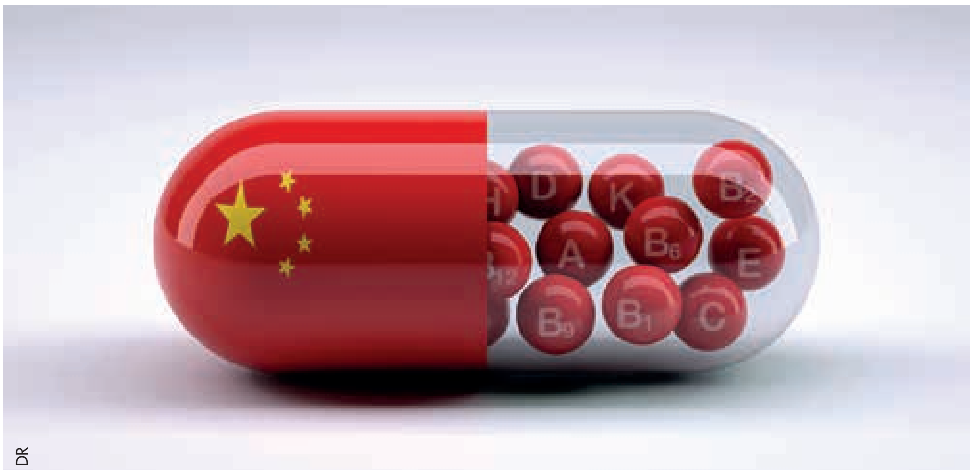
China

How pharma is reinventing itself

Between massive price cuts and increased innovation, the Chinese market is facing headwinds. In search of innovative organizations, it is shaking up the traditional pharmaceutical scheme, and could quickly foreshadow the future of pharma in the world.



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Behind its accelerating growth, Chinese pharma hides numerous and complex challenges.

China is now in the year of the Metal Buffalo. Embodying structure and responsibility, the animal imposes, according to Chinese mythology, a face-to-face encounter with reality. This is a reality that today presents the pharmaceutical industry with much more complex challenges than in the past. Most indicators are green, but they are offset by just as many challenges: sales of innovative drugs are expected to triple by 2025, reaching 960 billion yuan (122 billion euros), according to the IQVIA Institute, but pressure on prices is intensifying: up to -78% on new immunotherapies taken in charge since December. While access to medicines is improving, new purchasing processes and tighter standards are tending to concentrate supply, with the risk of new monopolies. Biotechs are benefiting from exceptional government support, but their transition to commercialization may be hampered by the fact that buyers do not value their innovation very highly. Finally, despite the immensity of the market, laboratories are organizing themselves into smaller, more agile teams to keep up with the frantic pace of reform, relying in particular on digital technology.

«A vibrant market»

«China is a vibrant and dynamic market, exhibiting the characteristics of both an emerging and fully developed economy,» notes Pius S. Hornstein, Country Lead, Sanofi Greater China. «Its spectacular market, rapid innovation cycles, strong appetite for digital innovation and dynamic policy changes create both challenges and exciting opportunities.» All experts agree that a deep understanding of China and its culture is necessary to keep up with trends and achieve the best results.

«In my experience as an international executive hunter, the most successful candidates are those who are not only interested in working in China, but also in learning about the country, its culture, its people and all other local aspects. Those who develop this interest will be more fulfilled in their work and will progress more in the long run,» explains Beryl Chu, Client Partner at Pedersen & Partners Executive Search. Interest is necessary, but not sufficient. «There is a learning curve for any newcomer. «

Pius S. Hornstein confirms this: «When I arrived in China in late 2018, I interacted with many people who had been established here for decades, but none of them expected healthcare reforms to be so deep and fast - with the standardization of measures such as centralized drug procurement (Volume Based Procurement) and the acceleration of the National Reimbursement Drug List (NRDL) update. «

A strategic withdrawal?

This new centralized drug purchasing policy is at the heart of industry discussions today. Tested since 2018 at the regional level, it officially became national last March, through an operation to purchase 158 drugs to supply hospitals in both Shanghai and Beijing, as well as the much

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poorer rural areas of the country. With average price cuts of more than 50%, the compromise is difficult for foreign groups to find. Many of them have in fact strategically withdrawn some of their drugs in recent years to focus on others, looking for savings at every level, following the model of mature markets.

«This means reorganizing production and packaging lines to reduce costs. Then it's all a matter of sales strategy, to determine, according to the new purchasing policy, which product we can fight for, where our strengths lie and how far we can cut prices to get the deal,» explains a pharmaceutical plant manager in Shanghai. Raising awareness of these issues among sales staff has become essential, as has managing uncertainty on a daily basis for certain products. «We have flagship products on which we are in a strong position, but that doesn't mean we are immune to our competitors, and the risk of suddenly losing market share,» he says.

Some foreign laboratories are managing to do well. Sanofi, for example, was selected in the last tender for the supply of amisulpride. It was an uphill battle during which the French laboratory reduced the price of its treatment by more than 80% to gain an advantage over local pharmaceutical companies. «Innovation has become a fundamental proposition in China. But there is also a growing trade-off between volume and price,» says Pius S. Hornstein.

A more competitive industry

This national policy, which aims to provide access to medicines for a huge and ageing population, is also helping to strengthen the major pharmaceutical companies. «China has more than 5,000 pharmaceutical manufacturers and the government is strongly encouraging consolidation in the pharmaceutical industry, in particular to reduce the number of small companies that do not have the financial capacity to meet the new regulatory standards,» says Daxue Consulting, a China-based market research and consulting agency.

Foreign groups have a competitive advantage in this context, drawing on their experience with U.S. and European regulations, but it is diminishing. By setting up in China, these laboratories have made sure to adopt demanding standards immediately. The impact of the authorities' raising of standards has therefore been somewhat more limited than for some older factories, even if all of them have to evolve, especially on environmental issues. This is a real challenge >>>

"Foreign talents must be 'localized' in Chinese customs"

Beryl Chu is a Client Partner at Pedersen & Partners Executive Search, located in Shanghai since 2003. As an expert of the Chinese pharmaceutical market and the interaction between local and expatriate talent pools, she details the major trends in the recruitment market.

What are the main areas of talent recruitment in China?

● The demands cover a wide spectrum. However, the recruitment needs of multinational companies differ from those of Chinese companies. The latter have a constant need to recruit in sales and marketing functions. International laboratories, which have set up R&D centers in China, are intensifying their recruitment in R&D, medical affairs and product marketing. Licensing is also booming, both on the demand and supply sides. In addition, there is a growing need for experts in the field of digitalization. Covid has stimulated the creation of biotech companies, and at the same time the development of digital health.

Is the pool of qualified candidates growing as fast as the needs of industry?

● Yes. Over the past decade, the number of local Chinese candidates trained by multinational companies or abroad has exploded. China is an attractive job market - not only for Chinese candidates, but also for expatriates - because of its rapid growth. In addition to Chinese candidates, the talent pool includes mostly Chinese expatriates returning from abroad, Europeans and Americans, looking for new opportunities.

Has the pandemic and border closures slowed talent recruitment?

● No, companies are finding a large pool of talent locally that is no longer dependent on foreign executives. In fact, companies are primarily looking for Chinese to run their businesses, even subsidiaries of international laboratories. The Chinese market is complex compared to Western markets, due to deep cultural and linguistic differences. If foreign talent is not «localized» in Chinese customs, it is difficult for them to survive. On the other hand, the local technology conglomerate BAT (Baidu, Alibaba and Tencent) is now a major source of excellent, qualified candidates.

>>> for producers, who must at the same time keep up with the increase in demand and therefore speed up their production, to the point of running the plant 24 hours a day, seven days a week. They are also faced with ever-increasing inspections, where everything is reviewed. The increase in standards, followed by procurement reforms, has led to the closure of many sites across the country. This is a concern among manufacturers: competition is indeed limited for certain molecules or raw materials. It is not uncommon today to observe sudden price increases of 20 to 30% or more, with the risk of creating shortages. Thus, while prices are falling in some regions, they are occasionally soaring in others. Local authorities sometimes advocate a more repressive system for each actor in the drug chain. But Beijing, alert to the strategic aspect of pharma, also knows how to be more conciliatory on certain points. For example, the latest tender procedure was more open than previous ones, with up to eight to ten suppliers selected for each drug, compared to three previously. Above all, public aid is increasing: «China uses special economic or industrial zones to encourage the development of pharmaceutical companies. They usually offer low-cost land, infrastructure support and may involve preferential supply of basic utilities (water, electricity, etc.),» says Daxue Consulting. «If a pharmaceutical company manufactures products for export, it may also benefit from tax exemptions.»

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Innovating at low cost

Innovative medicines are still very rarely included in centralized procurement processes: only two patented products were included in the March tender. However, they are gradually taking their place in the list of essential medicines. Here too, the condition is to offer significant price reductions: 50.6% on average for the 119 new drugs added to the NRDL at the end of 2020, but up to 78% for the three new immunotherapies registered. However, «the huge patient base and relatively low costs in China mean that the potential benefit (in absolute terms) is not necessarily low, even if the price is not as high as in the U.S.,» points out Jialin Zhang, an analyst at ICBC International Research Ltd. According to a study by the firm, average sales of drugs added in the previous list review in early 2020 jumped nearly 2,000% in a nine-month period in 2020.

Again, this intense pressure is not all bad news for the industry. «Innovation is not built in a day and on a single factor. We observe that this difficult situation has forced traditional pharmaceutical companies, especially the larger ones, to strengthen their R&D at a frantic pace. The same is true for multinationals, which have to introduce more innovative drugs in China to offset the price pressure on their original off-patent products, which is driving competition.»

A trend supported by government reforms: over the past five years, Beijing has tackled administrative brakes on new drug registration and clinical trial approvals. The import of innovative medicines has also been simplified. Sanofi's ambitious plan to launch 25 new products by 2025, including six that have already been completed by 2020, reflects this context. Among them are three biologic drugs, specially selected to cover some of the most common diseases in China, such as diabetes, cardiovascular pathologies and atopic dermatitis. «In 2021, we plan to launch five new products and indications in China. At the same time, we have been developing our own R&D capabilities in China, driven by our commitment to advance science and the market. Our «In China for China» commitment means we have the ability to determine our trajectory in this market based on its needs. To that end, we have established our first global biomedical research institute in China in Suzhou and have increased investment in our Beijing manufacturing facility,» said Pius S. Hornstein.

The biotech boom

«Another trend is the proliferation of biotechs. Financial capital, talent and regulation are all on their side today. But our observation is that the big pharma companies are getting stronger and stronger, which means that the weaker ones and the smaller ones without scale will disappear, but maybe slowly,» says Jialin Zhang. While their research benefits fully from the national ecosystem, the transition from simple R&D to commercialization and R&D will be complex, given a pricing policy that still makes little difference between biological and chemical drugs.

«If we don't achieve a good appreciation of the value of innovative drugs, I fear that 50-60% of biotechs will go out of business or be shunned by investors,» warned James Li Yiping, CEO of JW Therapeutics, in an interview with the South China Morning Post in early January. In a recent report, the investment bank Haitong Securities addresses this issue, noting that over the past five years, Chinese pharma has been distinguished mainly in the development of me-too drugs, including anti-PD-1 class cancer drugs. By 2025, it is expected to move towards more «First-In-Class» and «Best-In-Class» products. However, centralized purchasing may considerably limit the profitability of these innovative drugs: prices for anti-PD-1 drugs in China are currently among the lowest in the world.

Chinese R&D, Western profitability?

This trend could push national laboratories to focus on foreign markets, especially the U.S., for their profitability. They are looking abroad with the potential to bring innovations at a limited price, and thus undermine the competition in certain fields, hence the importance for Chinese pharma to multiply partnerships with international groups and prepare new outlets for their products. For their part, Western laboratories find in these agreements a way to develop and adapt their molecules to the Chinese market, while limiting costs. However, they will face growing competition in licensing and they must at the same time make strong trade-offs in their drug portfolios in China. These are complex and risky strategies, at a time when the impact of China on the groups' overall sales is growing.

In this complex context, a dozen Chinese laboratories stand out in particular, including BeiGene, Innovent Biologics or Everest Medicines. «We focus on the development of innovative and differentiated drugs with established 'first in class' or 'best in class' status in therapeutic areas with significant unmet medical needs in our territories,» says Ian Woo, President and Chief Financial Officer of Everest Medicines. The company is developing sacituzumab govitecan-hziy for the treatment of metastatic triple-negative breast cancer in the United States. In China, «it was recently included in the latest edition of the Chinese guidelines for standardized diagnosis and treatment of advanced breast cancer, which helps validate its clinical benefit for patients and healthcare providers,» Woo added. In the short term, the company will focus its efforts on its R&D, and expanding its commercial capabilities in China and Asia. «In the longer term, we want to strengthen our position as a global biopharmaceutical company. «

Digital, the key to a complex equation

Like most Chinese manufacturers, Everest Medicines is also paying close attention to its digitalization. «We clearly see the opportunities that the Internet and online platforms offer to improve the entire pharmaceutical value chain. China has been at the forefront of this revolution, and Covid-19 has only accelerated the attention and investment. We are not yet a commercial company, but we expect digital to be a central part of our business strategy,» emphasizes Ian Woo.

Pharmaceutical industry corruption scandals in 2012, new procurement policies and Covid-19 have globally closed the doors of healthcare facilities to industry representatives. Promotional teams are much smaller than in the past. This is an unavoidable trend, which partly offsets the decline in margins, and helps finance the digitalization of all processes.

«Digital innovation also brings new ways of working with partners and patients. Sanofi has become a pioneer in this area, among multinational pharmaceutical companies, by creating an online team dedicated to hospitals in 2019. «This has built a new environment, capable of breaking the boundaries of time and space, better equipping doctors and achieving 'zero' distance between patients and Chinese doctors - optimizing resources, facilitating diagnosis and treatment, and providing patients with professional and personalized service,» notes Pius S. Hornstein.

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