

China: Medical Equipment Industry

Overview of Emerging Tier II Markets



INTRODUCTION

The objective of this report is to provide an overview of the Chinese market for medical equipment and devices, with focus on four key emerging markets beyond already established cities such as Shanghai, Beijing, and Guangzhou.

EXECUTIVE SUMMARY

Market opportunity. China's medical equipment & devices market, estimated to be worth \$13 billion, is the world's third largest after US and Japan and offers significant opportunities for foreign exporters. The US is the largest supplier of medical equipment to China, accounting for nearly one-third of total China imports which reached \$3.1 billion in 2006.

Key customers. The key customers of imported equipment are large hospitals, the vast majority of which are state-run. While there are more than 18,000 hospitals in China, only the most advanced ones (less than 1,000 Grade III and possibly some of the 5,000 Grade II) are able to afford foreign technology.

Sales process. Starting from 2003, foreign companies need to deal with only one agency, the State Drug and Food Administration (SFDA) which is responsible for import, manufacturing, and distribution of medical equipment & devices. While the overall sales process still lacks transparency with under-the-table dealings being not uncommon, starting from 2005/2006 the situation is improving with stricter enforcement of central procurement procedures and public biddings.





Key emerging markets. While markets like Shanghai and Beijing are already established, significant market opportunities lie in rapidly growing tier-II cities, such as Tianjin, Shenzhen, Nanjing and Chongqing which are the focus of this report. Tianjin and Nanjing are important import markets that tend to follow trends in Beijing and Shanghai. Shenzhen is also a key market with its high GDP/capita and receptiveness to new technologies and foreign brands. Chongqing offers good mid-term potential for its large population and relatively low penetration of high-tech products at present. Other emerging tier-II markets for medical equipment & devices, not analyzed in this report, include Qingdao, Dalian, Xiamen and Hangzhou.

Market access. Foreign companies can access the market through either regional or local distributors¹. Regional distributors cover a wider geography (such as South China or East China) but usually rely on local Tier II or Tier III distributors for sales in each locality. Direct contact with the right local distributors may give foreign companies greater control and better representation. There are about 1,000 distributors of medical equipment & devices in each of the four key regions analyzed as local distributors are highly product / department-oriented. Selecting the “right” distributor can be an important key success factor.

¹ The term “distributor” in the China context is generally used to include any middle-man acting as distributor, agent, importer, independent sales-man, etc.