



TRADITIONAL ASIAN MEDICINES UNLOCKING NEW SOURCES OF VALUE FROM ANCIENT PRACTICES

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All eyes are on the future of healthcare – incumbents, investors and start-ups have fixated on how digital technology, artificial intelligence and machine learning can unlock greater healthcare system efficiency, affordability, and quality. We believe there could be overlooked opportunities in healthcare’s past, however, for example, in alternative medicines. These practices, such as traditional Chinese medicine (TCM), Ayurveda from India, and Jamu from Indonesia, represent new sources of value, and inspiration, in an otherwise saturated consumer health market and could form an integral part of the fabric in the goal of improving healthcare access.

TRADITIONAL MEDICINES MARKET – IN ASIA AND ABROAD

Traditional medicines remain embedded in cultures across Asia – they are derived from natural sources such as plants and animals and perceived by the public to be safer alternatives to synthetic chemicals used in Western medicines, and, at the worst, acknowledged to do little harm even if they are considered clinically dubious by many Western physicians. Increased spending on healthy living has renewed global interest in holistic medicines and created new consumer trends – look no further than New York, where Pipa Tangjiang, a Chinese cold remedy made from the loquat fruit and dating to the Qing dynasty, has recently become a flu season fad. Ancient Nutrition, a Florida-based producer of bone broth supplements, has recently received a US\$100+ million investment.

At home in Asia, traditional medicine has persisted alongside Western medicine for decades. Key Asian markets like China, Thailand, Indonesia, and Vietnam have seen double digit growth in the traditional medicines/herbals market in recent years.¹ At the same time, the traditional medicines market has begun to modernize both in channel and in process, somewhat expectedly, but unexpectedly opening new avenues to growth. Traditional medicine has expanded its footprint from its traditional trade stable (medicine halls, local village doctors) into modern trade channels (supermarkets, pharmacies, and convenience stores).

Moreover, the field of genomics (DNA sequencing) addresses a key challenge of authenticating ingredients and assuring quality, in a market segment notorious for illicit trade and counterfeiting.

Lastly, many Western MNC pharmaceuticals have also ramped up investment in understanding the science behind specific ingredients to link healing effects demonstrated over centuries of empiric evidence to the science. This has spurred an extracts and supplements market straddling both East and West, inspired by traditional practices but designed for Western consumption. Key TCM players, like Tong Ren Tang in China, and Eu Yan Sang in Singapore, have also begun to move downstream, expanding from product manufacturing to operating retail stores and offering in-house TCM services and treatments.

IMPLICATIONS FOR POTENTIAL INVESTORS IN ASIA

For strategic and financial investors, there is room to consolidate, both vertically and horizontally, as the market remains relatively fragmented. While some power brands have emerged, few cover the entire range of any one traditional medicines portfolio, which represents hundreds of different lines of practices treating numerous therapeutic areas and sourced from all types of vendors, large scale and cottage industry. For example, the four major herbals players in Indonesia only have slightly more than 1/3 of the total Jamu market, and followed by a long tail of over 25 or so other players with less than 2% market share and few big umbrella brands².

Secondly, there are pockets of unmet demand (which includes going modern and mainstream in emerging Asian markets, and increasingly, creating new health trends in export markets), but these require the difficult formula of right brand + right product + right time.

¹ CAGR, Euromonitor International

² Euromonitor International

Companies that produce Tiger Balm and Brand's Essence of Chicken are just a few of the players who have started this journey successfully and continue to gain in market share around the world. Consumer goods companies (from Nestle to Clorox) have also made key investments in supplements and herbals as easy entry points into the healthcare segment, and traditional medicines could be another potential avenue into Asia.

A fundamental conflict remains for traditional medicines with Western medicine in terms of scientific/clinical credibility however, let alone matching the scale of R&D and go-to-market resources of the consumer brands with which they compete for share.

Funding, from national health systems and insurance, is also a mixed bag of mostly exclusions and some reimbursement, though employers in Asia have also increasingly begun to offer TCM as a benefit (Mercer data suggests 28% of all employers in Asia now include this in flexible benefits)³. Thus, while traditional medicine is largely an out of pocket proposition for consumers, it is still considerably more affordable in general than Western counterparts.

There are other favorable conditions for growth in this market – consumer demand is picking up, as is governmental support and incentives to continue local investment in these industries that preserve tradition and provide jobs.

OPPORTUNITIES FOR VALUE CREATION

Against these opportunities and challenges, there are three key developments that support the continued attractiveness of the traditional medicines segment.

Firstly, traditional medicines have embraced new marketing and branding approaches to increase customer foothold in their home markets and abroad, in the same way Western consumer goods have crossed the globe. More players will begin to offer experiences, meaning traditional services + products in a one-stop shop as they vertically integrate. The use of consumer goods business tools such as CRM and e-commerce have accelerated entry to new markets for traditional products helping them to quickly establish and target their niche customer base.

WHAT WE LIKE ABOUT THIS MARKET	WHAT CONCERNS US
<p>CONSUMER BEHAVIOR</p> <ul style="list-style-type: none"> Increased demand for natural medicine as consumers become more health conscious Both rising middle class in Asia and international demand has increased overall price/margins Higher levels of trust and acceptance among younger generation 	<p>FIERCE COMPETITION</p> <ul style="list-style-type: none"> Fragmented market with large number of players Price-sensitive customers with untested brand loyalty Competition from growing MNC entrants into certain subsectors, e.g. food supplements
<p>ROOM FOR CONSOLIDATION</p> <ul style="list-style-type: none"> Few power brands, and no one single player dominating the entire traditional medicine market Cross-boarder/industry partnerships provide advantages to capture wide spectrum across the value chain 	<p>LACK OF CLINICAL EVIDENCE</p> <ul style="list-style-type: none"> Physicians, who are decision-makers, not universally convinced on efficacy Legitimacy of traditional medicine varies
<p>ENTRY OPPORTUNITIES</p> <ul style="list-style-type: none"> Open opportunity for players with shift to online/ D2C distribution Traditional players can utilize new service and retail channels 	<p>ROUTE-TO-MARKET</p> <ul style="list-style-type: none"> Incumbents have limited capabilities in new channels (e.g. e-commerce) needed to expand Traditional trade channels (medicine halls) still dominate – difficult geographic/rural coverage
<p>FAVORABLE ENABLERS</p> <ul style="list-style-type: none"> Regulatory environments favoring growth in traditional products (lower requirements vs. drugs) Genomics technologies can enable quality assurance and product innovation 	<p>SELF-PAY MODEL</p> <ul style="list-style-type: none"> Medical insurance restrictions – mostly still paid out-of-pocket

3 Mercer Total Health Choice Survey 2017

Secondly, supply chain enhancements help restore consumer confidence in the quality of traditional medicines, ensuring authentic, safe products in both domestic and export markets. The crossover from medicine hall to medicine aisles in the pharmacies has also been enabled by chain of custody certification, modern packaging, and increasing regulation of health claims. Regulation helps to assure the public of product safety and turns demand away from unregulated channels where counterfeits abound. While a significant hurdle itself, the process for herbals is hardly as severe as pharmaceuticals.

Players are beginning to develop power brands that cover a broader range of therapeutic and preventive areas, emphasizing brand loyalty and recognition with spillover effects for introducing new kinds of herbals and brand extensions. Where traditional medicines have limited share of voice when confined to medicine halls and locked cabinets, these modern plays have the potential to generate demand amongst quality-seeking local consumers and trend-seeking global ones, especially when partnered with modern distributors, retailers, and other international players. Lastly, this interest from MNCs (pharma, consumer goods, and others) in traditional remedies creates further opportunities in raw materials production, product design and development, distribution, as well as M&A.

FROM TCM TO FMGC

One notable example of this transformation is Brands' Essence of Chicken, a formula of concentrated chicken stock, based on TCM and passed down by mothers over the past century to help with minor illnesses and for alertness to improve student exam scores. In the past decade or so, the product has redefined itself as regular use nutritional supplement (akin to an energy drink or vitamin drink) and introducing new variations (premium flavors including ginkgo and cordyceps flowers) and new bottling formats.

Its owners essentially transformed it from TCM to FMGC (fast moving consumer goods), taking an approach similar to any consumer goods product with modern advertisements, CRM, and a full product line, effectively broadening its customer segmentation and reach.

WHY TRADITIONAL MEDICINES, AND WHY NOW?

Growth in the traditional medicines market is enabled by the increasing demand for alternatives, or complements, to Western therapies – the next global “bone broth” trend could very well be amongst the many traditional remedies in Indonesia, Vietnam, or China. While health fads have put some traditional treatments onto the global stage, we should also recognize there may be significant, latent opportunities in the home markets in Asia. Refreshed packaging, messaging, and online channels can also appeal to younger consumers who had in the past turned away from these traditions, but who see new value in their healthy, natural, or chemical-free properties. As these treatments gain credibility and mainstream familiarity and access, they also become affordable options that local Asian consumers who had once aspired for Western OTCs could embrace once again. Strategic partnerships with local producers and multinational investors could accelerate the modernization of TCM and other Asian medicines to restore markets at home and enter new ones abroad.

Some global players have recently put their consumer health business lines on the market, as pharma and consumer goods companies begin to re-evaluate their strategic positioning and diversification. However, a bright spot for further investments may indeed be traditional medicines, which are altogether complementary to existing portfolios and provide access to entirely new markets. At the same time, they may also hold a key part of the puzzle in providing better healthcare access to consumers across Asia in recognizable form, enhanced by modern approaches.

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