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Jin Wang, Partner and Co-leader of the McKinsey China Healthcare Practice, shares the wide-ranging scope of her focus on 'Big Healthcare' involving work with healthcare service providers and payers, and pharmaceutical and medical products; the holistic and impactful solutions McKinsey can offer to the complex problems their clients face; as well as her expert insights into some of the hottest topics within the Chinese healthcare landscape.

Jin, you have been with McKinsey for 16 years and now co-lead McKinsey's China Healthcare Practice. What has kept you with the company?

Firstly, healthcare is "personal" - I feel privileged to be focused on an industry that has such a large and tangible impact on people. Every individual experiences healthcare at different stages of their life. Healthcare is also a very complex industry. There are a multitude of top-down architectural design choices to be made and a plethora of intertwined connections between all the different parts of the system. From payer to provider, public to private, pharmaceuticals and devices, and the entire value chain from prevention to rehabilitation and elderly care, the ecosystem involves a lot of strategic decisions that may be fundamentally high-risk. At McKinsey, we bring in a more holistic understanding of the ecosystem and help our clients solve intellectually and operationally complex problems in order to deliver much more impactful solutions.

The other aspect is the people aspect. For the last 16 years, I have worked with many industry leaders. Having seen their growth and also growing with them, today it is very personally exciting to see them in senior leadership positions, and to witness their vision, leadership ability and influence in China and on the global stage.

When I led McKinsey's Women Matters research initiative for the Asia region, I interviewed many women executives across different industries in different Asian countries. I was very glad to see a much higher proportion of female executives in China's healthcare industry. Our generation was brought up and educated in China to believe in our potential and capabilities. We are very lucky to be able to work in this industry during a period where so much has happened and so much is still happening, providing exceptional opportunities to grow as both an individual and as a leader.

Could you share the main focus of your work within McKinsey China's Healthcare practice?

It goes without saying that the China healthcare ecosystem has transformed dramatically in the past decade or two. While we can all anticipate the direction of these changes, no one can predict the magnitude. The closest our Firm came was perhaps the report we published in 2012, titled 'China Healthcare: Entering Uncharted Waters'. In 2011, China's healthcare spending was around USD 320 billion. We made what we thought was a bold prediction that by 2020, healthcare spending would reach USD 1 trillion. In 2018, the figure was USD 830 billion - so I think we were on the right track! It is almost unimaginable that China's healthcare spending has tripled in the past seven years. As an individual, an executive, a consumer and a patient, I can feel the changes all around me and I am amazed every day.

The work I do with McKinsey China revolves around this concept of '大健康', which loosely translates into 'broad healthcare' in English, referring to the entire healthcare ecosystem and the players present within, from payers to providers, pharma, device and technology companies, digital and financial conglomerates, and so on. In many other countries, the players are much more focused and specialized, whereas in China, the healthcare ecosystem is vast and dynamic.

From our observations, we believe there are two key drivers for this phenomenon. Firstly, the positive forces of capital investment, technology advancement and policy shift are all occurring at the same time, creating interesting opportunities for companies to enter and quickly expand across sub-sectors. Secondly, this echoes the global trend of the shift from disease management to the broader concept of healthcare management. This refers to looking at the entire continuum of care

from early prevention and health and wellness all the way to rehabilitation and elderly care. The healthcare value chain in China is expanding significantly.

I often joke to my clients and colleagues that it is incredibly exciting but also sometimes overwhelming to wrap my head around all the different moving parts of the Chinese healthcare ecosystem every day.

For a global audience perhaps still unfamiliar with the complex Chinese healthcare landscape, how would you suggest they approach the market?

Drawing on globally consistent frameworks, we can start by looking at it through the lens of demand and supply.

From a demand standpoint, everyone understands abstractly that there is huge demand in the China market but perhaps not everyone appreciates the true extent. In chronic diseases, for instance, we are looking at 245 million patients with hypertension. 20 million people join the diabetic population every five years. In terms of both absolute numbers and growth rates, the figures are substantial. This extends across the entire healthcare value chain, including preventative health like healthy living and also elderly care and rehabilitation. For instance, the aging population is driving demand for areas like chronic diseases, elderly care and rehabilitation. In fact, there is a very strong momentum in the elderly care sector. Historically, the public system has not addressed the needs of elderly patients systematically, so private companies are emerging to offer new business models and service offerings.

Luckily, from a supply standpoint, there has also been an increase in system capacity. In terms of service provision, there are currently around 21,000 private hospitals in China, representing ~60 percent of the total hospital number. In terms of funding, the system is still primarily driven by public funding through the Basic Medical Insurance (BMI) system but the private health insurance (PHI) market is also developing, and is currently valued at USD 70 billion, around 8.5 percent of total healthcare spend.

As demand and supply grow, what are the key challenges and opportunities in the market?

Looking at pain points, there are two major aspects to highlight. The first is efficiency. This is a priority for arguably all healthcare systems but even more acutely for China because the per capita healthcare spend is still very low, languishing at around USD 600 compared to USD 4,700 in Japan and USD 10,600 in the US. Historically, the Chinese system has not been very efficient. Resource allocation within the public hospital system has not been optimal because there was a lack of 'gatekeepers': clinics and general physicians offering primary care services. Top hospitals are also concentrated in top-tier cities in China. Today, a very small number of class 3 hospitals (the highest tier) in China treat nearly a third of the entire in-patient population in China! This means that in top-tier cities, patients with common ailments like the cold or chronic diseases are being treated by highly skilled and specialized doctors.

In addition, as the public hospital system was being developed – and even now, as new private hospitals are being established – the emphasis was not on efficiency or operational excellence, but rather, scale (i.e., the number of beds). This is in general a rather interesting characteristic of Chinese industries. The focus is often on infrastructure and scale, not necessarily optimization or efficiency. Even as the average length of hospital stays has declined in mature markets like Germany and the UK, the figures are still very long in China (9.3 days in 2018). Historically, there has also been a certain proportion of waste in the system because of deep-rooted problems like overdiagnosis and overtreatment, funding of drugs that lack clear clinical benefits, and so on.

The second pain point is patient experience and quality of care. In many ways, there is a stark disconnection between our personal consumption and the delivery of healthcare in Chinese society. Compared to even two years ago, our lives have been so transformed by different digital and technological elements. Our daily lives have become so convenient. However, the way we seek and receive medical treatment is not that different from ten years ago. The system is still not as modernized.

We have seen great commitment from the Chinese government on all these fronts, for instance, with their tiered diagnosis and treatment system, which seeks to eliminate the need for Chinese people to leave their respective counties to seek medical treatment – to name just one example.

You mentioned scale being an interesting focus or priority for many Chinese industries. Some of our Big Pharma GMs have told us that they are looking to shift the focus away from scale, at least as a measure of their success in the market. Across these different players you work with, can you comment on what scale means to them?

Consolidation is a big topic within the private hospital segment. The players in China are still smaller compared to those in mature markets, where hospital groups like HELIOS Hospital Group in Germany or HCA Healthcare in the US have over tens of thousands of beds across hundreds of facilities. But we are starting to see a flurry of M&A activity, and the pace is even faster than we expected. Previously, companies would be acquiring or privatizing hospitals one at a time but now we start to see groups acquiring other groups, building portfolios in the high double-digits or even triple digits.

For Big Pharma MNCs, they are definitely shifting their focus towards more innovative portfolios to address unmet medical needs. But the size of their commercial footprint in China still matters because they need to ensure that their medicines reach patients efficiently.

For Chinese pharma companies typically focusing on generics, the recent policies in the generics space are actually making scale an even more important concern for them since they need to increase their cost competitiveness.

For the emerging biotechs, some are expanding their portfolios and capabilities along the entire value chain. Many started by focusing on one aspect of the value chain (late-stage clinical capabilities) but now some are expanding along the value chain in both directions (early stage development, and manufacturing and commercialization). Therefore, their size is growing as well.

With the 'broad healthcare' ecosystem in China being so complex and dynamic, we also see many non-traditional players like technology and financial conglomerates have entered the space too, bringing new models and a lot of hype as well. What value are they really contributing?

The Chinese market is ripe for experimentation and innovation. I think motivations of these conglomerates for entering the healthcare space is clear. Even with healthcare spending at USD 1 trillion, it is still a small part of the economy – six percent of GDP – but the growth is very strong and backed by sustainable demand. This makes healthcare a very attractive industry for these new players. What is exciting also is that they are entering many parts of the value chain, from primary care, Internet health, hospitals, health technology, pharmaceutical innovation, and so on, bringing with them capital, technology and expertise. Many are pushing the idea of trying to reinvent healthcare, and they have a very different conception and skillset (especially in managing large-scale businesses and organizations) compared to traditional Chinese healthcare companies.

We are positive about what they will contribute. For example, 'Smart Hospital' is becoming a huge topic globally. Smart hospitals make extensive use of innovative technologies to improve care quality and patient experience while reducing costs. In China, the hospital is still the fundamental setting of healthcare delivery. This will not change in the next five years or so. Patients, doctors and resources would still rely on the hospital system for various reasons like the fact that patients still place their deepest trust in skilled doctors in top-tier hospitals. Having said that, many elements of smart hospital using digital elements to improve patient experience before, during and after treatment, including remote monitoring, smart triage and pathway, and so on, are all being driven by technology providers. There has been a real push for hospitals and the overall system to be more operationally efficient, and this push has come in part from the tech companies, who also provide the technology and expertise - and ultimately, this brings about more convenient and better experiences for patients.

Finally, with so many moving parts, how well would you say these players understand their own roles and positionings within the ecosystem?

The Healthy China 2030 national strategy provides the overarching framework for the Chinese healthcare ecosystem. Of course, there are also competing priorities across different parts of the whole value chain. But this type of competition will ultimately drive more efficient allocation of resources, which is positive - as long as there remains a very clear top-level system design. The Chinese government has been very committed to articulating clear policies and regulations so that the spaces for different actors are fairly clear. For instance, the government has recently issued policies to further encourage the development of private healthcare providers, including their eligibility for inclusion in public health insurance. This kind of policies help companies focus on developing the best products and service offerings and expanding the spaces where they play.

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