Healthcare Sector Development: Russia’s Top Priority

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Russia - Advantages

- The consumer boom has ended but growth should still be above the EU average. Consumption and debt statistics are still well below EU averages except for mobiles.

- Salaries are still rising in real terms, albeit this is not a good trend overall.

- Russia has the largest consumer base in Europe with a total population of almost 143 million and 55 million households. Customs Union raises it to over 200 million. Russia is the world’s fifth biggest consumer market by spending volume.

- Retail spending totaled just under $700 bln last year. More than 50% was non-food.

- Based on the OECD definition of Middle Class, 55% of Russian households are in that category compared to 30% in Brazil, 21% in China and 11% in India. Wealthy households are also more numerous with 15% of Russian households boasting annual income above $50 000 compared to 5% in Brazil, 2% in China and 1% in India.

Source: LBC
Russia - Top-10 Imports From USA

US exports to Russia amounted to $16.8 billion or 5.3% of its overall imports

- Machines, engines, pumps: $3.3 billion
- Vehicles: $3.2 billion
- Medical equipment: $1.4 billion
- Electronic equipment: $1 billion
- Pharmaceuticals: $822.2 million
- Plastics: $552.6 million
- Meat: $358.7 million
- Iron or steel products: $353 million
- Other chemical goods: $351.5 million
- Perfumes, cosmetics: $257.1 million

Source: WTO
41.7% - respiratory disease
11.8% - injury, poisoning
6.2% - diseases of the genitourinary system
6% - skin diseases
4.4% - eye diseases
4.4% - diseases of the digestive system
4.2% - diseases of the musculoskeletal system
4% - infectious diseases
3.5% - ear diseases
3.4% - diseases of the circulatory system
2.5% - complications of pregnancy and childbirth
2% - diseases of the nervous system
1.5% - neoplasms
1.3% - endocrine system diseases
2.9% - other diseases

Source: Rosstat, Kursor
Pharmaceutical Sector, Russia - Market Highlights

By the end of 2013, Russia was on the 7th place among other pharmaceutical markets. The volume of the Russian pharma market was around $26 bn in the end-user prices in 2013, which is 14% higher than in 2012.

Over 1000 companies were operating on the Russian pharmaceutical market in 2013. TOP 20 manufacturers are responsible for 55% of the overall pharma market sales value.

More than 375 new brands of medicines have been launched in 2013 in Russia. The majority of new medicines are produced by foreign manufacturers. Only 69 new brands belong to domestic companies.

The largest import volume distributors in 2013 were R-PHARM, PROTEK, the Katren. Together, the share of the three leading distributors of medications is 48% of the total market share.
Pharmaceutical Sector, Russia - Drug Groups

- **A**: Alimentary tract and metabolism - 19.7%
- **N**: Nervous system drugs - 12.8%
- **C**: Cardiovascular system drugs - 12.6%
- **R**: Respiratory system drugs - 11.7%
- **M**: Musculoskeletal system drugs - 7.3%
- **G**: Genitourinary system drugs and sex hormones - 7.2%
- **J**: Antibacterials for systemic use - 6.9%
- **D**: Dermatological - 5.6%
- **L**: Antineoplastic and immunomodulating agent - 4.3%
- **[~]** Without allocation - 4.3%
- **V**: Various - 7.2%

Source: MIT
Registration of Drugs

1 stage

Application about the registration of the pharmaceutical

Expertise of the documents to receive the approval of clinical trial of the pharmaceutical

Suspension of the registration

Clinical trial Results

Results of the clinical trial

Renewal of the registration

2 stage

Expertise of the analytical methods of the quality control of the pharmaceutical and laboratory

Expertise of the ratio of the benefit/risk at the using of the pharmaceutical

Conclusion of the experts about the results of the conducted expertise

Decision about the state registration of the pharmaceutical, entry in the State register of the pharmaceuticals, issue of the marketing authorization, approved the normative documentation, the instruction for medical use, labels

Source: Medex Consult Agency
The Russian market for medical equipment and supplies is estimated at $6 bn. This puts Russia’s healthcare market among the top 20 in the world.

Between 2012 and 2020 the share of hospitals, clinics and medical centers equipped in compliance with the new standards should increase from 43% to 100%.

It is expected that volume of medical equipment produced domestically should increase from $568 mln in 2014 to $2.4 bn in 2020.

Source: Bureau Group of Companies
Russian government organizations account for about 80% of all medical equipment purchases. Private hospitals and patients represent the other 20%.

Source: DMG Group
For the last three years, a growing number of cheaper analogs from China and Pakistan have entered the Russian market in large volumes. In 2013, the Russian medical market volume was $7.24 billion with 83.5% ($5.57 billion) of equipment supplied by foreign manufacturers.

Medtech market in Russia is heavily dependent on imports:

- **Imported medical Equipment:** 83.5%
- **Germany:** 40-45%
- **USA:** 20-25%
- **Japan:** 10%
- **Italy:** 10%
- **France:** 10%

Source: Bureau Group of Companies
Medical Equipment Sector, Russia - Market Structure

- Diagnostic imaging: 49%
- Surgery and intensive care: 18%
- X-rays: 12%
- Laboratory diagnostics: 6%
- Basic hospital equipment: 5%
- Dialysis equipment: 5%
- Other: 5%

Source: MIT
Medical Equipment Sector, Russia - Opportunities

- diagnostics
- visualization
- cardiovascular
- orthopedics
- laboratory diagnostics
- urology equipment
- ophthalmology
Dentistry as a branch of Russian health care is one of the most advanced and promising areas of Russian medicine.

Elite clinics experience fierce competition and suffer for a lack of patients. However, middle and low middle-income class markets are not yet saturated.

Implants and orthopedics treatments are the most demanded services in dentistry.

Monthly returns of one dental office working with implants is $100,000.

There are dozens of Western dental clinics operating in Moscow.

**Dental Sector, Russia - Market Highlights**

- **150,000 visits annually**
- **4.5 dentists for every 10,000 people**
- **11,143 dentists and dental surgeons**
  - **> 85,000**
  - **> 20,500**
- **6,000 dental technicians**
  - **> 25,000**
  - **> 15,000**
- **51 dental schools**
- **Annually graduated**
  - **~ 8,200 dentists**

Source: Russian Dental Association
There are strict product registration and certification procedures necessary for the release of dental equipment into the market. The registration and certification can be complicated and time-consuming. It may require a regular market presence of the manufacturer or an authorized representative with competent Russian language skills and local market knowledge in Moscow to be able to complete the process.

The Russian dental market has an impressive potential.

Private clinics buy modern equipment, including dental lasers, modern X-Ray equipment and tooth-bleaching systems. Advanced private clinics offer implantation and oral hygiene treatments and generally comply with Western standards.

There are about 500 distributors of dental products operating in Russia. The major distributors are located in Moscow and work in other regions through smaller local distributors or through regional representatives.

Dental Sector, Russia - Market Highlights
Taking into account current market situation there are four ways of doing business in the Healthcare sector in Russia:

- cooperation with the Russian distributors

- localization of production (construction of all necessary infrastructure from scratch/ cooperation with the Russian manufacturer/transfer of technologies)

- joining medical and pharmaceutical clusters

- buying/acquiring already existing business on the territory of Russia
The distribution segment of the Russian healthcare market is one of the most stable.

Distributors continue to follow the earlier set development trend - business diversification. Almost all large national distributors own one or several pharmacy chains (Protek, Katren, Rosta, Oriola, etc) and actively develop their own production (Protek, R-Pharm, SIA International, etc).

In 2013 the market share of the Top-10 distributors amounted to approximately 82% of the total market.

David Panikashvili, President of the pharmaceutical group of companies "Rosta" has identified the following trends in the development of the distribution segment in Russia:

- continued consolidation of the distribution segment
- integration of retailers and distributors
- positioning of the wholesaler/distributor as a partner, not just a vendor

Source: Pharexpert, Rosta
Ways of Entering Russian Healthcare Market - Clusters

Source: Minpromtorg
Key criteria for choosing a Russian partner for localization in the Russian Federation

- Compliance with GMP
- Compliance with all aspects of the legislation of the Russian Federation
- Developed system of quality management
- Capability to establish a complete chain of distribution and promotion of products
- Best location of the production site
- Extensive experience in localization with other foreign licensors
- Availability of production facilities and capacity and opportunities for infrastructure development
- Reasonable cost of production services
- Economic stability, confirmed by time of operation on the market
- Economic sustainability of the potential partner
- Land, premises and equipment owned by the company’s

Source: Sotex