Successful Business Outsourcing in Asia Pacific

Andrew Frye
DKSH
Scottsdale
November 8, 2012
MDSCC 2012 Fall Meeting
An American In Bangkok
Agenda

Asia medical devices market insights and business needs

Market Expansion Services

About DKSH

Outsourcing opportunities along the value chain

Success stories: Selling, Consignment and Dealer Management

Conclusion
Medical Devices market size by country

**Market Size 2011**

- Japan: 33.8
- China: 10
- SE Asia / ASEAN: 3
- South Korea: 2
- Australia: 4
- India: 4

Total: $82.8bn

**Market Size 2015**

- Japan: 36.2
- China: 69.5
- SE Asia / ASEAN: 20.5
- South Korea: 6.1
- Australia: 2.8
- India: 4.9

Total: $140bn

Source: Frost & Sullivan - Asia Pacific Overall Healthcare Outlook, Espicom, BCC Research (2010), Big Emerging Market Report 2011, DKSH internal data
The importance of Asia for Medical Devices

Global & APAC Medical Devices Revenues
(in USD billion, 2011-2015)

Source: Frost & Sullivan - Asia Pacific Overall Healthcare Outlook 2012-2015, DKSH internal analysis

APAC market share

APAC CAGR: 5.1%
Rest of the world CAGR: 14.0%
APAC market share: 26.3% - 36.6%
Outsourcing in emerging markets is essential

How do medical devices companies currently distribute/market their products in emerging markets?

- **SE Asia**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution
- **China**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution
- **India**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution
- **Russia**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution
- **Eastern Europe**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution
- **Brazil**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution
- **Latin America**: Distributor(s) - 3PL(s) or joint venture - Company owned or managed sales and distribution

Source: PRTM Medical Device Supply Chain Priorities in Emerging Markets Survey, April 2011
## Business Needs by company status in Asia

<table>
<thead>
<tr>
<th>Status</th>
<th>SME</th>
<th>MNC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who</strong></td>
<td>Not yet present</td>
<td>Present in most markets</td>
</tr>
<tr>
<td><strong>Needs</strong></td>
<td>Experienced partner</td>
<td>Outsource specific services</td>
</tr>
<tr>
<td><strong>Biz Model</strong></td>
<td>Full Service</td>
<td>Partial Services</td>
</tr>
</tbody>
</table>

Source: PRTM Medical Device Supply Chain Priorities in Emerging Markets Survey, April 2011
DKSH internal analysis
### Asia product path
From manufacturer to customer

<table>
<thead>
<tr>
<th></th>
<th>Brand Owner (US)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
</tr>
<tr>
<td><strong>International Transport</strong></td>
<td>Global 3PL / Freight Forwarder</td>
</tr>
<tr>
<td><strong>Regional Hub</strong></td>
<td>Global 3PL / Regional Distributor</td>
</tr>
<tr>
<td><strong>Country Logistics</strong></td>
<td>3PL, Dealers, Distributors</td>
</tr>
<tr>
<td><strong>Country Distribution / Collections</strong></td>
<td>Sub-Distributor / Wholesaler</td>
</tr>
<tr>
<td><strong>Country Value Added Services</strong></td>
<td>Specialized MES / Distributor</td>
</tr>
<tr>
<td><strong>Product Use &amp; Purchase</strong></td>
<td>Customer / Hospital</td>
</tr>
</tbody>
</table>

**Think Asia. Think DKSH.**
Agenda

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Conclusion
A closer look at MES providers

Source: RBSC (2012) Attractive business opportunities in Asia for market expansion services

1) Formerly known as IDS, also appears as LF Asia in some markets
Global Market Expansion Services Reports

Topics

Market Expansion Services – Defining a new industry

The impact of Market Expansion Services in different industries and markets

Innovation in the market expansion services industry
Market Expansion Services within the outsourcing industry

Focus on market growth rather than solely on cost efficiencies

Source: RBSC, 2nd MES Report, 2012

<table>
<thead>
<tr>
<th>Information Technology Outsourcing</th>
<th>Business process Outsourcing</th>
<th>Knowledge process Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Management</td>
<td>Back office (support-oriented) HR, Finance, Accounting</td>
<td>Research &amp; Development Legal Services Clinical Studies</td>
</tr>
<tr>
<td></td>
<td>Front office (customer-oriented) Call Center</td>
<td></td>
</tr>
</tbody>
</table>
Market Expansion Services

Industry trends

<table>
<thead>
<tr>
<th>Local services</th>
<th>Regional services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standardized services</td>
<td>Customized value-added services</td>
</tr>
<tr>
<td>Single services</td>
<td>Integrated services</td>
</tr>
</tbody>
</table>

Reasons

- Reduce service provider complexity
- Leverage individual country efforts
- Tailor-made and customized solutions
- Value-added services drive growth (Consignment Inventory, Linked IT Systems, dealer management)
- Reduce service provider complexity
- Leverage Commercial, Regulatory and Logistics efforts

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### DKSH

- Swiss company with a tradition of nearly 150 years
- Large network in Asia with 630 business locations and 20 in Europe and the Americas
- SIX Swiss Exchange
  - Member of the SMIM index
  - Established Code of Conduct
- Over 3,500 Sales & Marketing employees in Healthcare

### Four specialized Business Units

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>Description</th>
<th>Net Sales</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>Pharmaceuticals, consumer health &amp; OTC, medical devices</td>
<td>CHF 2,907 million</td>
<td>8,035</td>
</tr>
<tr>
<td>Performance Materials</td>
<td>Sourcing of specialty chemicals and ingredients</td>
<td>CHF 697 million</td>
<td>1,078</td>
</tr>
<tr>
<td>Technology</td>
<td>Distribution of capital investment goods and analytic instruments</td>
<td>CHF 413 million</td>
<td>1,296</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>Fast moving consumer goods, food services, hotel supplies, luxury and lifestyle products</td>
<td>CHF 3,327 million</td>
<td>12,627</td>
</tr>
</tbody>
</table>

Source: DKSH FY 2011 figures
DKSH Healthcare
A proven leader in integrated MES healthcare solutions in Asia

Country operations in*

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Asia</td>
<td>China, Hong Kong, Macao, Taiwan, Korea</td>
</tr>
<tr>
<td>Indochina</td>
<td>Cambodia, Laos, Myanmar, Vietnam</td>
</tr>
<tr>
<td>South East Asia</td>
<td>Malaysia, Brunei, Singapore, Thailand</td>
</tr>
</tbody>
</table>

*Dedicated HEC DC’s, excl. branch warehouses

*Switzerland not included
DKSH Healthcare

Integrated

- Commercial
- Distribution
- Logistics

Regional

- Hospitals
- Clinics
- Modern Trade
- Independent Pharmacies

Proven

- > 500 client accounts
- CHF 3.2bn net sales
- 160,000 customer drop points

2011 figures

Think Asia. Think DKSH.
DKSH links Med Device Clients to Asian Customers

Client | Over 75 client accounts

14,580 MD customers*  
*customer drop points

Medical Channel
- Public Hospitals
- Private Hospitals
- Clinics

Trade Channel
- Chain Pharmacies
- Independent Pharmacies

Others
- Dentists
- Optical Shops
- Wholesalers

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About DKSH

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Conclusion
Integrated solutions
Growing clients’ and customers’ business

Client
pharmaceutical,
consumer health,
medical device
products

Commercial services

Distribution services

Logistic services

Customer
pharmacies,
drugstores,
hospitals, doctors

Channels

Patients
Consumers

Brands

pharmaceutical,
consumer health,
medical device
products
## Experience in various segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>Logistics</th>
<th>Distribution</th>
<th>Commercial</th>
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</thead>
<tbody>
<tr>
<td>Orthopedics</td>
<td>•</td>
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<tr>
<td>Dental</td>
<td>•</td>
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<tr>
<td>Cardio</td>
<td>•</td>
<td>•</td>
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</tr>
<tr>
<td>Neurology</td>
<td>•</td>
<td>•</td>
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<tr>
<td>Ophthalmic</td>
<td>•</td>
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<tr>
<td>In vitro Diagnostics</td>
<td>•</td>
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<tr>
<td>General &amp; Plastic</td>
<td>•</td>
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<tr>
<td>Surgery</td>
<td>•</td>
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<tr>
<td>Radiology</td>
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<tr>
<td>Gastro &amp; Urology</td>
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<tr>
<td>Dialysis</td>
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</tbody>
</table>
Our Logistics Service Portfolio

Commercial value

Custom Clearance & Importation  Redressing  Warehousing  Order Taking  Transportation  KPI Reporting  Logistics
Our Logistics Service Portfolio

<table>
<thead>
<tr>
<th>Commercial value</th>
<th>Custom Clearance &amp; Importation</th>
<th>Redressing</th>
<th>Warehousing</th>
<th>Order Taking</th>
<th>Transportation</th>
<th>KPI Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Import &amp; Export Clearance</td>
<td>• Packaging Consulting</td>
<td>• Inbound – Storage – Outbound</td>
<td>• Order Management</td>
<td>• Temperature Controlled Transportation</td>
<td>• Delivery Reporting</td>
<td></td>
</tr>
<tr>
<td>• Consignment Custom Clearance</td>
<td>• Re-packing, Labeling, Ink-Jetting, Shrink Wrapping</td>
<td>• Stock Forecasting &amp; Inventory Planning</td>
<td>• Enquiries</td>
<td>• Track &amp; Trace</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Documentation</td>
<td>• Redressing Material Management</td>
<td>• Cold Chain</td>
<td>• Handling</td>
<td>• Proof of Delivery</td>
<td></td>
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<td></td>
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<td>• Decontamination</td>
<td></td>
<td>• Urgent Deliveries</td>
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<td>• Reverse Logistics</td>
<td></td>
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<td>• Product Recall</td>
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</tr>
</tbody>
</table>
**Warehousing space**  
Warehouse platform in Asia with > 135,000 sqm

**Quality**  
ISO 9001, ISO13485 certified and GDP compliant

**Employees**  
More than 3,000 logistics and distribution employees

**Special delivery**  
Same-day, urgent and emergency deliveries

* incl. branches and shared DC/s  
** Logistics & Customer Care
Our Distribution Service Portfolio

Commercial value

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Tender Administration</td>
<td>Customer Care Center</td>
</tr>
<tr>
<td>Credit &amp; Collection Management</td>
<td>Client Management</td>
</tr>
<tr>
<td>Custom Clearance &amp; Importation</td>
<td>Redressing</td>
</tr>
<tr>
<td></td>
<td>Warehousing</td>
</tr>
<tr>
<td></td>
<td>Order Taking</td>
</tr>
<tr>
<td></td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td>Reporting</td>
</tr>
</tbody>
</table>
## Our Distribution Service Portfolio

### Commercial value

<table>
<thead>
<tr>
<th>Professional Tender Administration</th>
<th>Credit &amp; Collection Management</th>
<th>Customer Care Center</th>
<th>Client Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tender Data Analysis</td>
<td>• Credit Management based on 3 BL’s</td>
<td>• Direct line to all customers (toll free numbers)</td>
<td>• Regular Business Reviews</td>
</tr>
<tr>
<td>• Technical Documentation</td>
<td>• Risk Analysis &amp; Customer Segmentation</td>
<td>• Strong KPI culture</td>
<td>• One-Point-of-Contact</td>
</tr>
<tr>
<td>• Legal Documentation</td>
<td>• Multi-level Credit Checking</td>
<td>• Customer Key Account Management</td>
<td>• Understanding Clients’ needs</td>
</tr>
</tbody>
</table>

### Distribution

- Custom Clearance & Importation
- Redressing
- Warehousing
- Order Taking
- Transportation
- Reporting

### Logistics

- Professional Tender Administration
- Client Management

---

Think Asia. Think DKSH.
# Our Commercial Service Portfolio

<table>
<thead>
<tr>
<th>Professional Tender Administration</th>
<th>Customer Care Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit &amp; Collection Management</td>
<td>Headcount Hosting (HR)</td>
</tr>
<tr>
<td>Custom Clearance &amp; Importation</td>
<td>Redressing</td>
</tr>
<tr>
<td></td>
<td>Warehousing</td>
</tr>
<tr>
<td></td>
<td>Order Taking</td>
</tr>
<tr>
<td></td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td>Reporting</td>
</tr>
</tbody>
</table>

**Distribution**

**Logistics**
Commercial Services
Channel knowledge and SAP drives targeting insights

Channel insights

Hospital accounts
Clinic accounts
Pharmacy accounts

ATC Level 2

Top 10 Brands

Think Asia. Think DKSH.
Commercial Services
3 steps link market data insights to a disciplined and proven selling model

Channel Insights
- Hospital Accounts
- Clinic Accounts
- Pharmacy Accounts

Planning
- Customer Profiling
- Segmentation & Targeting
- Territory Alignment
- Team + Call Alignment

Performance KPIs
- Rep Activity
- Rep Reach & Frequency
- Rep Productivity
- Manager Activity

Proven Execution
- Targeting
- Hospital Listing
- Market Access
- Geographic Reach
- Channel Focus
Consignment Inventory Management

Real-time flow of pertinent information to minimize costs and maximize profits

Products

Client

Order / Replenishment

DKSH CIM Service

Hospital

Replenishment

Inventory, Consumption, Stock status

Think Asia. Think DKSH.
<table>
<thead>
<tr>
<th>Region</th>
<th>Key Leaders</th>
<th>FTE</th>
<th>Client Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Asia</td>
<td>China Sarah Lu</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>Taiwan Shirley Hsu</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hong Kong Claudia Goetze</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South East Asia</td>
<td>Malaysia Lee Guat Lian</td>
<td>20</td>
<td>130</td>
</tr>
<tr>
<td></td>
<td>Singapore Helen Ling</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Thailand Pattaree Sinananpat</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indochina</td>
<td>Cambodia Chan Sophanna</td>
<td>20</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>Laos Dr. Kongkeo</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Myanmar Tin Winn</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vietnam Truong Thi To Hoa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>50</td>
<td>370</td>
</tr>
</tbody>
</table>

Rounded DKSH internal figures

**Regulatory affairs teams with pharmaceutical and scientific backgrounds**
### Pillars levering our service portfolio

<table>
<thead>
<tr>
<th>IT</th>
<th>SAP platform, Business Intelligence, Sales Force Automation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>SOP Culture with Dedicated quality teams (&gt; 80FTE)</td>
</tr>
<tr>
<td>Compliance</td>
<td>Legal, commercial and quality standards</td>
</tr>
<tr>
<td>Customization</td>
<td>Tailor-made solutions fir to our clients needs</td>
</tr>
</tbody>
</table>
Agenda

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Market Expansion Services

About DKSH

Outsourcing opportunities along the value chain

Success stories; Selling, Consignment and Dealer Management

Conclusion
Building up segment expertise
Premium implant category

Challenges

• >15mo Excess Inventory in Market
• Client lacked market expertise

Outsourcing Objectives

• Ensure correct product SKU availability
• Retain existing customers
• Increase sales and awareness – new tech portfolio in pipeline

Results

• Successfully retain existing customers
• Strong KOL development at international events
• KOL development at leading hospitals
• Marketing activities at key hospitals

Key Success Factors

• KOL development
• Inventory control and management
• High caliber Product specialist
Case sharing: Med Device CIM

Services

- Consignment Inventory Management

Key information:

Cooperation started: September 2011
Contract term: 3 years
CIM customer coverage: 24 hospitals

 Activities conducted by DKSH

- Cycle count monthly/ Quarterly
- Expiration date management
- Upload Real-time stock taking
- Reconciliation
- Housekeeping for inventory
- Customer relationship management

Activities conducted by Client

- Return and replenishment
- Housekeeping for inventory
- Customer relationship management

DKSH CIM service results: Volume up 20-40%; stock discrepancies down 15% to 5%
China Med Device Distribution Challenges
Multi-layer distributor network

Local Market Situation
• Reliance on local dealers for sales, marketing and pricing
• Margins prevent further local sales team investment
• Weak end-customer visibility

Risk Management
• Risk for non-compliant activity at hospitals
• Wholesaler license and storage conditions
• Dealer transition risks
<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Analyze existing dealer base - classify dealers into D1-D5 model</td>
</tr>
<tr>
<td>2</td>
<td>Establish service scope, standardized margin structure and policy</td>
</tr>
<tr>
<td>3</td>
<td>Identify existing dealer business model, FTE allocation, identify &quot;savings&quot;</td>
</tr>
<tr>
<td>4</td>
<td>Implementation road map, business model conversion timeline</td>
</tr>
</tbody>
</table>
Optimized dealer roles and responsibilities model
Base Case

Success Stories

Think Asia. Think DKSH.
Optimized dealer roles and responsibilities model

Roadmap

Success Stories

Think Asia. Think DKSH.
Optimized dealer roles and responsibilities model
Platform Implemented

Think Asia. Think DKSH.
Conversions to HP Direct Model

Benefits of converting to HP Direct Model

- Number of new HP Direct hospitals
- Number of existing HP Direct hospitals

Number of HP Direct hospitals

Year 1  | Year 2  | Year 3  | Year 4  | Year 5  
---     | ---     | ---     | ---     | ---     
0       | 50      | 100     | 150     | 200     

Success Stories
Continuous in-market sales growth

In-market sales revenue

- Year 1
- Year 2
- Year 3
- Year 4
- Year 5

In-market sales (CNY mn)

- 0
- 250
- 500

In-market sales growth

- 23% 22% 30% 26%

- Continued organic growth
- Products sold at higher prices via margin retention from dealers
- Reduced compliance risk
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Conclusion
## Conclusion

Asia is a large market with many different types of business opportunities

New commercial models overlap logistics and commercial interests

Value proposition, expectations and willingness to commit are important variables

Different partners do exist – you do have options
We help you grow your business via Market Expansion Services

Thank you
Thank you for your attention