



Unlocking Health and Care Value

Diagnostics industry in the Asia-Pacific
November 2018



Diagnostics play a vital role in spotting health problems and informing medical interventions. However, despite rising demand in most of the world's largest healthcare economies, many diagnostics companies struggle against commoditization as governments face increasing pressure to move from volume to value-based contracting and to encourage more preventive, healthy behaviors of the population. These very same pressures also present opportunities as diagnostics companies can be the central link between healthcare products and services.

Interplay of volume and value

Whilst the definition of "value-based contracting" can vary depending on your seat at the table, growth for diagnostic companies is typically determined by volume and price. As figures 1 and 2 indicate, the revenue gap therein is becoming less attractive.

Though some players have enjoyed above-average revenue growth through inorganic expansion and the subsequent synergies across their products and services such as medical labs, the mergers and acquisitions trend will eventually be exhausted and margin growth will be significantly more difficult to realize. The pressure to perform has never been higher.

"Testing volumes will continue to increase with the expansion of UHC (Universal Health Coverage) to wider populations. However, the (expansion of) UHC also means funding becomes stretched and there is a preference toward low-cost diagnostics," said Frank Buescher, Chief Executive Officer (CEO) of Sysmex Asia-Pacific. "It's not about being cheap, but rather to be more efficient. This is why we are now partnering with universities and pharmaceutical companies to better measure total impact from a health economics perspective."

Dr. Whye-Lei Kye of the Future Health Care group at Nanyang Technological University, concurred: "There will be a natural limit to how cheap diagnostics can go. Cycles of innovation must become shorter for companies to survive."

Figure 1: Indicative laboratory service growth, selected countries

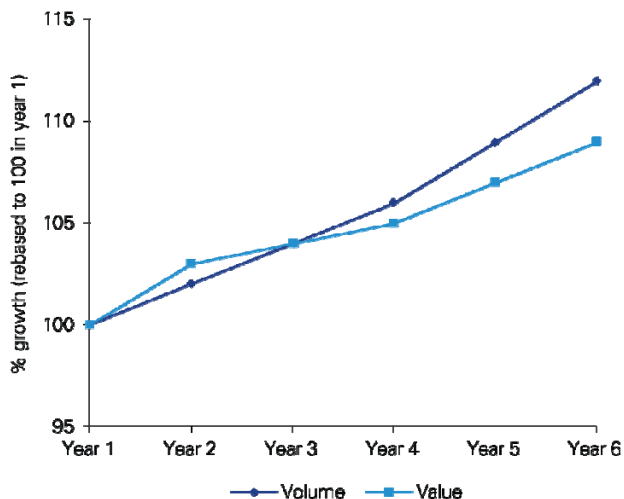
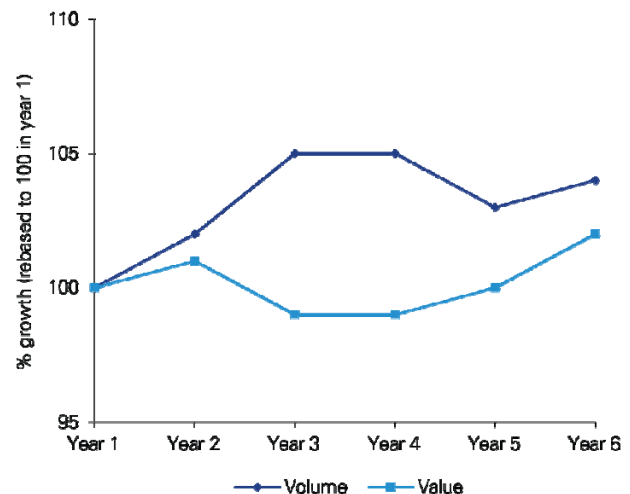


Figure 2: Indicative imaging service growth, selected countries



What stands in the way?

Developed and developing healthcare systems alike are attempting to curb spending by addressing perceived inappropriate prescribing and activity behaviors. And diagnostics sits squarely in the middle of this discussion. The competing priorities of reducing excessive testing yet ensuring patients are more effectively routed in the care pathway are giving rise to margin pressure for private companies and impairing the appetite to invest in innovation.

“Diagnostics determine the overall cost of a patient’s treatment,” said Buescher. “You can’t have precision medicine without diagnostics.” Dr. Lye also noted the impact on early-stage innovation as “investors are shifting their focus from patents to (a) reimbursement strategy.”

In several countries the concept of “responsible testing” has given rise to industry movements like “Choosing Wisely” in the US. What is potentially a volume threat can be an opportunity if diagnostics companies proactively drive the value conversation. It will require greater engagement with doctors and patients, more customer-friendly service levels, product diversification and a greater willingness to embrace technology.

In the Asia Pacific region in particular, hot topics such as Point-Of-Care Testing (POCT) and companion diagnostics for medicines will require multi-stakeholder alignment in order to reap the full benefits.

“Action around POCT devices has gained significant momentum in India, with many innovative solutions emerging to address dual objectives – improved access at

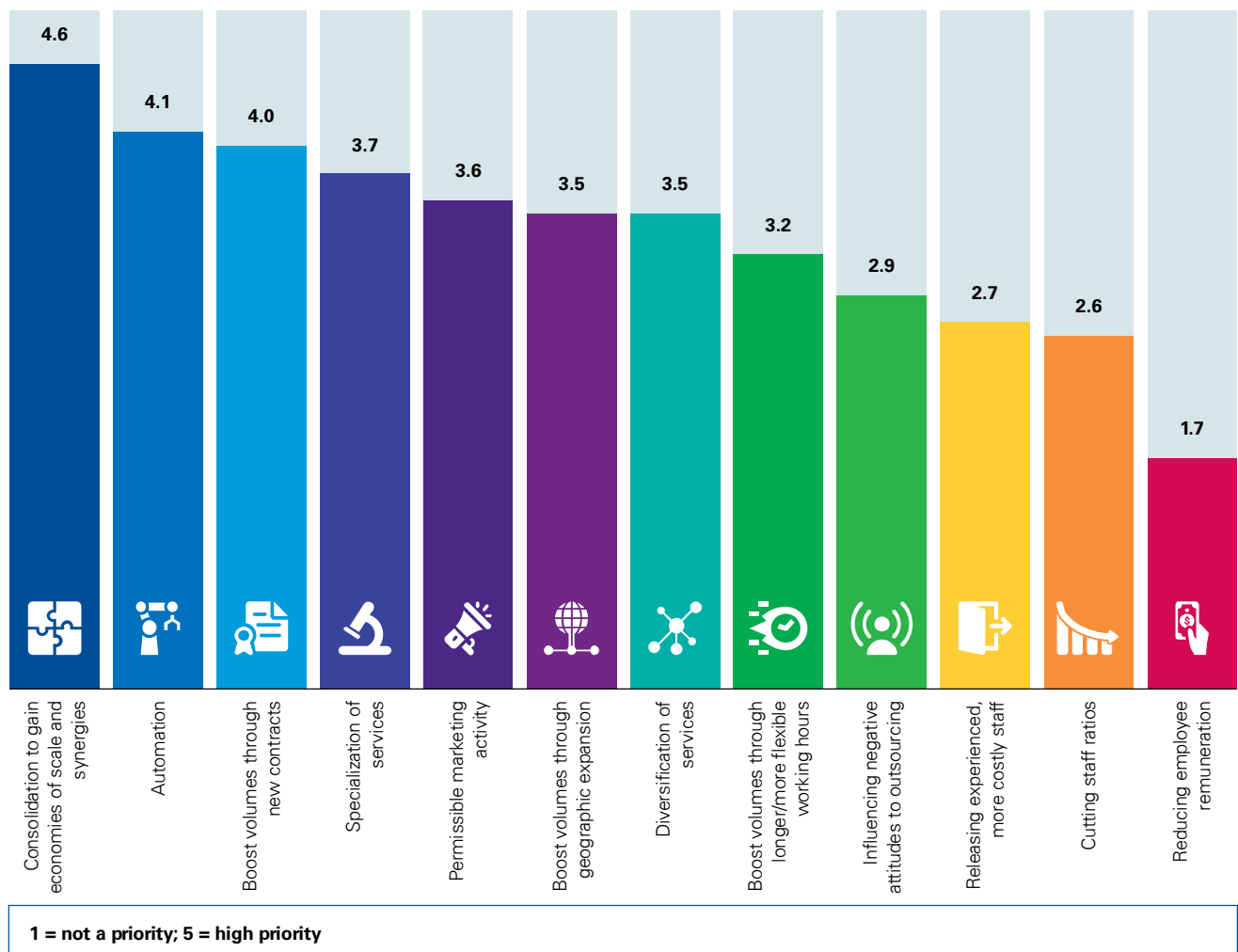
affordable cost,” said Sumit Goel, Healthcare Partner at KPMG India. Sixty-five percent of India’s population live in rural areas and with the launch of Ayushman Bharat, the national protection scheme to cover 500 million people, opportunities for POCT are growing. Examples include NIRAMAI Health Analytix with digital mammography for US\$15 (vs the usual US\$54) and a new TB Meningitis test with 100 percent sensitivity using DNA aptamers.

Another challenge is the general distrust of the private sector in public healthcare provision. Diagnostics companies are in a position to change this perception as lab and imaging services tend to be “behind-the-scenes” thus lowering the perception of “privatization”. In New Zealand, for example, diagnostics companies now run lab services at a number of government hospitals.

“The more attractive markets (for diagnostics companies) are those where the government is stepping up to fund reimbursement,” said Ben Carson, Southeast Asia General Manager for Cook Medical. “As a company, we need to stay in front of reimbursement tendencies. With increased government healthcare spending, it’s important to tailor product introductions in markets where the government will fund, or partially fund, the cost. For example, in Indonesia, the government is building the hospital infrastructure but the catheterization labs remain underfunded.”

As margin and perception pressures continue to drive consolidation in the sector, hospitals themselves will increasingly look to own diagnostic activities too.

Figure 3: How operators are driving value



Source: *The healthcare diagnostics value game*, KPMG

Surviving the game

In the near term, consolidation is the number one approach amid the myriad of other strategies like automation and services diversification (Figure 3). This is according to diagnostics company executives we surveyed in our report, "[The healthcare diagnostics value game](#)".

However, according to Buescher, the consolidation strategy in terms of forward integration would put his company in direct competition with his customers, the commercial labs. In such a scenario, staying in commoditized segments can sometimes be strategic from a relationship perspective in order to fend off future consolidation pressures. Several companies commented on the potential cost savings that could be gained, depending on the particular country setup, by eliminating the various middle supply chain players and going direct to consumers. "At the moment, procurement (of diagnostic services) is decentralized in many countries so it's better to liaise with individual hospitals," said Buescher.

Outside of consolidation, another near-term strategy is to focus on public sector contracts that become available through the UHC implementation trend.

Concurrently, and especially relevant to the Asia Pacific market, some diagnostics companies are making products that are more fit-for-purpose and thus easily marketed to or purchased by the end consumers. Australia, for example, has seen an upsurge in consumerized tele-radiology. Animal health testing, likewise, has observed strong growth due to fewer regulations and the ability to market directly to consumers/businesses.

But not everyone is buying into the regional tailoring approach. Cook Medical experimented with special kit combinations in some markets and found that the sales volume did not justify the investment required in the medium or niche volumes. "Tailoring of products is usually a low-margin or niche play," concurred Buescher. Dr. Lye agrees and suggested that product customizations are more of an opportunity for local start-ups than MNCs.

Key strategies to surviving in the value game



Source: *The healthcare diagnostics value game*, KPMG

Winning the game

The diagnostics industry needs to play a central role in driving preventative behaviors, precision medicine and community-based care initiatives into the mainstream if it is to overcome the lack of recognition of lab and imaging roles in population health management, and in delivering economic value to society such as getting people back to work more quickly.

Collaboration with public health systems will be important and prospective outsourcing of diagnostics services should be presented as a partnership that augments the ambitions

of the government rather than a superior replacement for it. In Australia, for example, numerous suburban pop-up private clinics are available for drop-in blood testing. This works to the advantage of all parties in terms of time and cost, and most importantly, for the patient.

"Academics are more focused on the technology than the reimbursement", said Dr. Lye. "Thus there are opportunities for greater reimbursement collaborations and even licensing ventures."

Governments will continue to be challenged to finance expensive medical equipment and the solution may lie in diagnostics companies that offer managed services contracting with performance incentives. Diagnostics companies are able to offer state-of-the-art technology that can increase utilization levels and integrate diagnostics directly into care pathways. Additional revenue streams may be in the form of equipment maintenance activities, including the equipment of other manufacturers.

Arguably, the most effective way to show value is to produce clear and credible data about the well-being and survival rate of patients as they utilize more effective diagnostics. However, it is still early days and there are many idiosyncrasies to be sorted out, for instance, data sharing. According to Frederic Thomas, Head of Healthcare

and Life Sciences at KPMG in France, "Diagnosticians must gain greater influence over clinical decisions. But they can't do this if they're spending 90% of their time sitting behind machines and responding to prescriptions. Diagnosticians should be empowered as managers of chronic patients."

To win in this value game, diagnostics companies have to shift perception of its role away from a white-label, third-party supplier subsector, to that of a premium brand that is an innovative contributor to better healthcare. Diagnostics companies must seek to partner with the wider health system, evolve healthcare models, innovate and provide new solutions, make more of data and engage differently with regulators.

Key strategies to winning in the value game

<p>Partner with the wider health system – inc. the public sector</p> <hr/> <ul style="list-style-type: none"> ◯ — Limited interaction with entities outside your core business <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> ▲ — Managed service to multiple hospitals/other care providers ○ — Record of delivering value in cost, speed, investment and quality — Considered by many as long-term partners 	<p>Evolve healthcare models – including community care</p> <hr/> <ul style="list-style-type: none"> ◯ — Traditional diagnostic supplier <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> ▲ — Actively involved in community care ○ — Embracing evolving models for growth and footprint 	<p>Innovate and provide new solutions</p> <hr/> <ul style="list-style-type: none"> ◯ — Little change in tests and services panel over past 5 years — Do not expect fundamental change in next few years <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> ▲ — Adopting new forms of testing and a wider role in healthcare value chain ○ — Investing in capabilities to 'future proof' business
<p>Make more of data to deliver and demonstrate diagnostics' value</p> <hr/> <ul style="list-style-type: none"> ◯ — Data used to run your business and interactions with clients/patients <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> ▲ — Investing in data capabilities for clinical decision-making and population health strategies ○ — Use data to demonstrate value — Engage differently with industry stakeholders using data — Growing IT investment 	<p>Engage differently with regulators</p> <hr/> <ul style="list-style-type: none"> ◯ — Infrequent contact with regulators — Wait anxiously for latest regulatory changes and revised tariffs <hr style="border-top: 1px dashed #ccc;"/> <ul style="list-style-type: none"> ▲ — Clear regulatory strategy ○ — Abreast of latest thinking — Integral part of debate over diagnostics' role in public health 	

◯ Low maturity ▲ High maturity

Source: *The healthcare diagnostics value game*, KPMG

Acknowledgements

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