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ASIA EDITION

MNCs on medtech growth trail

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Industry forecasts by market analysts state that 80 percent of the multinational companies expect to gain a good share in emerging markets in the next few years. However, a recent survey conducted by the Boston Consulting Group (BCG) revealed that very few MNCs feel that they have cracked the code to succeed against local competitors. The Globalization Readiness Survey report titled 'Playing to win in emerging markets: Multinational executive survey' clearly reveals the gap between ambition and execution.

"Emerging markets are now responsible for nearly 40 percent of the global GDP and an even larger share of GDP growth. Many of these markets are dominated by able and ambitious local competitors that often have superior local knowledge, stronger government relationships, and lower cost structures, hence multinationals have their work cut out for them," states Mr Bernd Waltermann, a BCG senior partner and co-author of the report.

The report also pointed out that the largest performance gap is in attracting and retaining local talent. Experts advise MNCs operating in Asia to improve their capabilities to develop strong local leaders, create localized business models, and establish growth targets and execution plans. These are all capabilities where the performance gap exceeds 20 percent.

In 2013, China retained the position of the most important emerging market for multinational companies. Brazil and India were next in line, followed by South East Asia and Russia, which were rated as the most important emerging markets.

"The current business environment is really going to force business leaders and political leaders to rethink the way we are innovating and the way we are developing talent in the region. From an innovation standpoint, I think we're going to have to think more in terms of collaboration and co-creation, whereby people with various areas of expertise will come together in order to solve the very complex problems that we will face in the future," says Deborah Henretta, group president, Asia and global specialty channel, Procter & Gamble (P&G).

The strategies that healthcare multinational firms adopted to succeed in developed markets were constantly challenged throughout 2013. While issues related to supply chain and talent pools continued to haunt the foreign industry in Asia, many companies began to adapt unfamiliar business practices and customer expectations. However, the biggest challenge that the global firms are facing in Asia is that domestic entrepreneurial enterprises have significant cost advantages, have ready access to local talent and are often led by a hard-driving founder.

However, Asia continues to present significant opportunities for MNCs in the smart healthcare segment. "There are clear indications that this industry is going to be a major domain that stimulates economic growth in the region. Some of the key factors driving growth are, a growing middle-class population (with higher disposable incomes and ablity to afford quality healthcare), improvements in the healthcare infrastructure that answers the growing demand, a steadily ageing population bringing in special health management needs, increasing prevalence of non-communicable diseases such as cancer and diabetes that require smart solutions for their management," states Ms Bhavna Thapar, director, healthcare practice at Edelman India, a market analyst firm.

According to a recent Ernst and Young report, the medical device industry is experiencing slower growth in the US. The report attributed this to the tougher regulatory standards, wary investors, and pricing pressures. "Innovation is used to drive growth in the industry. Innovation was itself driven by doctor demand for differentiated products catered to their specifications. However, as payers began limiting reimbursement to cheaper, no-frill brands, innovation suffered. Accordingly, growth in the US industry has slowed dramatically," the report states.

One of the core trends that emerged this year in the medical devices industry is the persistent efforts by domestic Asian players to expand their business, outside their geography. As homegrown products climb the value chain, international companies are set to face a product-pricing crisis. "Asian medical device manufacturers are investing more in R&D to improve their technology and become more internationally competitive. Local firms also have an advantage at home due to their familiarity with customer habits, making them attractive partners for private and foreign players," explains Ms Mei Dong, a partner at KPMG China.

Many players like Nurotron Biotechnology, a Hangzhou-based hearing aid manufacturer specializing in cochlear implants, started looking for global distributors. The company won the rights to produce implants in China and has priced the $25,000-a-piece implants at $10,000 -a-piece.

In January 2013, Stryker acquired Trauson Holdings and established manufacturing centers in Suzhou, China. The company also established education centers for surgeons to learn how to better use their devices. Medtronics on the other hand, acquired Kanghui Holdings while also establishing a R&D center in Shanghai. GE Healthcare recently announced a three-year $2 billion commitment to expand medical device innovation in China.

Even as many global players continue to make inroads into profitable Asian demographies, local giants like China's Mindray Medical have upgraded their product lines and are using their relationships with government and industry contacts to challenge foreign competitors. Setting the trend in this direction, in 2013, Mindray acquired high end ultrasound producer from the US and Zonare Medical Systems for $105 million, expanding its R&D capabilities and its market reach into the US, Canada, Scandinavia and Germany.

A 2013 Frost & Sullivan report reports identifies home care, structural heart, robotic assistance, infection control tools and neuro devices as the top five growth sectors in the medical device market.

The report also added that a growing trend of manufacturers making multifunctional devices that can be used for a range of applications was prominent throughout 2013. Devices that are specialized are falling out of favor at hospitals because of the premium put on floor space. For instance, the Scout device from Scanadu, based in Silicon Valley, US, has been designed for consumers rather than hospitals. The device is a good example of multi-functionality, as it can measure pulse oximetry, temperature, heart rate, ECG, and other variables. Further, there is a sharp rise in newer technologies capable of integrating medical devices into a connected platform that enhances the functionality of devices, reduces manpower burden, and minimizes errors.