



CRA Insights: Life Sciences

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Defining emerging markets for life sciences – “where to play”

Introduction

Life sciences organisations have traditionally seen emerging markets as a potential source of revenue growth. However, over the last few years these markets have become hotly contested and leveraging the apparent opportunity these markets present has become more difficult for multinational life sciences organisations. Competitive pressures from local companies are often underestimated, the willingness-to-pay for innovative medicines remains low, and infrastructure issues continue to adversely affect healthcare initiatives in emerging markets. Obviously, the strategies that have brought success to life sciences organisations in developed markets cannot simply be transitioned to emerging markets, nor is it appropriate to characterise an overarching emerging markets strategy. Given their diversity in health systems and demographics, a single strategy cannot be adopted across all emerging markets. From our perspective, emerging market strategies need to be refocused in order to capture the available growth opportunities. The effort needs to begin with a clearer definition of high opportunity emerging markets, starting with a deeper understanding of the evolution of the overall healthcare system in each market in order to reset growth expectations and define new strategies. The old adage remains true today and organisations need to be clear on “where to play,” “when to play” and “how to play.” In this article, the first in a series of *Insights* where CRA discusses our perspective on emerging markets, we suggest a new way to define key emerging markets for the life sciences industry – “where to play.”

Defining emerging markets

Traditional indicators that are used to determine and prioritise a set of emerging markets include GDP growth and forecasted pharmaceutical expenditure. CRA has developed a new perspective on the opportunity available in emerging markets that goes beyond these traditional indicators. Through analysis of health expenditure per capita (HE per capita) and total health expenditure (THE), we offer a more holistic view of the opportunity in these markets.

- HE per capita varies widely by country but incorporates both the wealth dynamics of consumers and/or the healthcare spend dynamics of a country's public funding body (e.g., government), without influence from associated demographic trends (e.g., population growth). Additionally, although there is an association between HE per capita and GDP, GDP is an indirect measure of healthcare spend and is not the only factor influencing health expenditure. Indeed, countries with a similar GDP may have differing healthcare priorities. For example, in 2010 the GDP of Russia (approximately \$1.5 trillion) was very close to the GDP of Spain (approximately \$1.4 trillion). However as a percentage of GDP, Spain spends almost twice as much on health (approximately 9.5% of GDP) than Russia (approximately 5.1% of GDP).¹ Furthermore, the cost of drugs, medical goods, and the availability of health services such as inpatient, outpatient, long-term and collective care also influence health expenditure levels. Additionally, willingness-to-pay across governments, employers and patients has a major impact. HE per capita is thus a more direct measure of market attractiveness than GDP.
- THE incorporates an indication of a country's wealth and spend on healthcare services and infrastructure, in addition to pharmaceutical and device spend. Additionally, spending priorities on the individual elements of THE (e.g., curative and long term care, pharmaceuticals, health administration, etc.) are expected to change over time. Hence, a more holistic metric is required that better indicates a country's total potential and not solely its potential based on pharmaceutical sales. Furthermore, global THE is expected to reach about \$8.7 trillion by 2016 at a compound annual growth rate (CAGR) of approximately 4.5% between 2012 and 2016.² In comparison, global pharmaceutical spend could reach \$1.2 trillion in the same period at a similar CAGR.³ As such, global pharmaceutical spend contributes a relatively small proportion of global THE (about 14%).⁴ THE thus represents a more suitable measure of the overall market attractiveness than pharmaceutical spend, even considering population differences between countries.⁵
- As well as defining market attractiveness, together, HE per capita and THE can also be used as indicators of the maturity of the overall healthcare system within a market. The maturity of a country's healthcare system is not readily apparent when focusing only on GDP or pharmaceutical expenditure, but is an important factor when defining the overall healthcare priorities within a market. Again, the comparison between Russia and Spain provides a clear example of where countries with a similar GDP have very different priorities regarding healthcare spend even when population size is taken into account. Similarly, pharmaceutical expenditure does little to differentiate these markets as both countries have similar levels of spend on pharmaceutical products (approximately \$20 billion in

¹ Health Expenditure and GDP Data, World Bank.

² Health Expenditure and Population Data, World Bank; CRA analysis.

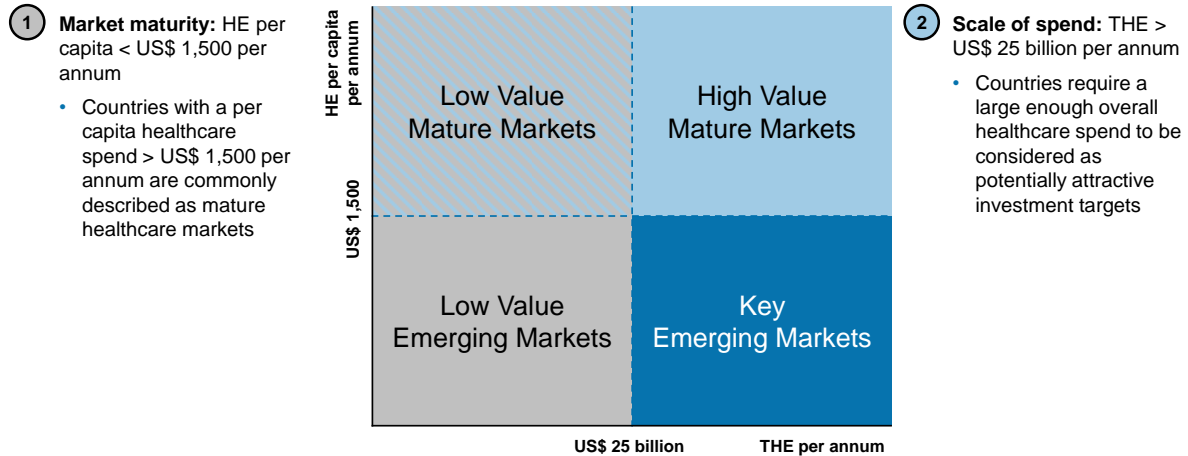
³ "The Global Use of Medicines: Outlook Through 2016," IMS Health; CRA analysis.

⁴ Health Expenditure and Population Data, World Bank; "The Global Use of Medicines: Outlook Through 2016," IMS Health; CRA analysis.

⁵ Health Expenditure and Population Data, World Bank; CRA analysis - THE does not closely correlate with population size ($R^2 < 0.2$ globally).

2011).⁶ However, from a provision of healthcare perspective, Russia has a long way to go to catch up with Spain.

Figure 1: Defining key emerging markets for the life sciences industry



So how should the industry define “where to play?” Figure 1 outlines the methodology CRA used to define key emerging markets. An initial set of approximately 30 markets was identified through analysis of publicly-available historic HE per capita and THE data (2010), excluding countries commonly described as mature healthcare markets which are considered investment priorities, such as the US, Western Europe and Japan (i.e., those with a high HE per capita and THE), and countries whose healthcare markets were considered too small to be an attractive investment priority (i.e., those mature and emerging markets with a low THE).⁷ This list of approximately 30 markets was further refined following additional analysis of current (2012) and expected future (2016) HE per capita and THE data.⁸

The resultant 16 key emerging markets, which CRA believes are the most attractive for the life sciences industry, are detailed in Figure 2. These markets are expected to contribute approximately 50% of absolute global THE growth between 2010 and 2016 (Figure 2).

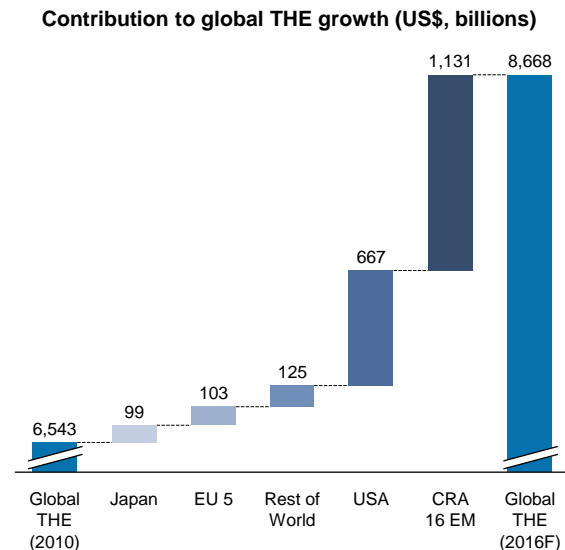
⁶ “The Global Use of Medicines: Outlook Through 2016,” IMS Health.

⁷ Health Expenditure and Population Data, World Bank; CRA analysis.

⁸ Country-specific industry reports – Healthcare, Economist Intelligence Unit; CRA analysis.

Figure 2: 16 key emerging markets for the life sciences industry and their contribution to global THE growth

Region	# Markets	Emerging Market
Latin America (LATAM)	6	Argentina
		Brazil
		Chile
		Colombia
		Mexico
		Venezuela
Asia-Pacific (APAC)	3	China
		India
		Indonesia
Central Eastern Europe (CEE)	3	Poland
		Russia
		Turkey
Middle East & North Africa (MENA)	3	Egypt
		Iran
		Saudi Arabia
Sub-Saharan Africa (SSA)	1	South Africa



Sources: Health Expenditure and Population Data, World Bank; Country-specific industry reports – Healthcare, Economist Intelligence Unit; CRA analysis.

Individual countries not tiered groups of markets

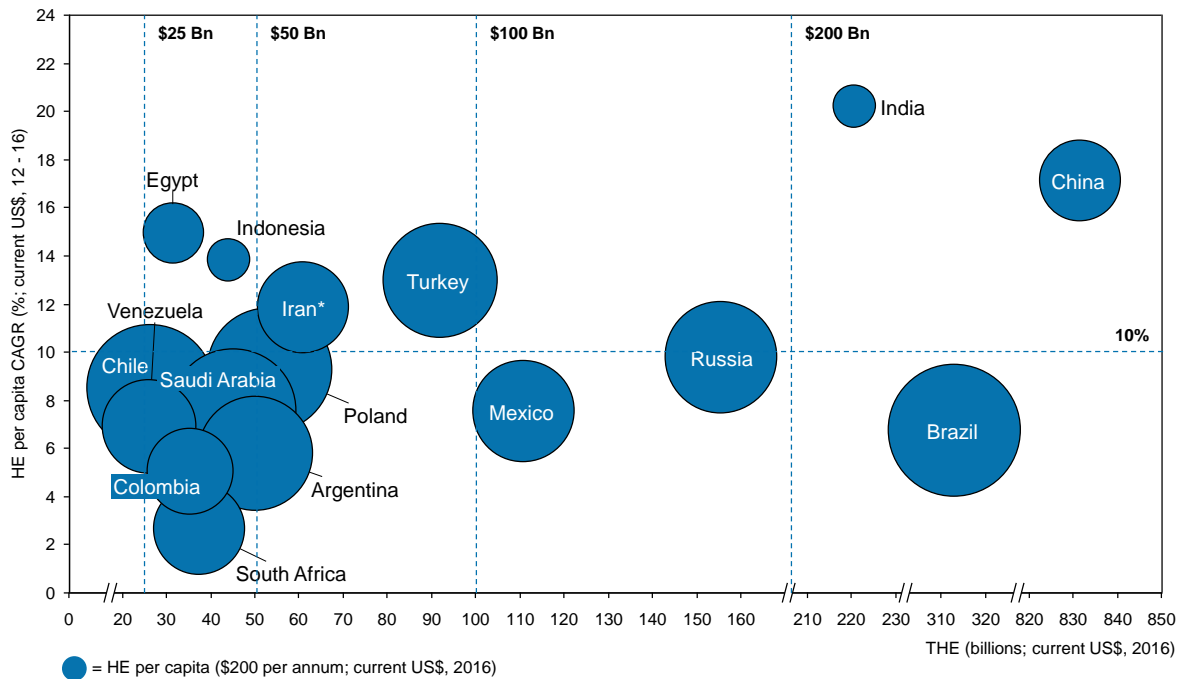
Using indicators such as GDP growth and forecasted pharmaceutical expenditure, emerging markets are traditionally grouped into tiers based on their relative levels of attractiveness. Using the more appropriate HE per capita and THE metrics, CRA does not see an obvious opportunity to cluster emerging markets in such a manner. Furthermore, the idea of grouping emerging markets from the perspective of pharmaceutical industry investment strategy and priorities is much less applicable when considering CRA's 16 key emerging markets (Figure 3), which have significantly different characteristics. Consider the following examples.

- Growth in China is expected to yield THE which is twice that of any other market by 2016. Much of this increased spend, however, is likely to be focused on improving infrastructure. Hence, it may be difficult for multinational life sciences organisations to capitalise immediately on this growth.
- Brazil's HE per capita trends suggest its healthcare system is maturing. As the market approaches maturity, westernisation of the population and its associated disease profile will drive shifting therapy area priorities. Consequently, the window of opportunity to capitalise on the growth potential in certain areas may be closing.
- Pharmaceutical price cuts since 2009, coupled with a fall in HE per capita in 2009 vs. 2008, resulted in Turkey beginning to fall out of favour with multinational life sciences organisations.

However, the expected “bounce back” to double digit HE per capita growth, which will drive significant THE expansion (approximately 70% from 2012 to 2016),⁹ suggests Turkey should be revisited as an important investment opportunity.

- Despite the potential to group several Latin American countries in lower tiers under the traditional view of emerging markets, the region is the largest contributor to the 16 key emerging markets. This suggests an opportunity for near-term investment in select markets to capitalise on the potential of the region.

Figure 3: Outlook through to 2016: Key emerging markets



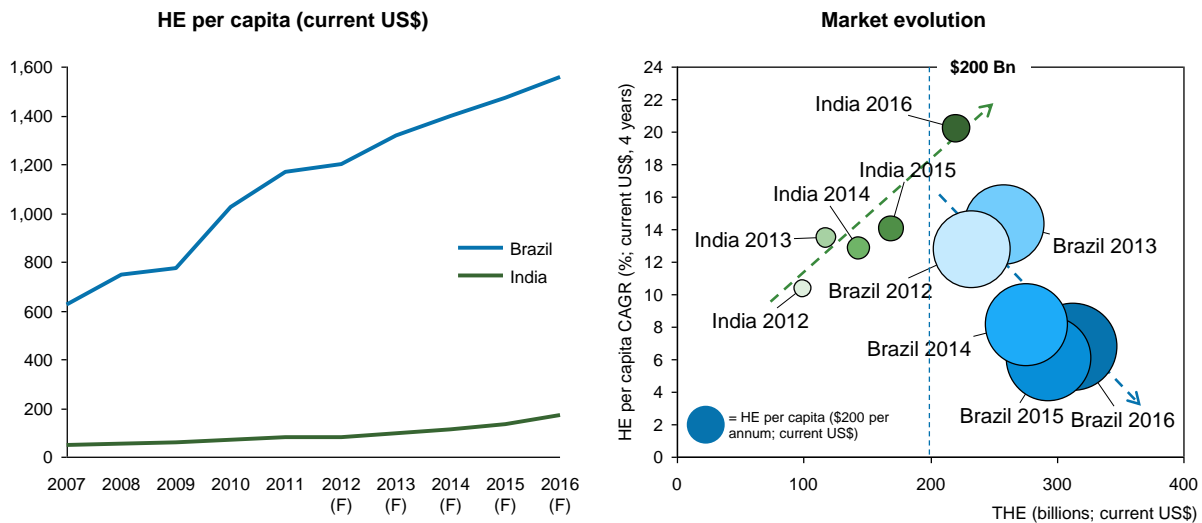
Sources: Country-specific industry reports – Healthcare, Economist Intelligence Unit; CRA analysis.
 Note: * Iran future data period: 2012 – 2015.

A comparison of Brazil and India further highlights the need for a country-specific strategy for emerging markets rather than a strategy based on tiered groups of markets (Figure 4). Whilst both are often considered together under the BRIC umbrella, Brazil may represent a greater near-term investment priority than India. Brazil’s healthcare expenditure growth is expected to slow, suggesting that organisations wishing to gain market share in Brazil will need to invest now, especially given the existing competitive challenges and expected shift in healthcare priorities. Conversely, both THE and

⁹ Country-specific industry reports – Healthcare, Economist Intelligence Unit; CRA analysis.

HE per capita growth are likely to be significantly higher in India through 2016 given their current low base. Thus, India may present more of a long-term investment opportunity as its overall healthcare market continues to evolve.

Figure 4: Comparison of market trends in Brazil and India



Sources: Country-specific industry reports – Healthcare, Economist Intelligence Unit; CRA analysis.

Concluding remarks

Emerging markets remain an important area for driving growth across the global life sciences industry. However, a definition based on traditional indicators such as GDP growth and forecast pharmaceutical expenditure, relies on comparatively narrow metrics in the context of the life sciences industry, and whilst it may have allowed life sciences organisations to broadly select the most attractive emerging markets historically, it is not sufficient to allow the industry to tailor their strategies to the different dynamics and maturity of the healthcare system in each market. Given these different dynamics, the need for a country-specific emerging market strategy that takes into account a more holistic view of healthcare is evident to enable life sciences organisations to capture a larger proportion of THE in these growing economies. Beyond this, factors such as the market opportunity from a country, therapy area, and product perspective, in addition to market access and regulatory issues, need to be taken into account.

In determining “where to play,” “when to play” and “how to play,” life sciences organisations must address a set of key questions to maximise return on investment in select markets. This article outlined a novel approach to define “where to play.” In the next *Insights* focused on emerging markets, we will explore, “when to play” and “how to play” from the perspective of a more holistic view on investment opportunities.

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