

# China Pharmaceutical Industry

## Key OEMs: US\$ bln in 2007

Company Name	USD	City	Ownership
Harbin Pharmaceutical Group	1.71	Harbin	SOE
Shijiazhuang Pharmaceutical Group	1.33	Shijiazhuang	SOE
Shanghai Pharmaceutical Group	1.22	Shanghai	SOE
Guangzhou Pharmaceutical Group	1.15	Guangzhou	SOE
Tianjin Pharmaceutical Group	0.91	Tianjin	SOE
Yangtze River Pharmaceutical Group	0.82	Zhejiang	Private
North China Pharmaceutical Group	0.74	Shijiazhuang	SOE
Jilin Xiuzhen Pharmaceutical Group	0.62	Changchun	SOE

[For more information, click here to fill out the 'ask the experts' form.](#)

## Supply Chain Characteristics

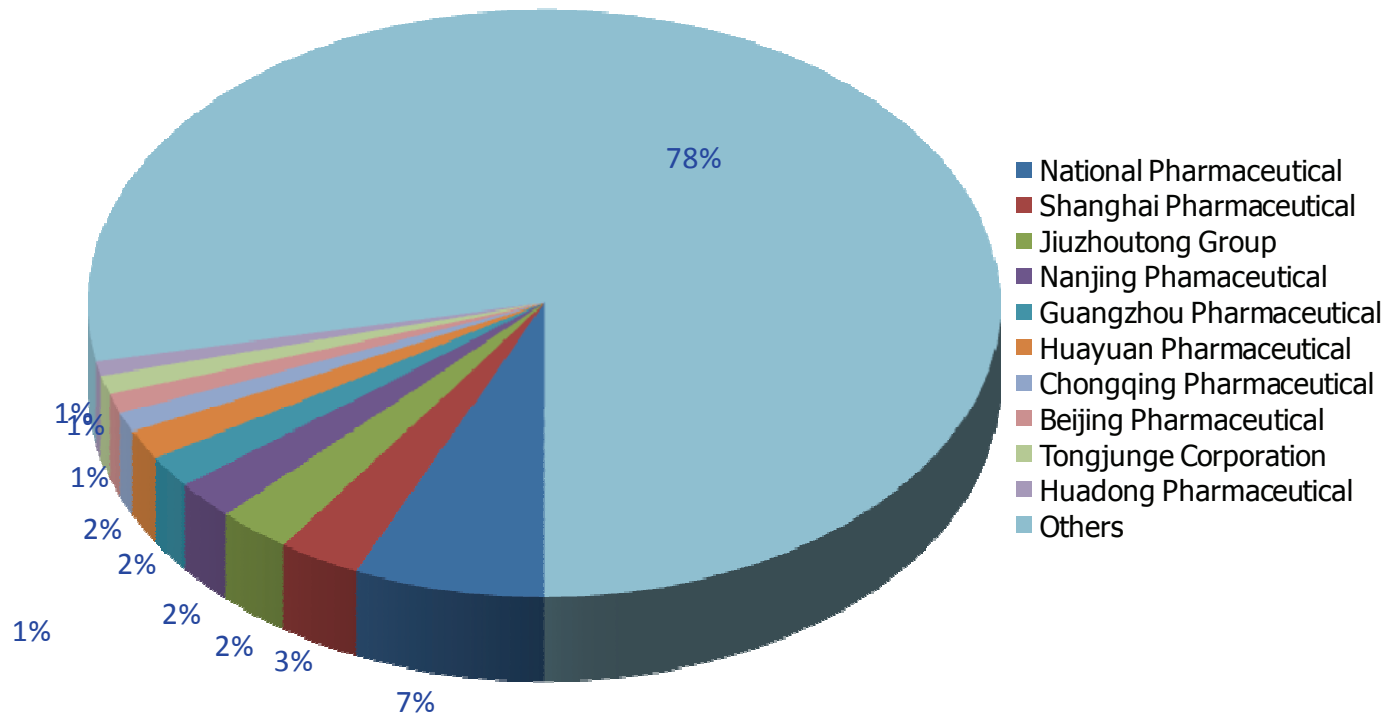
- Total demand in 2008 (majority from coastal area): USD 90 billion, Top 10 suppliers account for about 20% of total supply, but none of them are MNCs
- Annual growth: 24% in 2008, estimated to be down to 20% in 2009
- Intensive competition: more than 6,000 registered pharmaceutical wholesalers and over 140,000 pharmacy retailers in 2007
- Buyers: hospitals (over 70% of total medical sales), retailers (less than 5%), and pharmacies (over 25%) buy from a national or regional distributor (called pharmaceutical companies) or its sub-companies, whereby tendering practice is required for most procurement of medicines; except for a few items, a factory is not allowed to sell directly to hospitals or pharmacy outlets.
- Logistics cost represents 10% of the sales revenue. For new distribution centers, there are requirements for the technology level, such as auto picking and conveyor systems, so the barrier to enter the distribution business is high.

## China Challenges

- Fragmentation: over 4,000 factories competing in the market
- Low R&D investment and mid-low end focus: Chinese companies invest ~5% of profits on R&D while global leaders invest 10-15%
- Marketing: focus more on under-the-table kickback deals instead of full set of marketing solutions
- Logistics: poor economy of scale because of many orders with low volumes; best markets are mostly in the coastal areas; not enough attention paid to logistics costs
- Safety & QA: many factories do not have sound quality control systems, but are still protected by their local governments
- Bad debt: customers are often very bad at paying on time so distributors end up carrying a lot of cash flow risk.

# Pharmaceutical Distributors in 2007

## By Revenue: ~US\$90 billion



# Pharmaceutical MNCs in China

## Pharmacy Sales of Top 5 Pharmaceutical MNCs in China in 2007

Company Name	China Sales*: (USD mln)	China Factory Location	Ownership
Bayer Pharmaceutical	~440.00	Beijing, Guangzhou, Chengdu, Qidong (Jiangsu)	JV
AstraZeneca	~422.00	Wuxi	JV
Pfizer	~380.00	Dalian, Suzhou, Wuxi	JV
Roche China Pharmaceutical	~350.00	Shanghai	JV
Sanofi Aventis	~300.00	Beijing, Hangzhou, Shenzhen	JV

\* Includes both imported and locally produced products

*Exchange rate:*  
**1\$=6.8RMB**

### Characteristics:

- Top 10 pharmacy sales in China are dominated by China local companies and it might take several years more for MNCs to catch up with them in China
- All of the global top 20 pharmaceutical MNCs have set up their factories in China and some of the products made in China are exported
- High growth rate: the top 5 have an annual growth rate of over 30% in 2008
- All are building strong nationwide sales networks that they own themselves
- High-end product focus and localization of R&D
- Due to fast growth rate, the ranking of top foreign OEMs has changed significantly from 5 years ago and will likely do so again in the coming years – the market is very dynamic.

### Challenges:

Unstable human resources  
Importance of government relationships  
Localization of sales approach: foreign companies have to decide how to handle bribes in the procurement process

**For more information, click here to fill out the 'ask the experts' form.**