飛躍 ASIAN NEWS LETTER

No.11

MARKET STUDY

Business Opportunities in Vietnam's Evolving Healthcare Industry

April, 2017

Table of Contents

1. Market imbalances brought about by government policies 4
1.1 A public sector with an overwhelming presence 4
1.2 Patient concentration in highly urbanized areas 5
1.3 Importance of public facilities 5
2. The government's push to liberalize the private sector 6
2.1 Privatization of public hospitals 7
2.2 Abolishing restrictions on foreign investments in hospitals 9
2.3 Ease of employment for foreign doctors 9
3. Business opportunities arising from industry developments 11
3.1 Best practices from hospital privatization in China: 11
3.2 Upgrading medical equipment 14
3.3 Diversification of foreign medical staff 14

Table of Figures

Figure 1. Number of beds per 10,000 people in Southeast Asia [2006 – 2012] 5
Figure 2. Per capita and per household expenditure on healthcare 6
Figure 3. Timeline of the Vietnamese national healthcare insurance program.................................. 8
Figure 4. Career path to becoming a doctor in Vietnam 10
Figure 5. Requirements of a foreign doctor in Southeast Asian countries....................................... 11
Figure 6. Privatization best practices of public hospitals in China 12

Those visiting Vietnam for the first time may be surprised by the “pharmacist medical treatment” phenomenon. Long waiting time in hospitals, where referrals are compulsory, coupled with high medical fees, has compelled Vietnamese seek medical help at the many pharmacies as “mini clinics” around town. Pharmacists working at these pharmacies diagnose and prescribe medication to patients, based on their knowledge and experience. The medications they prescribe are not limited to over-the-counter (OTC) drugs. Prescription drugs can also be obtained without a doctor’s prescription in Vietnam. Given the financial abilities of many patients, it is the norm for patients to purchase medication per tablet instead of per box.

Following these factors, it is not unusual in Southeast Asia countries for pharmacists to be the primary healthcare providers whom patients consult with and receive prescription drugs. However, Vietnam’s heterogeneous healthcare environment is unique. This paper will focus on the healthcare industry in Vietnam, which is unique in the Southeast Asia region. Vietnam’s healthcare industry is also evolving, and the changes may also serve as major business opportunities.

The first part of the paper will examine the unique characteristics of Vietnam's healthcare market, followed by the major changes in the industry, in the second part. The final part of the paper will discuss the business opportunities brought about by the changes in the industry.

1. Market imbalances brought about by government policies

1.1 A public sector with an overwhelming presence

After World War II, Vietnam was embroiled in several more wars and was closed off from the Western world for a long time. In 1986, after government reform, the country reopened and the economy entered a phase of economic growth. Vietnam today is an emerging economy with a population close to 100 million, has a GDP of US$194 billion and a GDP per capita of US$2,000 (both figures from 2015), and is regarded as one of the most promising markets in the region. The government gradually started focusing on initiatives for the development of industries and the healthcare industry is no exception.

The healthcare industry takes up an overwhelmingly large portion of the government expenditure. Medical facilities in Vietnam are divided into hospitals and commune health stations. There are approximately 1,246 hospitals and 13,500 commune health stations (where primary care is provided) located throughout the country. Out of the total number of hospitals, 1,063 are public hospitals, which consists 85 per cent of the total number of hospitals in Vietnam. As a comparison, Indonesia – a similar emerging economy – has an equal ratio of public and private hospitals. The overwhelming small proportion of private hospitals in Vietnam is unusual, comparatively.

1.2 Patient concentration in highly urbanized areas

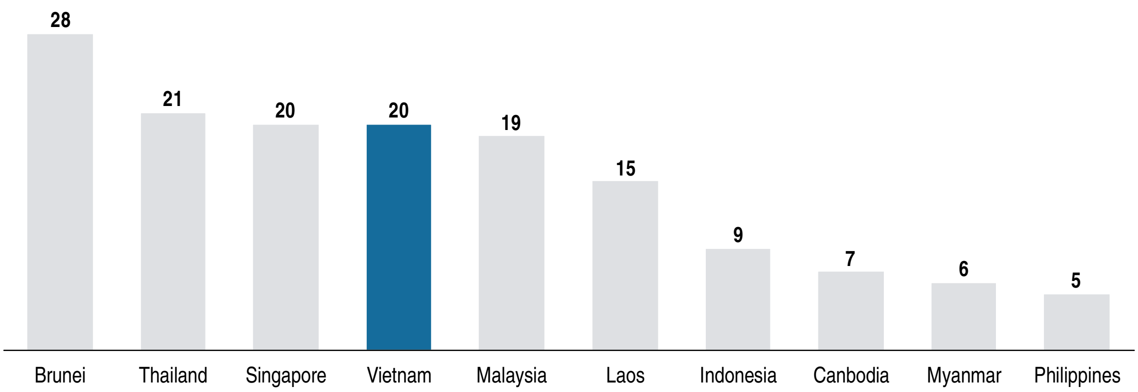
It is also characteristic of Vietnam that patients are extremely concentrated in urban areas. Despite a lack of hospitals in the country as a whole, there is a rare phenomenon of low occupancy rate for hospitals located in rural areas.

The Vietnamese government introduced a grading and referral system to efficiently manage patient distribution. However, as commonly observed in emerging countries, there is always a strong level of distrust for hospitals located in rural areas. Rural hospitals are perceived to have lower caliber resources to provide primary and secondary care. This has led to patients crowding hospitals in urban areas, when they could experience the same kind of treatment in hospitals outside the cities, giving rise to the urban-suburban patient concentration gaps. In addition, there is an upward trend of patients with higher income bypassing the referral system through direct payments for their medical treatment.

1.3 Importance of public facilities

As expected, Vietnam does not fare well compared with other Southeast Asia countries in terms of health index. The only exception is the number of hospital beds in Vietnam. The number of beds per 10,000 people in both Vietnam and Singapore is 20, following 28 in Brunei and 21 in Thailand, 19 in Malaysia, 15 in Laos and 9 in Indonesia (Figure 1).

Figure 1. Number of beds per 10,000 people in Southeast Asia [2006 – 2012]



Source: World Health Statistics 2014

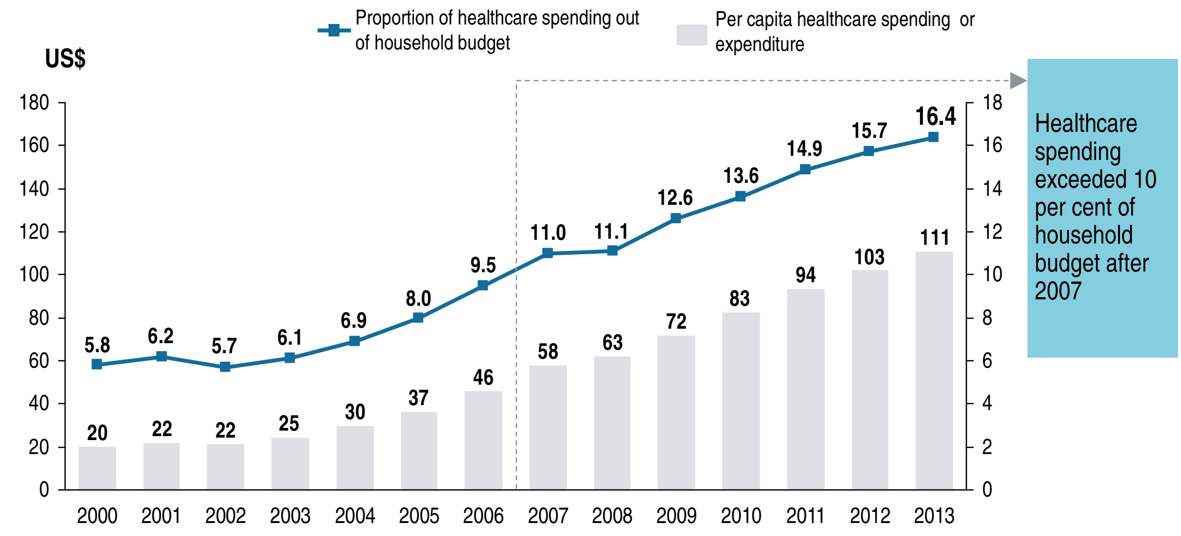
As is often the case with government-led infrastructure development, Vietnam government has also invested heavily in facilities. This resulted in the country's number of hospital beds per capita being ranked high against Southeast Asia nations, despite the disparity in urban-suburban patient concentration gaps. On the other hand, government funding for medical equipment is slow, and many hospitals continue to use older equipment. As a result, Vietnam has not been able to raise its medical standards with cutting edge medical technologies and equipment. For instance, diagnostic imaging equipment such as ultrasound, CT and MRI are comparatively inferior compared to countries in the region. CT in Vietnam are 64-slice (slice refers to the resolution and depth in detail the scan captures), with some hospitals using secondhand 16- and 32-slice scanners, while Vietnam's neighbors use 256-slice. Hospitals in other countries have introduced the newer 3Tesla (Tesla refers to magnetic strength of the scan, which gains exceptional anatomic detail) MRIs, whilst hospitals in Vietnam are still mainly using 1.5Tesla.

The introduction of the latest medical equipment is usually perceived as a benchmark for medical standards. It is normal in Southeast Asian countries for hospitals to display posters about their latest medical equipment. In fact, these marketing efforts play a part in influencing the decisions of medical care for high net worth individuals (HNWIs). It is estimated that over 30,000 to 40,000 Vietnamese HNWIs have travelled to neighboring countries as medical tourists, spending almost US$100-200 million every year.

2. The government's push to liberalize the private sector

Generally, national expenditure on healthcare has strong correlation to economic growth. In 2000, the per capita spending on healthcare was US$20. It grew to US$111 in 2013, a fivefold increase within 13 years. Furthermore, the average household budget on healthcare grew threefold within the same time period, with 5.8 per cent in 2000 and 16.4 per cent in 2013 (Figure 2).

Figure 2. Per capita and per household expenditure on healthcare



Note: The percentage of household medical expenses is estimated from per capita household consumption expenditure and per capita medical expenses expenditure.

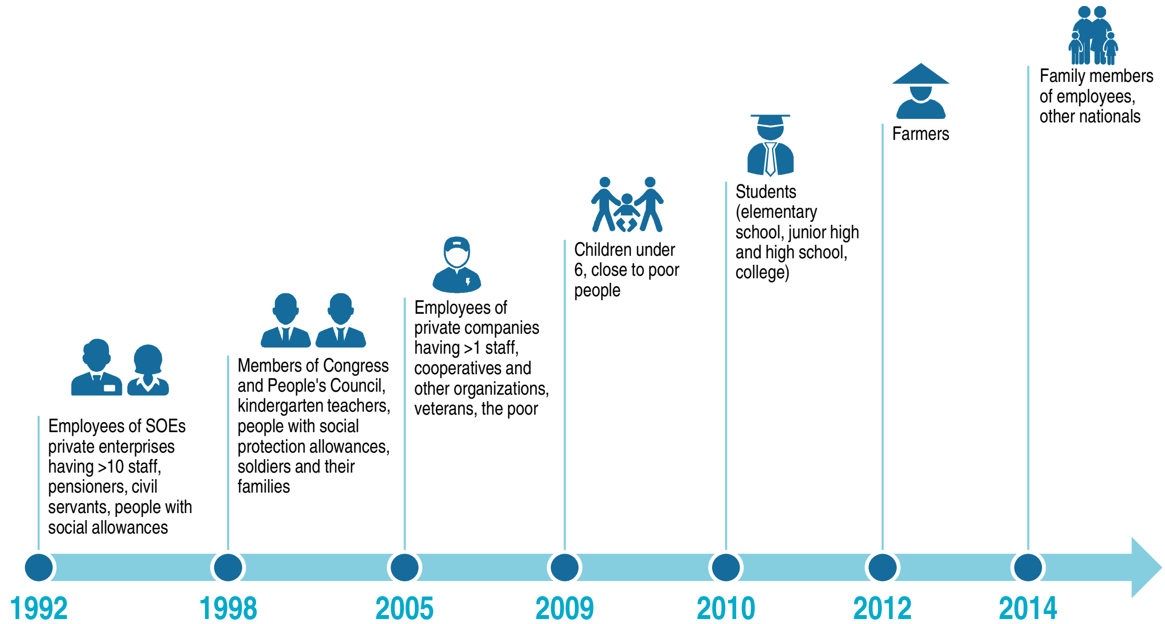
Source: World Bank, World Development Indicators

The rapid growth of Vietnam's healthcare infrastructure is due to the aforementioned support from the government. Government expenditure on healthcare is 7 per cent of Vietnam's GDP, which is considered high in the region. The high spending on healthcare illustrates the Vietnam's government's commitment to healthcare for the country. Will the government continue supporting the healthcare industry? The answer is "no". The role of leading the healthcare industry is about to shift from the public to private sector.

2.1 Privatization of public hospitals

The Vietnam government launched a national healthcare insurance program in 1992. The program first incorporated employees of state-owned enterprises and would gradually expand to the rest of the population (Figure 3).

Figure 3. Timeline of the Vietnamese national healthcare insurance program



Source: MoH of Vietnam

There has been steady progress since the launch of the program, but signs of stagnation have recently been observed. The government targeted to cover 84.3 per cent of the population by 2020, and presently, only 78 per cent of the population has been registered in the program. Nevertheless, public hospitals are already overcrowded, given the sudden influxes of patients. Vietnam's government recognizes that it has almost reached its limits of being the sole supporter of the healthcare sector, which has grown more than fivefold within a decade. In 2014, plans to deregulate the healthcare industry were announced and the country opened itself to the establishment of more private and international hospitals.

In 2015, after the liberalization, Hanoi Transport Hospital transferred 51.5 per cent of its stocks to the T&T Group, marking the first privatization of a public hospital. Vinh Transportation Hospital and Da Nang Transportation Hospital, amongst others, are currently considering privatization as well. If these hospitals are successfully privatized, there might be more of such projects in future.

With more private hospitals being established in Vietnam, the hospital sector is also getting more competitive. Franco-Vietnamese Hospital, which was accredited in 2016 by the Joint Commission International (JCI), targets specifically HNWIs. The healthcare group plans to establish 30 clinics nationwide in the next three years. By establishing a network of facilities that provide a range of services, from primary healthcare to basic hospital facilities, the group aims to respond to the diverse needs of patients.

2.2 Abolishing restrictions on foreign investments in hospitals

Hoan My Medical Corporation was the first hospital in Vietnam that received foreign investments in 2014. Clermont Group (formerly Chandler Corporation), an investment company active in Southeast Asia, has already acquired a 20 per cent stake in the hospital since 2011. Following the deregulation of foreign investment into public hospitals by the Vietnamese government, Clermont Group has increased its stake to 100 per cent. Hoan My has gone on to acquire several other hospitals, expanding its presence on a nationwide scale and has been continuously seeking new acquisition opportunities, with Clermont Group as its backer. Clermont Group is also an equity participant in Medical City, a hospital targeting HNWIs in the Philippines. Medical City has been sharing its technological innovations with Hoan My. Both hospitals are also planning to establish a cancer and cardiovascular center as part of the partnership.

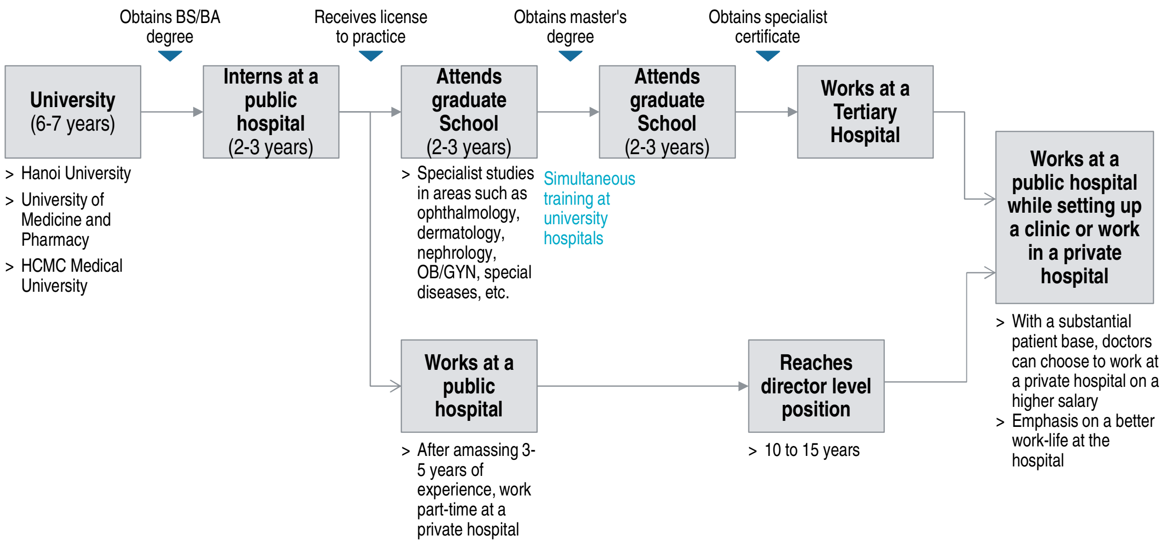
Since the barriers to entry for foreign investments to hospitals were relaxed, there has been a boom of foreign capital directed mostly towards private hospitals. Vietnam's healthcare industry, which was initially a government-led sector, became a market easily accessible by foreign capital. The trend of foreign investments towards the private sector in Vietnam is set to increase moving forward.

2.3 Ease of employment for foreign doctors

There is also a paradigm shift with regards to the employment of foreign medical staff. Even though only 30 per cent of the country’s population lives in urban areas, 59 per cent of doctors and 55 per cent of nurses are concentrated there. There was also a large regional disparity of medical staff in the urban and suburban areas. Furthermore, medical personnel working in government-led public hospitals were (and still are) poorly paid, and almost 80 per cent of them held part-time positions in private medical institutions. With so many doctors shuttling between public and private hospitals to see as many patients as possible, there are limited opportunities for them to enhance their medical skills.

Although the demand for doctors is high, it is not easy to readily increase the number of doctors. In Vietnam, medical students need to undergo 8 to 10 years of training to become a full-fledged doctor (Figure 4).

Figure 4. Career path to becoming a doctor in Vietnam



1) Hospitals first issue certification, which can then be used to apply a doctor's license with the Ministry of Health

Source: Expert interviews

For these reasons, Vietnam is more open to employing foreign physicians (Figure 5). In the Philippines and Malaysia, there is regulation to allow foreign physicians to practice only from countries where there are some treaties, while physicians in Indonesia are required to speak Bahasa Indonesia, which can be a hurdle for foreign physicians seeking employment in these countries. There are no such restrictions in Vietnam, and doctors who are qualified will be able to find employment in hospitals in the country (though they may need medical translators). Since recruiting local doctors to private hospitals may be a big bottleneck, it might be more advantageous for Vietnam hospitals to engage foreign doctors albeit the higher costs.

Figure 5. Requirements of a foreign doctor in Southeast Asian countries

	The Philippines[1)]	Indonesia	Vietnam	Malaysia
Application requirements	> Medical license > Academic thesis > Country of citizenship of applicant must have some form of trade agreement with the Philippines > Employment visa	> Medical license > Proficient in Bahasa Indonesia > Employment plan (prospective employee to submit documents stating purpose, role, duration of employment etc.) > Acknowledgement by relevant local authorities (submitted by prospective employee) > Employment visa, residence card	> Medical license > Specialist license > Medical license application document (application fee: US$1,000) > Employment visa (application fee: US$300)	> Country of citizenship of applicant must be part of the AFAS2 and GATS3 > Medical license > Specialist license > Employment visa
Employment requirements	> All branches of medical practices are eligible	> Only in the areas of – Education – Training – Research – Depending on specialization[1], recognition of skills transfer may be recognized	> All branches of medical practices are eligible > Moonlighting is prohibited	> All branches of medical practices are eligible > Southeast Asia doctors can be employed in hospitals with over 50 beds > GATS applicants can be employed in hospitals with over 100 beds > Moonlighting is prohibited
Employment visa duration	> Annual renewal of visa	> One year visa for those who specialize in education, training, research (no extensions allowed, except substitute physicians) > For the others, an employment plan must be submitted within a fixed duration	> Compulsory renewal every three years	> Annual renewal of visa

1) Applicants applying under "Education" are to submit an application form detailing his/her objectives, location, duration etc. to the DOH-BIHC 3 months prior;
2) ASEAN Framework Agreement on Services; 3) General Agreement on Trade in Services

Source: Roland Berger database

3. Business opportunities arising from industry developments

From what has been observed thus far, Vietnam's healthcare industry is entering a period of transition, which has in turn, attracted the attention of private investors, and more are seeking opportunities in the country. Roland Berger particularly sees privatization of public hospitals as a promising opportunity.

However, there may also be situations of privatization projects that are vague, complicated or unprofitable. In fact, not all privatization projects lead to success. In order for the industry to progress, there is a need to ascertain the potential from the mixed bag of hospitals, acquire relevant management know-how of private enterprises to revive competitiveness. The final part of this study will discuss how privatization projects can succeed.

3.1 Best practices from hospital privatization in China:

This section examines the successes and failures of China's privatization endeavors, its various strategies for success and commonalities with Vietnam's healthcare industry.

Most success stories cite the rationalization of the management of the hospitals, namely, cost reduction. One of the key strengths of public hospitals in China is that they generally have strong talents of medical professionals than private hospitals, but also tend to be more vulnerable in terms of poor management and high operating costs.

Upon privatization, the first thing to address is to improve and strengthen the cost structure. After Fosun Group, a major healthcare group in China, acquired a 60 per cent stake of Foshan Chancheng Central Hospital in 2013, it established rehabilitation and otolaryngology departments, resulting in an increase in the number of patients. To reduce risks, the company practiced profit sharing and diversified their investments. By minimizing its own investment, it could also minimize depreciation expenses.

Research and development (R&D) are also likely to be subjected to rationalization. In China, there is a tendency for public hospitals to report a lower profit margin, so that they are eligible for subsidies to fund R&D. As a result, there are no clear criteria for the allocation of research expenses and there is no clear evaluation of the research results. Suqian Hospital, privatized in 2003, is one of the hospitals that were successful in putting a stop to such practices. A task assignment and performance review division was established, to evaluate research results and distribute research funds. This system streamlined research expenses and raised the annual net profit by 32 per cent.

Continued care for existing patients when transitioning from public to private hospitals, is also of great importance. Privatization is not considered successful if patients move to other hospitals. For instance, Yuehua Hospital, which was established as a People's Liberation Army Hospital and also functioned as a hospital for Sinopec group's employee, managed to negotiate with the authorities to continue allowing the reimbursement of public health insurance while accepting patients on private insurance – even after the privatization by Tendcare Medical in 2012. As a result, the number of patients after the privatization rose by 8 per cent from the previous year.

Figure 6. Privatization best practices of public hospitals in China

Case study hospitals	Estab-lished	No. of beds	Year of privati-zation	Measures taken	Post-privatization performance (per annum)
 (Suqian Hospital)	1905	1,000	2003	> Gained authority on the use of research grants for the Director of Medical Department; managed research grants; launched efficiency systems > Introduced HIS System, diversified risks in Drum Tower Group and SL Pharm and cost controls > Introduced clinical path to improve skills with Drum Tower Hospital; standardized medical treatments	**Sales:** > Sales: +25% /Y > OPD: +19% /Y **Profit:** > Net profit: +32% /Y
 (Foshan Chancheng Central Hospital)	1958	700	2013	> Expanded Advanced Specialty Department to increase patient base > Reduced cost and depreciation by outsourcing clinical department > Optimized procurement through centralisation with affliated hospitals	**Sales:** > Sales: +40% /Y > OPD: +15% /Y **Profit:** > Net profit: +22% /Y
 (Yuehua Hospital)	1970	620	2012	> Secured compensation for public health insurance holders > Negotiated with Sinopec to ensure the continued use of employee's health insurance > Reduced cost of prescription medication and materials; shared medical supply platform with Tendcare	**Sales:** > Sales: +15% /Y > OPD: +8% /Y **Profit:** > Net profit: +129% /Y

Source: Desktop research, Expert interviews by Roland Berger

There are many learning points for Vietnam from China's case studies. The following should be considered for the privatization of hospitals in Vietnam:

- Is there a risk of outflow of patients and doctors?
- Is there a room to rationalize the management structure and processes of the hospital?

On top of that, if private hospitals can improve medical standards and differentiation strategies from public hospitals, the probability of success will be even higher.

3.2 Upgrading medical equipment

To improve the quality and value of healthcare in Vietnam, an upgrade of medical equipment is necessary. With modernized equipment, hospitals in Vietnam could improve the quality of healthcare and regain confidence of patients. There are signs this is happening. The diagnostic imaging equipment market in Vietnam is expected to see an increase in the number of units from about 750 units in 2015 to about 1,200 units, a 1.5 times increase, by 2020.

In particular, there is a great need for upgraded CT and MRI, which can help with patient acquisition. However, the introduction of advanced medical equipment requires a huge investment. With the abovementioned profit sharing model used by Fosun Group, procuring better equipment can be a reality. Currently, there are many cases of hospitals in Vietnam adopting the profit sharing model to upgrade to or rent the latest medical equipment. There are also opportunities for medtech manufacturers to tap into the high potential market in Vietnam as healthcare institutions are increasingly getting more motivated to upgrade and install new technologies.

3.3 Diversification of foreign medical staff

The foreign medical staff relocating to Vietnam will also be a strong differentiation for healthcare facilities. As earlier discussed, Vietnam is one of the countries with a lower barrier to enter for foreign doctors. Japan's Sojitz Corporation launched a medical support service in Tam Tri Hospital in 2015. The organization supports to recruitment and relocation of Japanese medical professionals, shares medical expertise from Japan, as well as establishes a medical center.

The final part of the paper focused solely on privatization of public hospitals, but the opportunities lie in the establishment of new private hospitals. In several years, a major private hospital group may be established in Vietnam, like in neighboring Thailand, Malaysia and Indonesia. For Vietnam, it is likely to be through foreign capital. In any case, three years after the rapid deregulation in 2014, the Vietnamese healthcare industry is reaping the benefits of its efforts, isn't it?

Roland Berger

Authors

We welcome your questions, comments and suggestions.

Yoshihiro Suwa
Principal

+62 855 850 9726
Yoshihiro.Suwa@rolandberger.com

Lin Lu
Senior Consultant

+62 855 850 9729
Lin.Lu@rolandberger.com

Publisher

PT. Roland Berger Indonesia
Level 40 B,C – The Plaza Office Tower
JI.M.H. Thamrin No.28-30
Menteng-Jakarta Pusat 10350,
Indonesia
+6221 8063 7050

www.rolandberger.com

Disclaimer

This study has been prepared for general guidance only. The reader should not act on any information provided in this study without receiving specific professional advice.

Roland Berger GmbH shall not be liable for any damages resulting from the use of information contained in the study.

Order and download
www.rolandberger.com

Stay tuned
www.twitter.com/RolandBerger
www.facebook.com/RolandBergerStrategyConsultants

A detailed insight into current thinking at Roland Berger is available via our new microsite at new.rolandberger.com.

Roland
Berger
THINK:ACT