person, etc.
- The 380,000 distributors are in big and middle-sized cities



How do you find the right distributor

How can you determine if they are legal

- Check their license with local AIC
(Administration of Industry & Commercial)
- Registration code and expiration date

How do you find the right distributor

How can you determine if they are good

Do distributor investigation

- Medical device/ Prescription drug
 - Sales revenue of investigation
 - Geographic coverage
 - Sales team: size and professionalism – how can you check this

- OTC
 - Sales revenue of distributor
 - Geographic coverage
 - Sales team: size and professionalism

What are the Medical Distribution Channels



- ❑ Hospital
- ❑ Pharmacy

Medical Distribution Channel - Hospital

- Hospitals + Clinics = 315,000 facilities
- 60,000 hospitals nationwide
 - Up to 90% hospitals are state owned
 - 819 class 3 hospitals
- Chindex International, Inc. opened its flagship Beijing United Family Hospital in 1997, which was the first foreign-invested hospital in the PRC; the 50-bed hospital provides a full range of international-standard health care services.
- Joint venture between Chindex International, Inc. and Shanghai Changning Central District Hospital.
- In addition to the two hospitals, Chindex International, Inc. also runs affiliated freestanding clinics in Beijing and Shanghai.





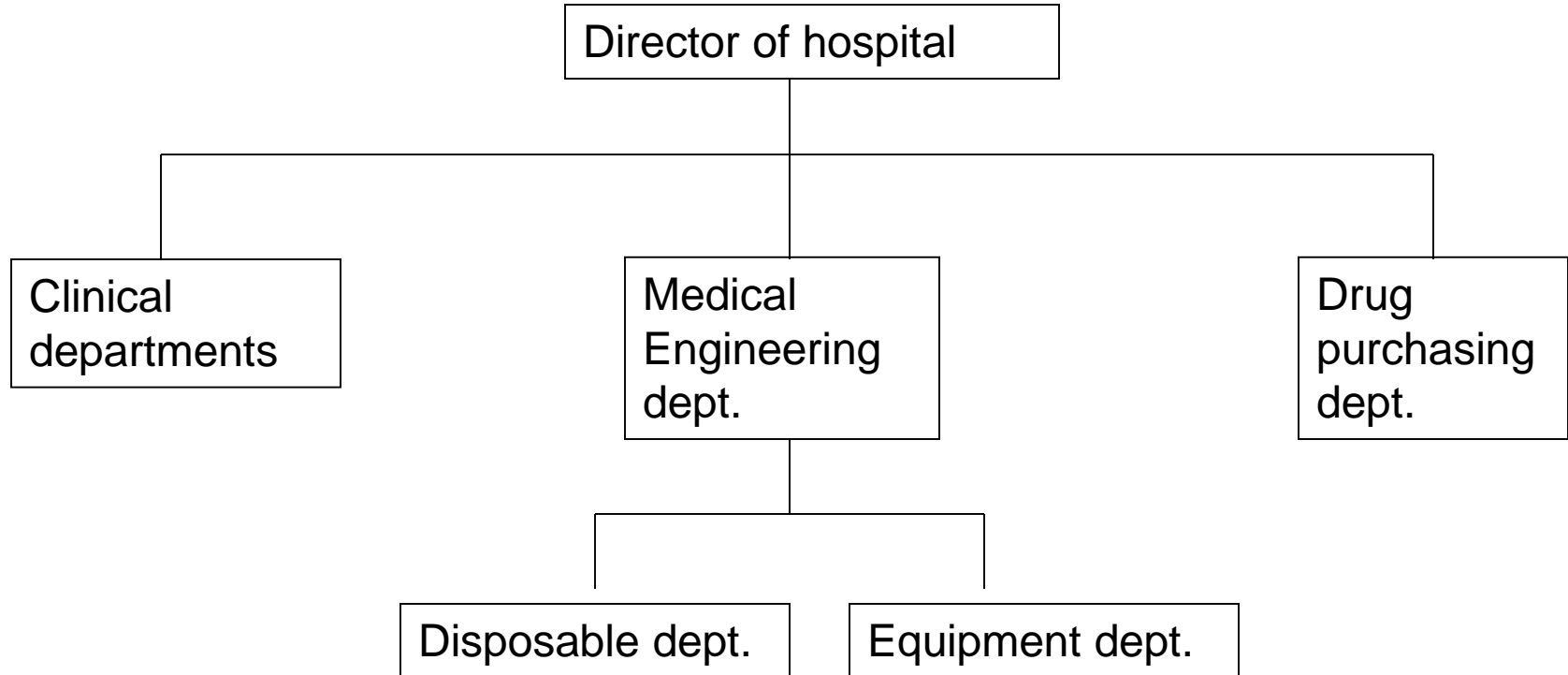
Medical distribution channel-Hospital

Hospital Classification

- Class 3
- Class 2
- Class 1

Medical distribution channel-Hospital

Hospital Structure



Medical Distribution Channel - Hospital

Medical device product classification

- Class 3 – Implants
- Class 2 – Controlled use, where effectiveness and safety should be controlled
- Class 1 – Common

Medical device product registration

State SFDA

Medical device

- Class 3- High value device product

All drugs

Provincial SFDA

Medical device

- Class 3- Low value device product
- Class 2
- Class 1

Nutrition product

Medical distribution channel-Hospital - Purchasing decision

Drug

- ❑ Drug Purchasing department decide the sell-in volume and payment

Device

- ❑ Disposable dept decide the sell-in volume and payment

Medical distribution channel-Hospital

-How **MULTINATIONAL** pharmaceutical companies operate hospital business

Sales team activities to pull prescription sales

- ❑ Multi-national /big domestic companies
 - ❑ Clinical department talk meeting to introduce new product and discuss the key factors of the product with 5-8 doctors from one target department
 - ❑ Seminar to introduce new product and communicate the product knowledge to doctors from target departments from several hospitals

Medical distribution channel-Hospital

-How DOMESTIC Chinese pharmaceutical companies operate hospital business

Sales team activities to pull prescription sales

- Small local companies
 - Just give distributor high margin to cover cash kick backs to doctors who prescribe the product (up to 30-50%)

Medical Distribution Channel-Hospital -Kick-backs

- Multi-national /big domestic companies
 - No kick backs but activities and sponsorship

- Small domestic companies
 - Kick back to doctors who prescribe the product without educational activities

Medical Distribution Channel-Pharmacy

-Pharmacy types

Pharmacy marks: Green cross as shown below

Pharmacy types

- Chain store
- Individual store

Clinic marks: Red cross



Medical Distribution Channel-Pharmacy

-How many pharmacies nationwide

According to China Business Association

- ❑ 320,000 pharmacies nationwide
- ❑ About 50% pharmacies in large capital cities of provinces are chain stores

Medical distribution channel-Pharmacy

- Product display in store

- ❑ GSP regulation (about 100 clauses)
- ❑ Display by category
 - ❑ Drug
 - ❑ OTC
 - ❑ Device
 - ❑ Nutrition
- ❑ Open shelf and traditional counter selling

Medical distribution channel-Pharmacy

- Purchasing decision

Chain store

- ❑ Purchasing department of chain store decides the purchasing volume

Individual store

- ❑ Store manager decides the purchasing volume and payment timeframe, such as 30 days or 60 days etc.

Listing fee

- ❑ Have to pay listing fee for entering product into pharmacy (RMB 100-200 per SKU; \$15~\$30)

Medical Distribution Channel-Pharmacy

- How multinational pharmaceutical companies operate pharmacy business

Customer

Annual agreement with top key big chains
Quarterly program: Display (product on shelf),
recommendation program

Shop assistant

- training program that manufacturer sales team
does to increase recommendation of their
product

Medical Distribution Channel- Pharmacy

-Kick-backs

Multi-national /big domestic company

- Focus on store activities as described on previous slide

Small domestic company

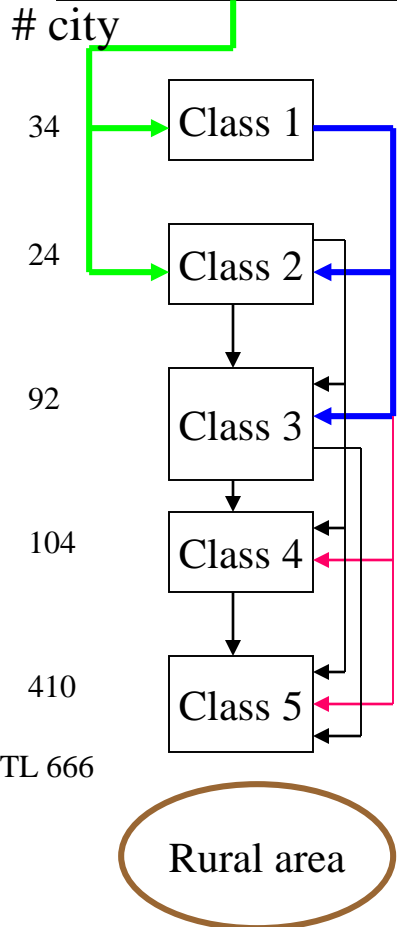
- 10-20% cash kick backs to store manager and shop assistant

Drug Channel Distribution in China Market

China Drug Channel Distribution

Multinational Pharmaceutical Company

Pharmaceutical Company (XJP/SJJP/Glaxo Smith Kline)



Select main distributors in class 1-2 cities

Direct distributors in 1-2 class cities sub-distribute to class 2-3 cities

*Rely on distributor's network

*Indirect distributor loyalty contract to firm the relationship

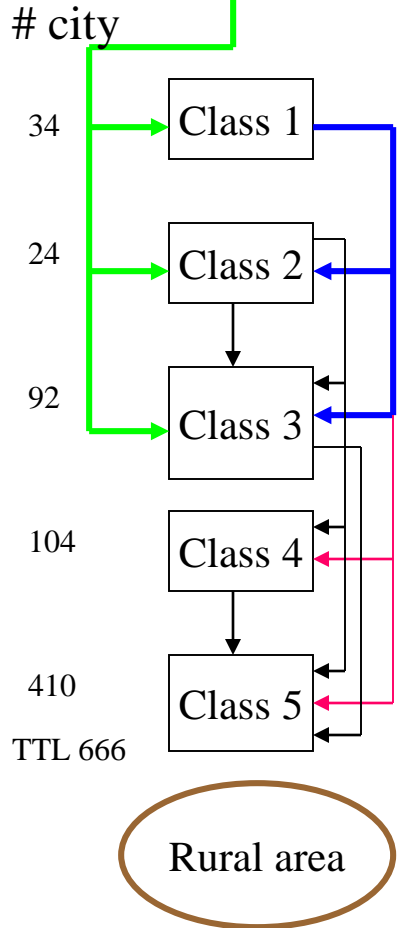
Naturally covered by distributors in different level of cities without sales service/marketing support

No multinational company touched this area but all have done investigation

*Price

China Drug Channel Distribution- Local Pharmaceutical Company

Local Company (Sanjiu, YNBY, Huabei pharmaceutical)



Local companies directly sell to distributors in class 1-3 cities with:
*Bad price stability

Mainly rely on distributor's net work to sub-distribute to low level cities

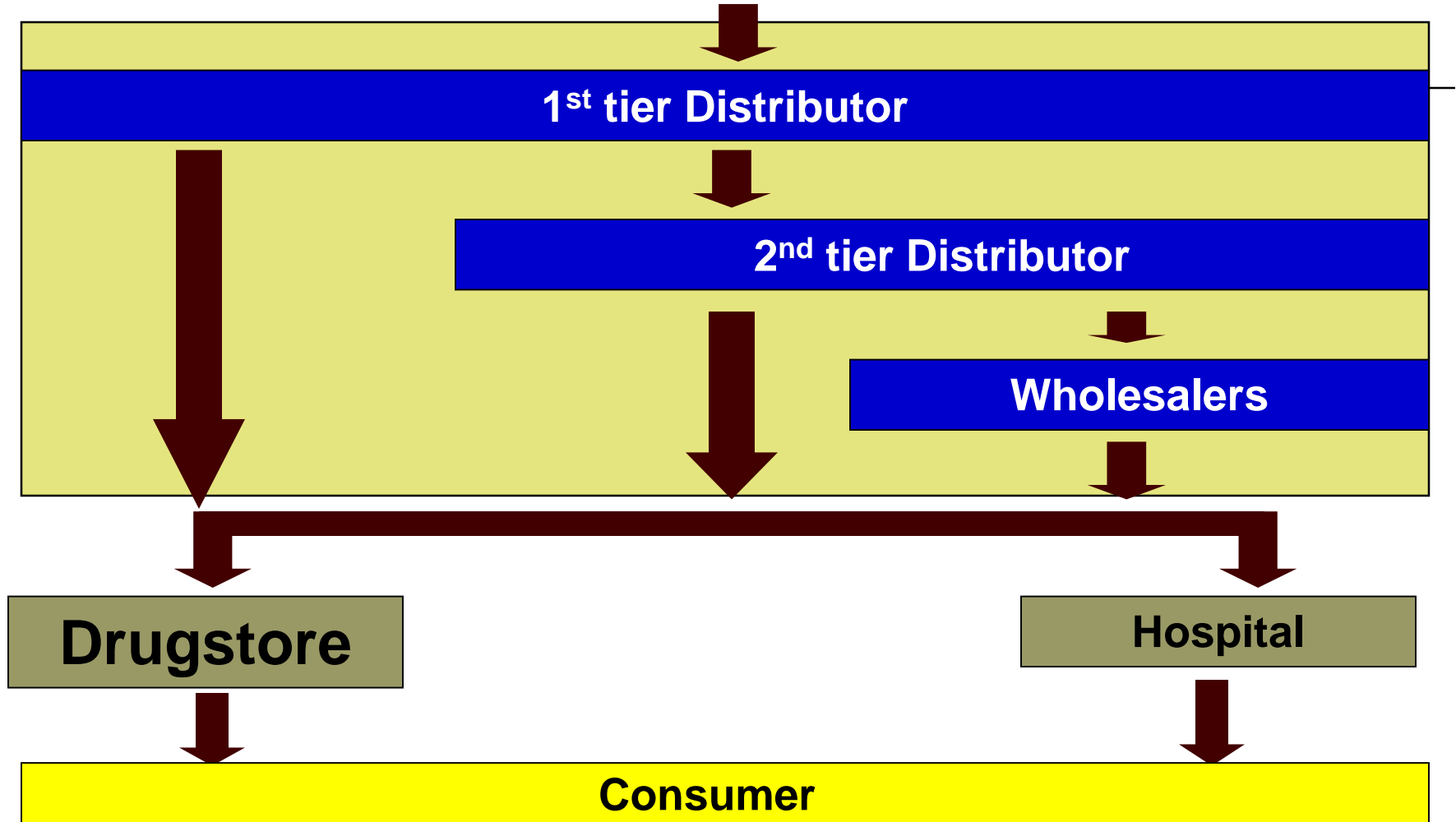
Naturally covered by distributors in different level of cities (also by open market before 2001) without sales service/marketing support

Some local companies tried under government direction

- * Cash business
- * Van business with regular frequency

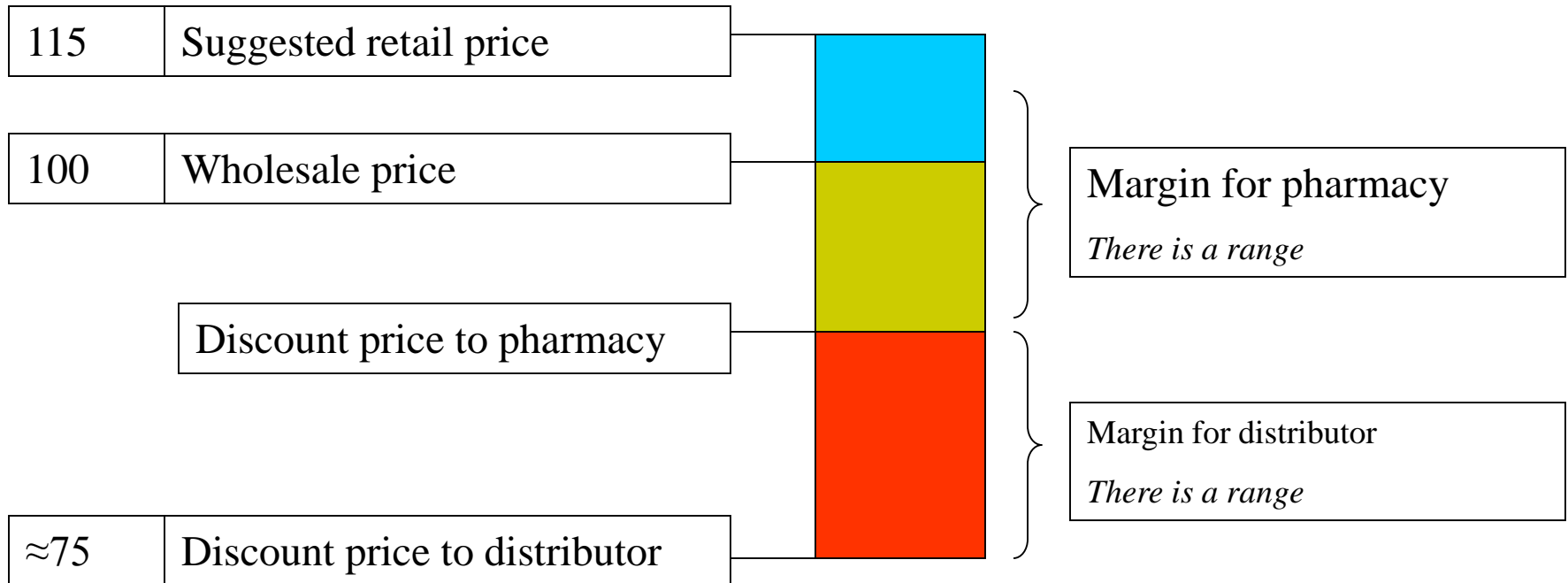
Differences in selling drugs/devices/OTC products including pricing

Multi Level OTC Distribution System



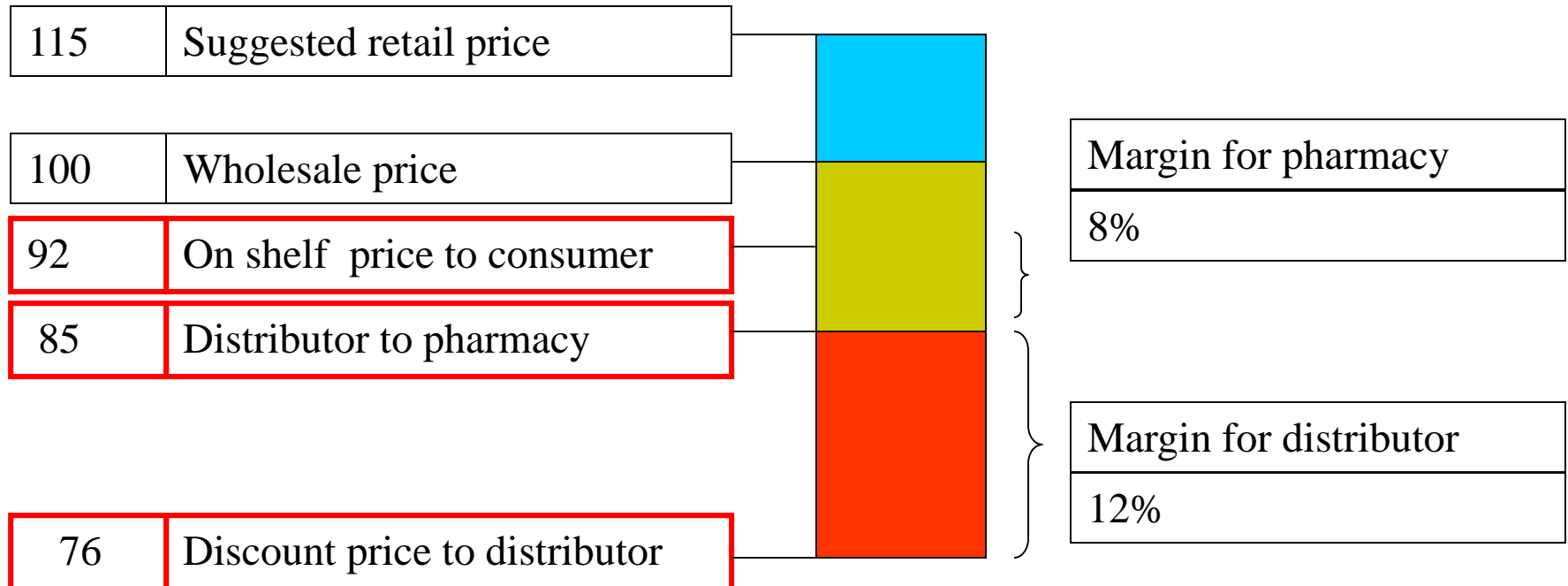
How do Drug/OTC mark-ups work

Pharmacy channel

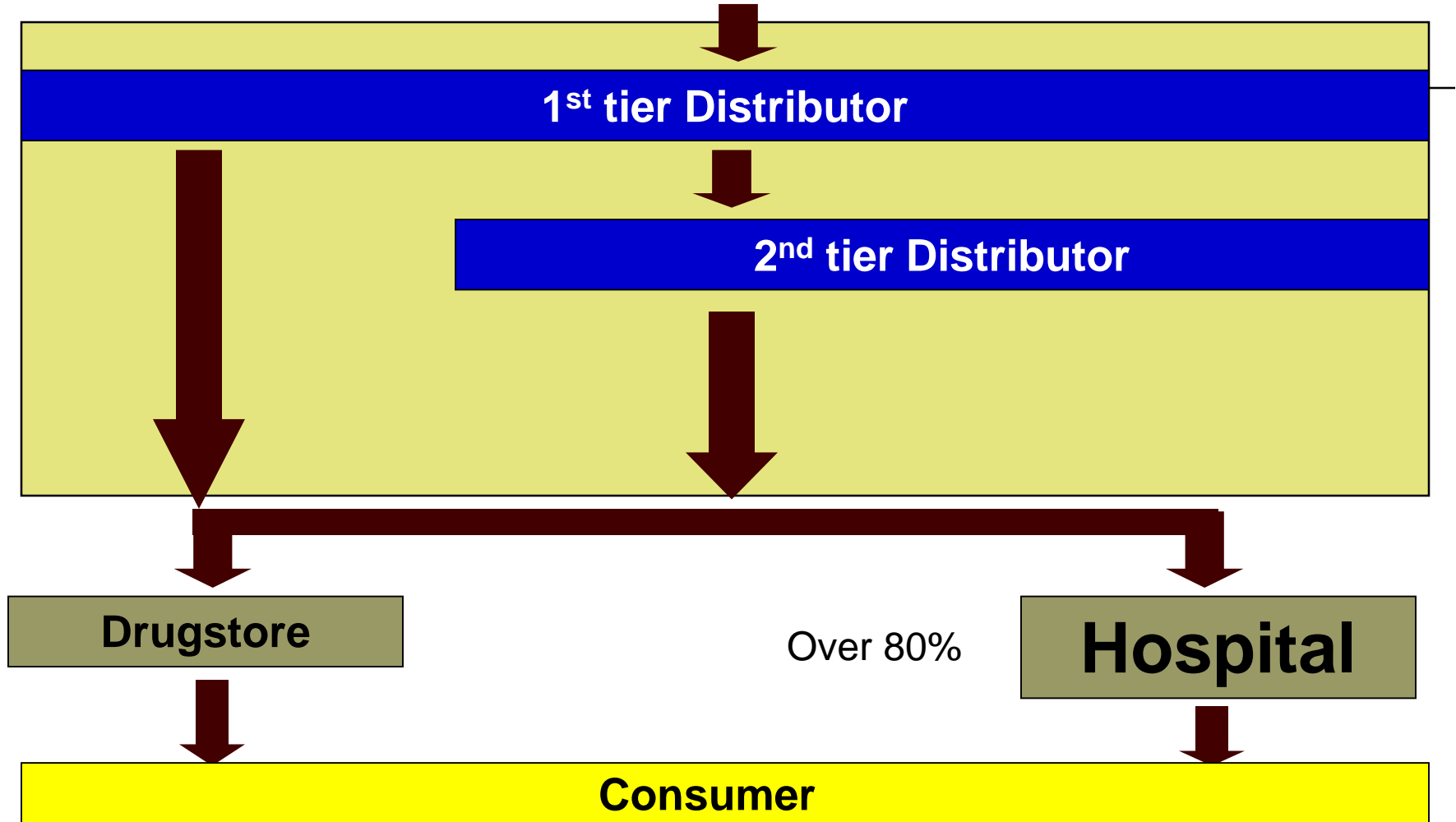


How do Drug/OTC mark-ups work

Pharmacy channel – One real case

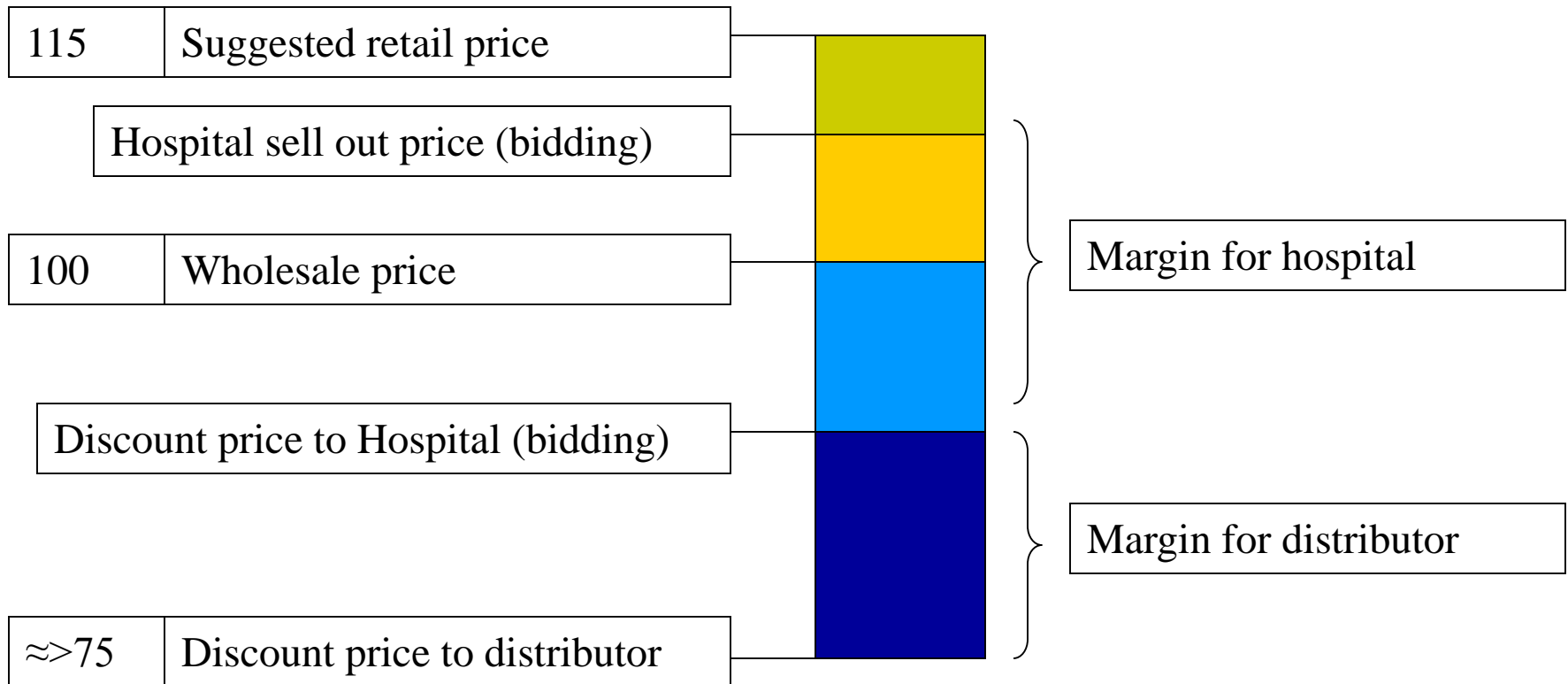


Drug Distribution System



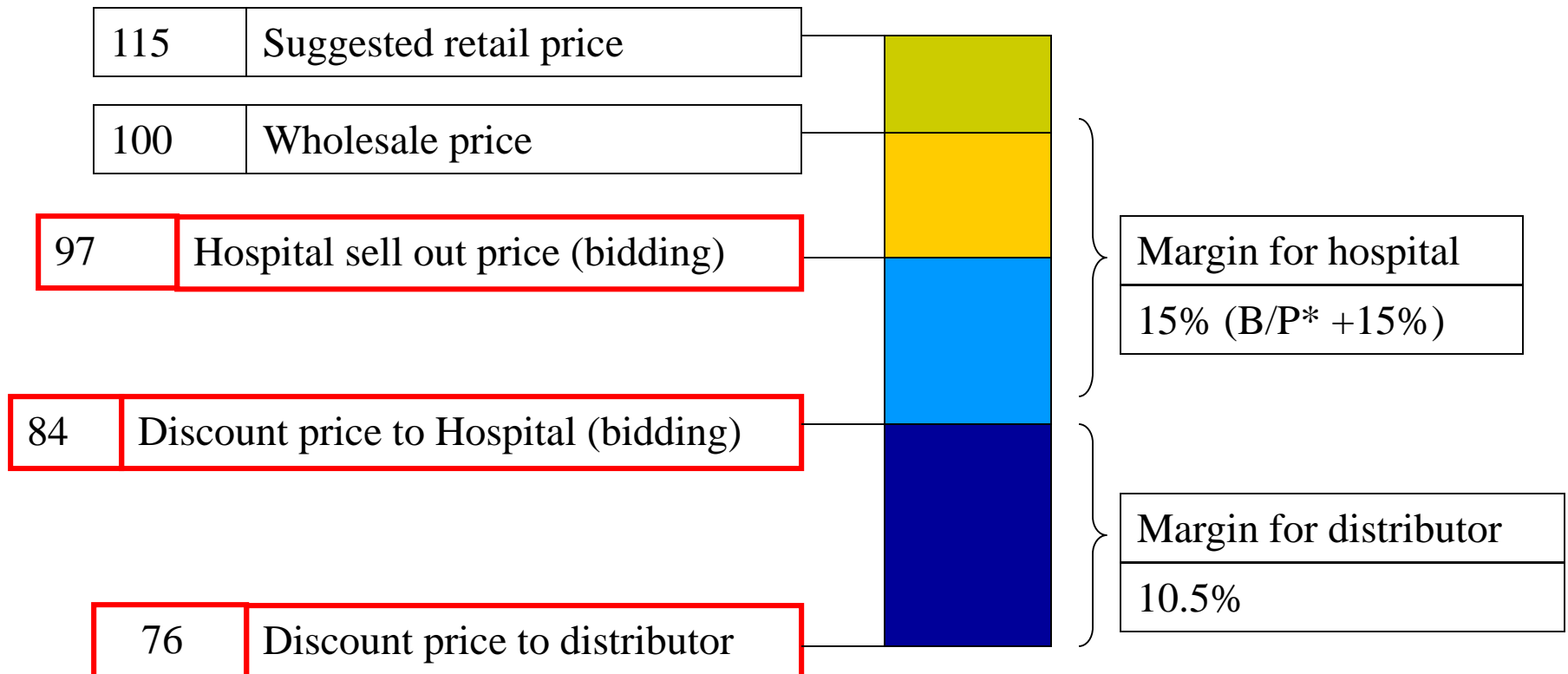
How do Drug/OTC mark-ups work

Hospital channel



How do Drug/OTC mark-ups work

Hospital channel –One real case

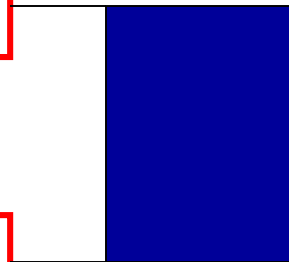


How do Drug/OTC mark-ups work

Hospital channel –One real case (cont.)

84 Discount price to Hospital (bidding)

76 Discount price to distributor



Margin for distributor

10.5%

Big pharmaceutical company

About 10-15% of sales and market spending on increasing number of doctors issuing prescriptions of drug

Small domestic pharmaceutical company

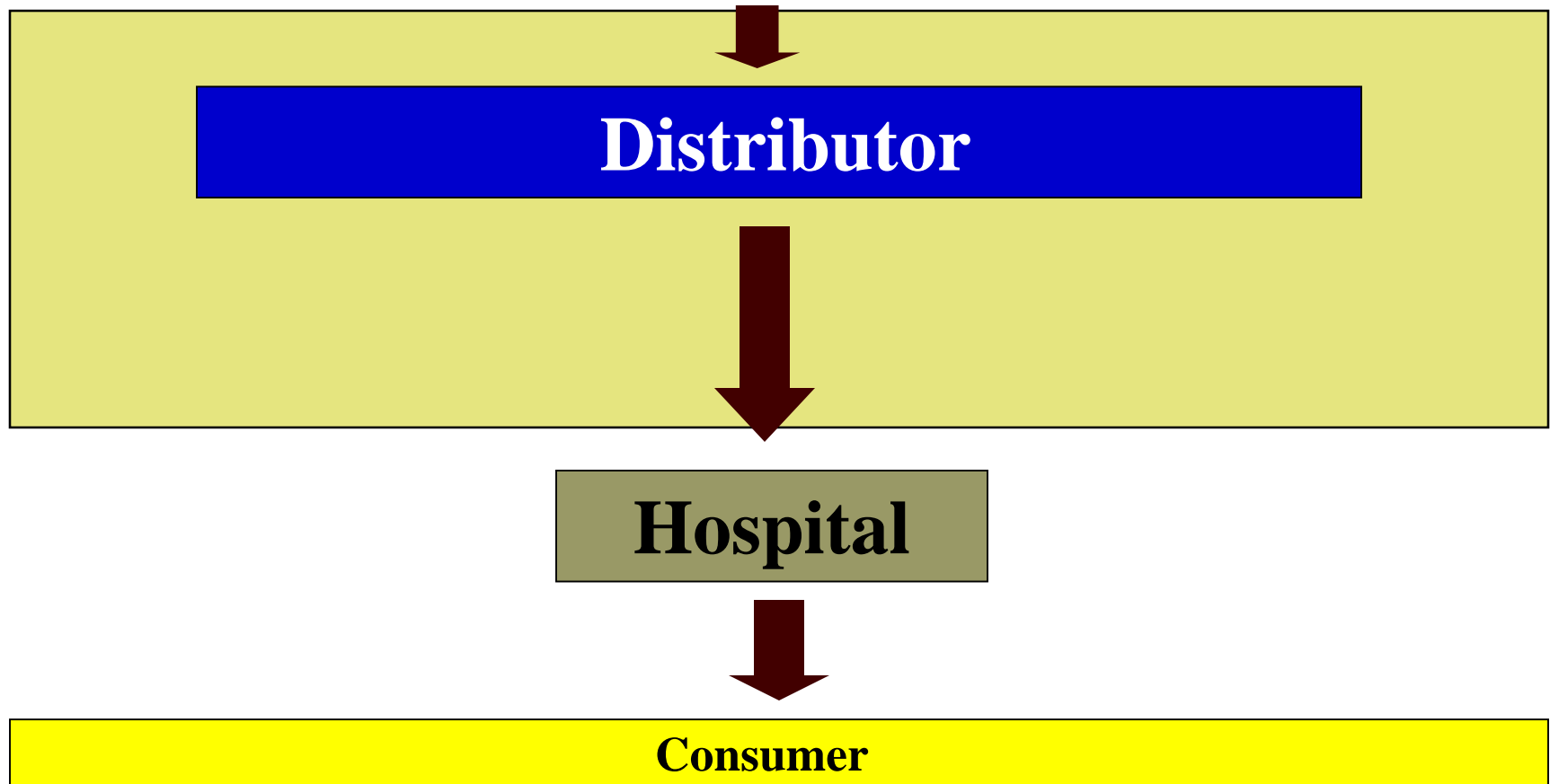
Discount to distributor goes to about 80% and the big margin covers all distributor and hospital spending

Delivery service

A/R (*Account receivable*)

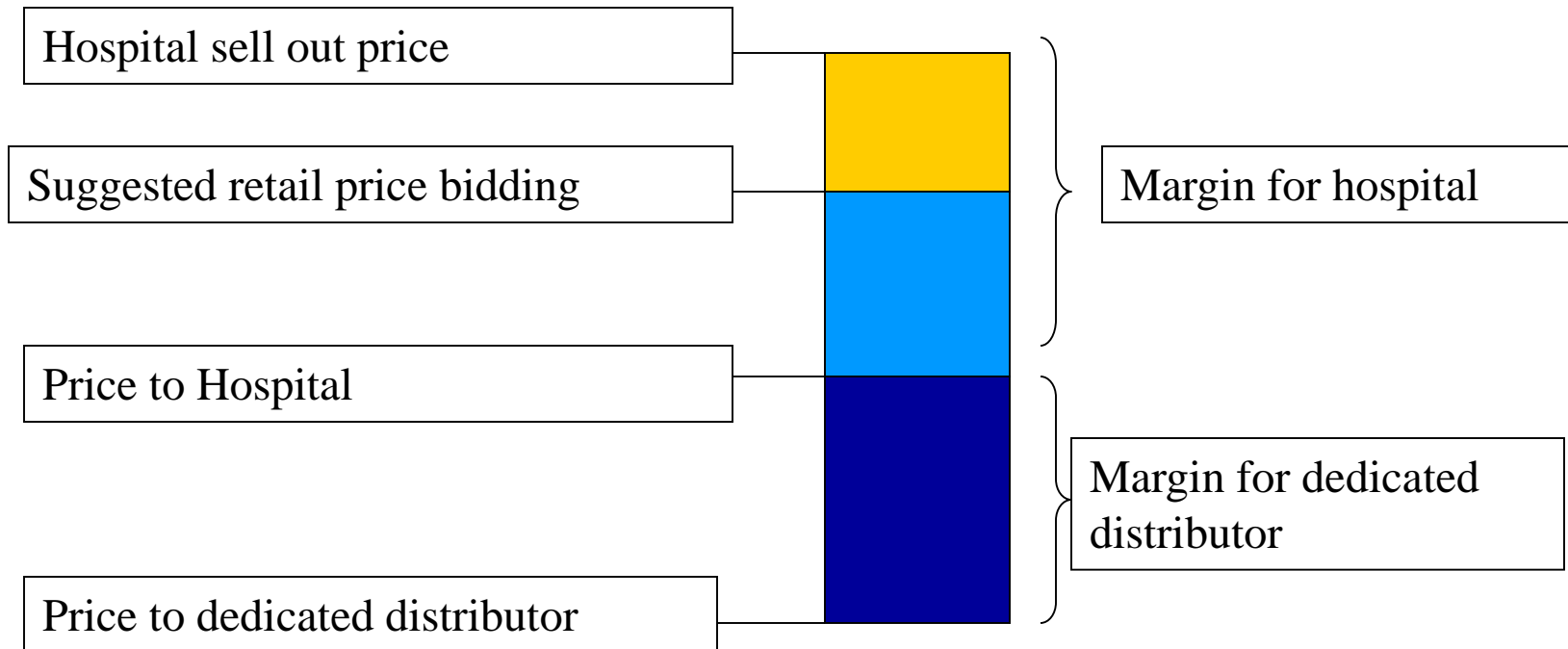
Stock

Device Distribution System



How do Device mark-ups work

Hospital channel – Low value device product



The suggested retail price should be officially approved by SFDA

How does Device mark-ups work

Hospital channel – Low value disposable product

Price to patient	Bidding +15%	Bidding +RMB 200
Suggested retail price (bidding)	For price < RMB 2000	For price > RMB 2000
Price to hospital	Bidding price x 95%	Bidding price x 95%
Price to distributor	Domestic: Bidding price x (30-50%) Import: Bidding price x (60-70%)	Domestic: Bidding price x (30-50%) Import: Bidding price x (60-70%)
Hospital margin	Bidding x 20%	Bidding x 5%+RMB 200
Distributor margin	Bidding X25%-65%	Bidding x 25%-65%

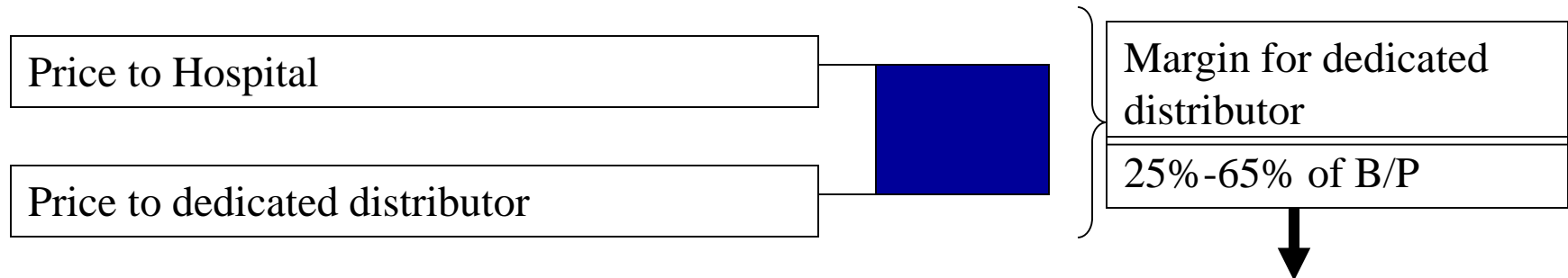
How does Device mark-ups work

Hospital channel – High value disposable product

Price to patient	Bidding +RMB 200	Bidding +RMB 500
Suggested retail price (bidding)	RMB 2,000 - 20,000	RMB 20,000 - 50,000
Price to hospital	= Bidding price	= Bidding price
Price to distributor	Domestic: Bidding price X(30-50%) Import: Bidding price X(60-70%)	Domestic: Bidding price X(30-50%) Import: Bidding price X(60-70%)
Hospital margin	RMB 200 plus treating fee	RMB 500 plus treating fee
Distributor margin	Bidding x (30%-70%)	Bidding x (30%-70%)

How does Device mark-ups work

Hospital channel



Still high margin, that is the reason why all medical device distributors are privately owned

- ❑ 20% kick backs base on hospital sell in price to doctors
- ❑ 10% kick backs base on hospital sell in price to disposable depart
- ❑ Hospital A/R \geq 6 months
- ❑ Stock in hospital and distributor depot
- ❑ Listing & Bidding
- ❑ Sales team

Listing/Bidding Reimbursement

How to Sell Drugs/Devices into Hospitals

- Listing / Bidding/ Reimbursement

The relationship of these three key factors (continued on next slide)

- ❑ Listing – First step is to sell the product into the hospital
- ❑ Bidding – If you fail on bidding, the product will be out of the hospital

How to Sell Drug/Device into the Hospital

- Listing / Bidding/ Reimbursement

The relationship of these three key factors (cont.)

- Drug reimbursement
 - If the product is delisted from a provincial medical insurance drug list, the product will be moved out of the hospital or moved to self-pay list
 - Sales will go down dramatically

How to sell drug/device into hospital

- Listing / Bidding/ Reimbursement

The relationship of these three key factors (cont.)

- Device reimbursement
 - If the product is delisted from state medical insurance device list, product could still be used in hospital but is self-pay

How to sell drug/device into hospital

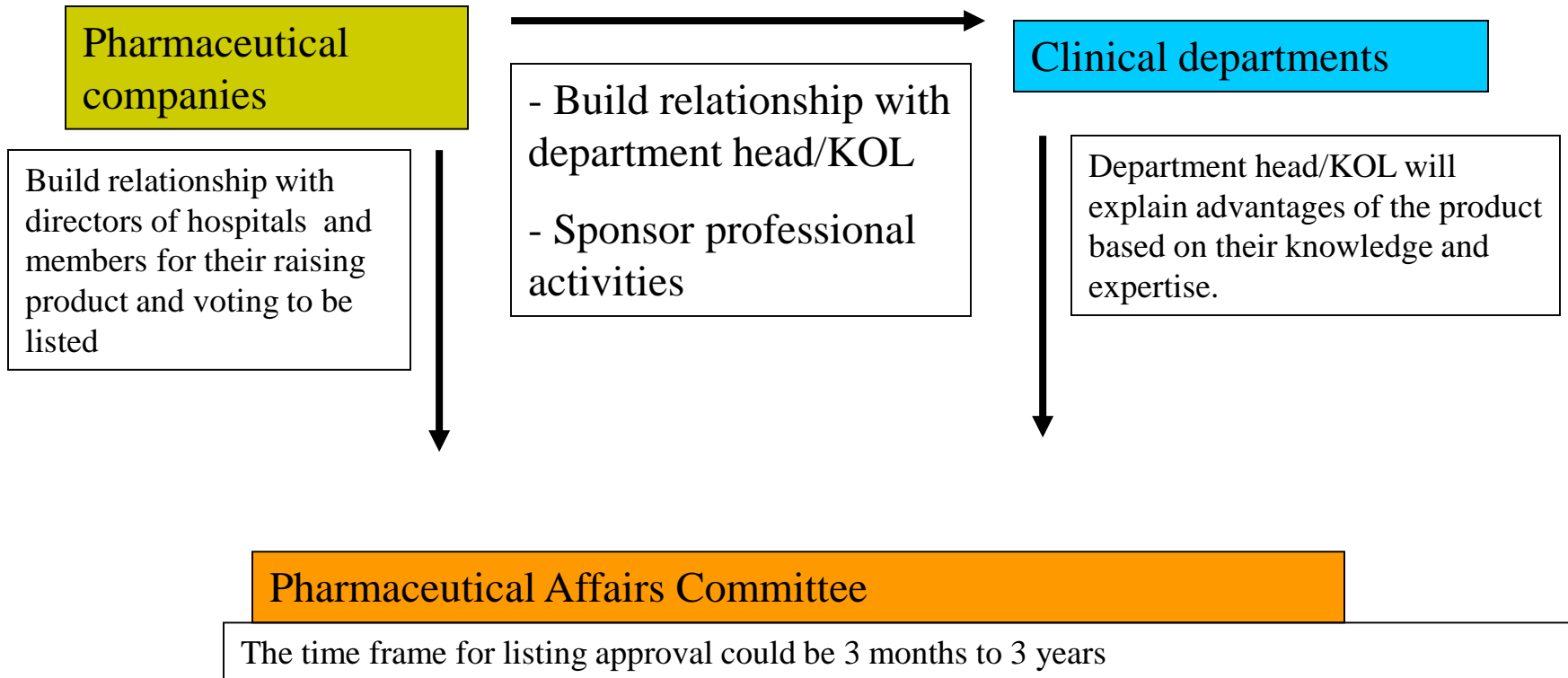
- Listing / Bidding/ Reimbursement

Reimbursement budget control

- Provincial Medical Insurance Bureau gives an annual budget to every hospital for reimbursement. If the hospital goes over their budget then the individual hospital will pay without government help.

How to sell drug/device into hospital

- Listing procedure



How Does Bidding Work – Drug

Most Provinces

A state owned bidding platform (Haihong) to conduct bidding

Pharmaceutical company authorizes dedicated distributor and then discusses with them on bidding price and to claim this price

Haihong compares the historical bidding price among provinces and gives out the bidding price, which will never be higher than the highest bidding price in the system

All bidding prices announced online/book

New prices updated in hospital system before effective date

Pharmaceutical company sales team connects with key person of Haihong for support on submitted bidding price

How Does the Bidding Work – Drug (cont.)

Some Key Cities Like Shanghai/Beijing

Local pricing bureau/Public health bureau/Bidding committee discuss/decide bidding policy

Pharmaceutical company

Sales team meets with members of the bidding committee for support on your claimed bidding price

Authorize dedicated distributor and discuss with them on desired bidding price and to claim this price on bidding system online

All bidding prices announced online/book

New prices updated in hospital system before effective date

How does Bidding work – Drug (Cont.)

- Bidding policies are different depending on province
- In recent years, the trend is to reduce both the hospital purchasing price and the retail price to the patient
- In some key cities like Shanghai/Beijing not using Haihong bidding platform, the bidding committee is formed by some clinical department heads and drug purchasing department heads from key hospitals in capital cities and other big cities

Events in China pharmaceutical industry

- 《Essential Drug List (for using in primary health care sector)》 (2009 Edition) was announced by Health Ministry and became effective from September 21, 2009
 - 307 drugs:

How does Bidding work – device

- ❑ Low value device
- ❑ High value device
- ❑ Bidding by product category
- ❑ Usually two bidding products under one category, one is cheap for domestic product and another is expensive for import product

Bidding - The best strategy to win

- ❑ You should complete listing of the product in bidding lists first
 - ❑ You have to register your product into every hospital where you want to sell in. This is called listing. You usually do this together with bidding in many cities
- ❑ Build and maintain the relationship with Haihong and Bidding Committee to support your desired price
- ❑ If you are going to authorize your distributor to claim/apply for the bidding price, distributor should dedicate one of their staff to be responsible specifically for your case.

Bidding – Pitfalls to Avoid

- ❑ Your distributor asks for high listing fee and many samples for listing with listing plan but did not get listed into target hospitals
 - ❑ Listing fee is similar to a kind of entertainment fee used for building relationship with committee members
 - ❑ Listing cost is very high with no official listing fee invoice from hospital
 - ❑ Finally you are told that they are still waiting for the committee approval. Actually the distributor did not do their job but simply spent your listing fee
 - ❑ You may receive a report that the product has been listed into many hospitals but sales are not so good

How does reimbursement system work

- ❑ State “Medical Insurance drug/device list” is updated every two years (actually 3 years from start to effective date)
- ❑ Provincial “Medical Insurance drug/device list” updating start after state list announced
 - ❑ For example, for drugs:
 - ❑ Provincial 《 Basic Medical Insurance Drug List 》 (2009 Edition) will be announced before March 31, 2010
 - ❑ Number of drugs
 - ❑ Percentage of reimbursement
 - ❑ The 《 State Basic Medical Insurance Drug List 》 (2009 Edition) was announced by Ministry of Human Resource and Social Security on November 30, 2009
 - ❑ 2,151 drugs; 13.7% increase vs 2004 Edition
 - ❑ Class A drug : 503 with 100% reimbursement, effective from December 2009 nationwide
 - ❑ All 307 drugs in 《Essential Drug List 》 are Class A drugs
 - ❑ Rest are all Class B drugs



How does reimbursement system work (cont.)

- Drug
 - 15% adjustment made by province base on state list
 - Chance to add into provincial list if not in state list
- Device reimbursement
 - State health ministry issue out the list of reimbursement device product



How does reimbursement system work (cont.)

- ❑ To win the state reimbursement drug list
 - ❑ Have dedicated PR people to build relationship with Medical Insurance dept. under State Ministry of Human Resource and Social Security
 - ❑ Build relationship with key doctors who may attend the discussion/voting

How to Sell Drug/Device into Hospital

- Reimbursement (cont.)

- To win the provincial Reimbursement drug list
 - Have dedicated PR/sales people to build up the relationship with Medical Insurance department under provincial Bureau of Labor
 - Build relationship with key doctors who may participate in the discussion/voting



How does reimbursement system work (cont.)

□ Device

- Device company do not want their import product to be listed into State reimbursement list to avoid price reduction
- Some domestic device companies prefer to be listed into reimbursement list for more sales



Thank you for your consideration!

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China Distribution System – Drug/OTC/Device Presentation.

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