

China's Life Science sector is expected to maintain a strong growth rate during China's 13th Five-Year Plan period. Driving clinical innovation while managing cost is the key challenge of both policy makers and market players. How to adapt the facts include changing demographic trends, consumption upgrade, overcapacity and the lack of IP protection in China is a major task that life science companies need to accomplish.

A Promising Future Rooted in Innovation —Thermo Fisher

BY / Sitao Xu, Keyu Liu

This is the second in a series of interviews from Deloitte on China's ongoing structural adjustment. These articles provide a 'bottom-up' perspective from industry captains and offer important insights for foreign as well as local companies that want to understand China's unique marketplace.

China's health care sector is attracting increasing attention. Having grown at an astonishing rate of 9.6 percent in 2016 and projected to maintain double-digit growth for the next few years, it will undoubtedly be among the world's most attractive markets for the health care industry. Changing demographic trends and a more health conscious consumer base will underpin the sector's growth but challenges remain. The Chinese health care market – characterized by extraordinary entrepreneurship, favorable government policies and insufficient IP rights – is continuously attracting new local players. What companies need to be aware of is that within certain promising sectors in China a “lack of supply” can quickly turn into “overcapacity” – as has been the case several times in the past. Moreover, policy makers' current concerns, i.e. “managing costs” and “driving clinical innovation”, is something market leaders need to adapt to. Gianluca Pettiti, President of Thermo Fisher Scientific China, the world leader in serving science, shares his insights and experiences with Xu Sitao, Chief Economist, Deloitte China.

Q1: Since 2015 you have been President of Thermo Fisher China. Tell us more about your journey, how did you end up here and what brought you to your current position?

A: The first time I came to China was in 2002, for a two week vacation in Shanghai, Xi'an and Beijing. I was fascinated by the overwhelming speed of its development and the dynamic business environment. However, I never thought that I would eventually end up working in China.

Having worked formerly for General Electric, I moved to life sciences in 2006, by joining Applied Biosystems. From then on, things went very fast. In 2008, I led the EMEA finance organization for Life Technologies. Two years later I moved for the first time to an emerging market, Sao Paulo Brazil, as the General Manager for the Latin America region. In late 2012, I was asked: "Would you like to run our China business for Life Technologies?" and my answer was a definite 'Yes'. So here I am, living in Shanghai for more than 4 years now, having started as the President of Life Technologies at the beginning of 2013, and running Thermo Fisher's China business since 2015.

I first thought that moving from one emerging country to another would be a fairly smooth transition, but then I very quickly realized how different China is from other emerging markets. Fast, dynamic and determined would probably be the most suitable words to describe China. This means that unlike other emerging countries, when a decision is made in China, it actually gets implemented and that too with enormous speed. The rapid establishment of the biotech center is the best example of this. In short, China is unique in its capacity to get things done.

Riding the Wave

Q2: Where do you see the most attractive markets? What area do you want to focus on?

A: Asia-Pacific and emerging markets, which are significant segments of our business, and we expect them to continue to drive our growth. China will remain the growth engine of the region because of its track record of double-digit growth, its commitment to enhance precision medicine as well as the possibility for Thermo Fisher to conduct R&D within the country.

Q3: China's health care sector is expected to maintain a growth rate of 9-11 percent for the next few years. How do you evaluate Thermo Fisher's business prospects? Will an easing in the pace of growth have an impact on Thermo Fisher's business?

A: The 13th five-year plan, which is the roadmap for development and investment in China, focuses on innovation, a better health care sector, precision medicine as well as environmental and food safety - areas which Thermo Fisher is very well positioned in. Hence for us, the opportunities for growth are enormous. Considering that China is currently spending only 5% of its GDP on the health care sector, compared to the US investing 18% of its GDP, we see enormous potential for growth in this area.

The fact that China is moving towards a consumption driven growth model also provides opportunities for Thermo Fisher. Higher consumption means more imported food and higher demand for food safety. In the past, Chinese citizens consumed the goods produced within the

country. Thus, there was better control over food standards. Now, with food being shipped across different regions, ensuring food safety has become more complicated. Thermo Fisher's wide range of food analysis tools are contributing to China's mission to ensure safe and healthy food for its citizens

Q4: China has been the fastest growing contributor to Thermo Fisher's revenue growth in 2016. What is your primary focus in the Chinese market?

A: China plays a major role for Thermo Fisher's revenue growth as it is our second largest market after the US. But the relationship is a two-way one. We use our knowledge and tools to solve the healthcare and food safety problems in China.

Thermo Fisher is the global leader in providing tools and innovative solutions to its customers' needs. Our strategy in China is to focus on major current issues – such as oncology research and food safety – that we are able to solve and mitigate, given our capabilities in biopharma, diagnostics, environmental monitoring as well as food inspection. For example, our high-end mass spectrometry and next-generation sequencing instruments are enabling physicians to diagnose and analyze diseases such as cancer in a much more efficient and effective way. Given that China had 4.3 million new cancer cases in 2015, diagnosing cancer early is an essential part of fighting the disease. Furthermore, our microbiology products for food analysis are able to detect antibiotics, nitrite and other toxic ingredients in food, while our advanced environmental analyzers are helping to address air and water quality concerns.

Q5: As you mentioned, China is committed to improve its health care sector. However, what are the remaining inefficiencies in this field?

A: As mentioned before, China had 4.3 million new cancer cases in 2015 and 2.8 million deaths caused by cancer, while having about 6000 pathologists. In order to reduce the mortal rate, early diagnosis with advanced technology is key. Digital pathology with a combination of automated and assisted diagnosis can significantly improve early detection. In this field however, there is still plenty of room for improvement. Thermo Fisher is focused on driving digital technology into the lab in order to improve connectivity and analytics.



Innovation is King

Q6: How open is the Chinese government towards new health technologies, such as remote diagnostics?

A: Every new technology obviously takes some time for adoption. What we can do is to put a lot of effort into making sure that every step we take is 100% compliant. Overall, the government is approaching new technologies in the right way. For example, just recently it set a target that allows drugs that are authorized in the US market to get more quickly approved in China.

Q7: In what sense is Thermo Fisher contributing to innovation in the Chinese scenario?

A: Thermo Fisher has launched numerous collaborations with hospitals and business partners in China, with the aim to build up an ecosystem of precision medicine in the country. We help our partners upgrade their technologies and develop more sophisticated research, thereby making a significant contribution to China's innovation landscape. For example, we are collaborating with West China Hospital in Sichuan – one of the largest single-site hospitals in the world – to develop a joint platform for advancing research in precision medicine. In September 2017, we opened our Precision Medicine Customer Experience Center in Guangzhou China. A 600-square-meter state-of-the-art facility that showcases a wide range of Thermo Fisher's integrated precision medicine solutions. The investment in the CEC reaffirms the company's commitment to support the development of precision medicine research and partnerships across China. In addition, Thermo Fisher continues to build up its local infrastructure with six manufacturing sites in the country and 50% of production aimed at local markets.

Q8: Is IP protection a concern?

A: The demand for IP protection is not only increasing from multinationals but also from local companies. Therefore, China has made steady efforts to better protect and enforce IP rights. Compared with 10 years ago we are today operating in a much better environment.

Remaining in the Lead: How to Hold onto Competitive Advantage

Q9: How do you see the competitive landscape, do you feel TF can hold onto its competitive advantage?

A: First of all, Thermo Fisher gives its customers access to the most comprehensive offerings in the industry. It is the only company that is able to provide a full range of products and services, including mass spectrometry for protein analysis, NGS, PCR, as well as lab solutions such as bio-banking. This puts us in a unique position vis-a-vis our customers, enabling them to accelerate innovation and enhance productivity. Through global expansion and acquisitions that complement our strengths we continue to improve our offerings.

Second, Thermo Fisher's scale and reputation also plays a role in helping us to hold onto a certain competitive advantage. We have today about 4000 employees in China alone. Not only are we the biggest in the field but also our local competitors are struggling to keep up with us.

Third, we have a very strong commitment to innovation, with a yearly investment of more than 750mn USD in our industry-leading R&D platform. This enables us to maintain the leadership in cutting-edge technology. More precisely, we are driving innovation in the following fields: digital science, precision medicine and mass spec-based sample to answer solutions.

Q10: There is a global trend of governments becoming somewhat nationalistic and favoring local companies. This could also become true for China. How do you feel?

A: Our strategy is innovation. If we can maintain our leadership in cutting-edge technologies and digital science, we can be successful in any market. Competing with a company, like Thermo Fisher, that is covering the full range of services and products, is a difficult task. Moreover, we are very close to the Chinese local market through numerous partnerships with local hospitals, businesses and academia.



Dealing With Constraints

Q11: China is moving from an export oriented to a consumer driven economy. How can it avoid the middle-income trap and keep up with more developed economies? What constraints remain in the Chinese market?

A: The Chinese speed of execution is already impressive. As China is in an economic transition, a more well-allocated, efficient and sustainable production is key for an advanced economy, and so is the availability of talent.

Q12: What should be done with overcapacity?

A: I like the «One Belt One Road» initiative. OBOR could partially mitigate China's overcapacity problem, using the excess production to build OBOR infrastructure.

Q13: Imagine you could present a wish list to the government. What would it look like?

A: I wish that we bring together the assets and capabilities the globe has to offer and thus, generating a bright future for China. Especially in fields like precision medicine, I am eager to bring together the great knowledge that China has to offer and the capabilities from overseas specialists in order to achieve top quality results. In brief, there is a lot that China needs to learn, but also a lot that it can teach, and by opening up, the whole world could benefit.

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