



Can you afford not to be in China?

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Just for a moment, think of three hundred million people. It's easy to do; it's roughly the entire population of the United States. Now think of all of them being middle class or upper-middle class. That sounds like an excellent market for any business to tackle, correct?

Three decades of steady double-digit growth – in clear contrast with the ups and downs of most other countries – more than justify the rivers of ink spent on articles about China's economic might in today's global economy. Now, in the midst of the worst economic downturn since the Great Depression of 1929, forecasters expect China's GDP to grow by 7.5% in 2009. Politics aside, the world has been witnessing what is arguably the most astonishing large-scale economic and social transformation ever attempted in human history.

With 1.3 billion people – roughly 20% of the world's total population - can you still have doubts about the potential of the Chinese dental market for your business? The consumer market is comparable to that of Italy today; but it keeps growing. It is expected to surpass Japan by 2015, and thus become the second largest world market in just five years.

On the flip side of the coin, the impact of the current recession in the US means bad news for China, where the stock market lost 70% of its value during 2008. In order to avoid potential social and political unrest of an unimaginable scale, China needs to grow an average of 8% annually. This translates into an absolute need for Beijing to do all in its power to help the USA in their efforts to rebuild the embattled US economy – thus allowing US consumers to continue to purchase China's manufactured goods

It's important to remember that the average per capita savings rate in China is 25% (vs. -1% in the US). Moreover, the Chinese government has a 30 billion trading surplus (vs. 70 billion trading deficit in the US), and it is estimated that only 10% of the Chinese consumers have any kind of mortgage on their home, while in Q3 of 2008, 10% of US homeowners were at risk of facing foreclosure on their home mortgages. These numbers would indicate that when the world economy stabilizes, China is in a better position to rebound from this global crisis than most other economies are-

So what does this all mean for the dental market in China? Based on the available market data, we can summarize:

- 50-60,000 – number of dentists in China
- 1:25,000 - ratio between dentist and population (vs. 1:1,600 in the US)
- 102 – number of dental schools
- 2,500+ - number of graduates from those 102 dental schools each year
- 11,827 dental hospitals
- 14,682 dental clinics

In an emerging market like China it is important to understand that the quality and level of dental services can vary dramatically based on where you are and which part of the population the dentist is serving. In order to better understand the market and the potential for your product(s) you will need to clearly segment the market and have a well planned strategy in place on how you can best reach the customers you would like to target. In our experience, customers can be segmented as follows:



Chengdu Xiehe Dental Hospital

I. Dental Hospitals. Over 90% of all dental treatments are done in the government owned dental hospitals. These treatments are covered by medical insurance and the level of dentistry is from moderate to good, based on the location and status of hospital. There is no appointment system and except for VIP clients, patients are being helped based on first come first serve concept. If you don't get treated today, then you can just come back again tomorrow. The hospitals represent the largest selling opportunity for dental products, but the challenge for foreign dental companies besides price of course, is that a minimum of 50% of all hospital purchases have to consist of local goods.



Byer Dental, Private Dental Clinic Shanghai

II. Private Dental Clinics. The rise of higher income families and expats in bigger cities has created a new demand for high quality dental clinics that offer a high standard of service. These clinics are often run by foreign doctors from Korea, Taiwan, Japan and India, but Chinese dentists are also more frequently opening their own private clinics. Private dental clinics are providing a high level of care and using mostly imported products. Imported brands are advertised to the patient and often listed in the price list, which allows the practice to charge a premium price for the procedure. This is not surprising considering that 46% of Chinese consumer under 35 prefer foreign brands. The biggest problem however is that the Chinese insurance does not reimburse treatments at these private clinics, but some international insurance plans do.



Street Dentist Shanghai

III. **“Street Dentist”**. Then there is also a very low level of “street dentistry” where you can get a tooth pulled for very little cost and very little anesthesia. The customer group (which is still very large) for these dentists are mostly rural people without dental insurance who only earn a few hundred dollars a month.

The price that can be charged by the dentist for the different dental procedures ranges substantially and the table below gives you a general idea what the average prices are for a patient in these different target markets.

	Street Side	Hospital	Dental Clinic
Cleaning	\$5	\$15	\$35
Extraction Posterior	\$9	\$15	\$35
Porcelain Crown	\$35	\$200	\$435
Root Canal Molar	N/A	\$120	\$175
Implant Standard	N/A	\$1,500	\$2,200

The street side dentist is probably not the customer segment you would like to target, but look at the hospital and dental clinics. The pricing is still low at hospitals, but the patient volume is very large compared to US standards. One dentist in a hospital can see as much as 20 patients in one day and there is seldom a shortage of patients waiting to be treated. The dental clinics charge much more, but they are mostly focused on service and they will normally treat no more than 4-5 patients a day.

The healthcare programs continue to change and there is a growing awareness of the importance for oral healthcare. More dental hospitals and clinics are being built and with the growth of the economy there will be an increased demand for better healthcare and improved dental service. This increased demand will create new opportunities for foreign companies to introduce their high quality products, but it is important to understand what the roadblocks for market entry are.

- **Regulatory:** It takes about 1-2 years to get your products approved for sale in China depending on the class type of the product and then only if you can find the right partner who can do the regulatory submission for you. There are currently many products in the pipe-line to be approved and every delay will give your competitors and local products an advantage.

- *Distributor:* There are a few larger wholesalers in China, but nothing like the size of a Henry Schein or Patterson and they don't cover all of mainland China. However, they can do a great job for you if they commit to making the investments in China to get your brand established. Then there are approx. 8,700 (!) small dealers who have the local relationships, but they become harder to manage if you don't have a local presence and they generally can't maintain large inventories and don't have the resources to introduce higher priced products and new technologies.
- *Education:* It is expensive to train the Chinese dentist about your products and the best solution would be to get a stronghold in the dental schools and hospitals. There is a high demand and interest for education and new technologies, but you will need to work with local opinion leaders who are not always easy to identify and their schedules are getting booked further in advance.

The Chinese market is an exciting place and Beijing is planning to increase the service sector's overall contribution to the economy to leverage its enormous domestic market. Barriers are being broken down to promote this growth and recently China allowed foreign companies to invest in building new hospitals and this will help accelerate growth in the healthcare segment.

Every product and every company is different and I wanted to give you some data and ideas to think about when you are considering entering the Chinese market. In order to make an educated decision and invest responsibly my advice is to learn more about this market and to experience China yourself. Talk to companies who have already entered this market and learn from their successes and mistakes. When I ask companies why they are in China I often get the same answer: The risk of NOT being in China is far greater than waiting for the competition to grow and missing out on the future biggest consumer market!

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