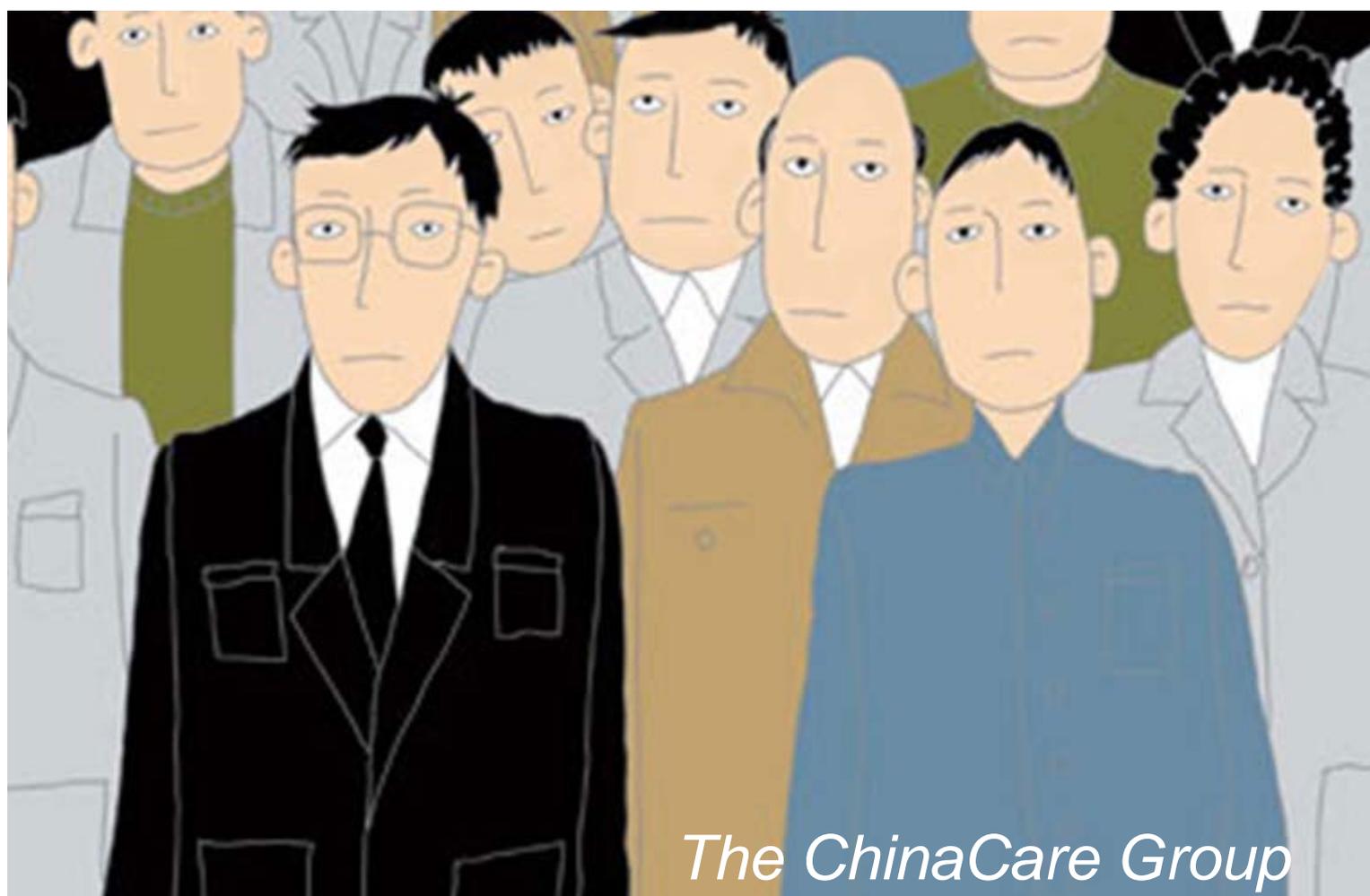


Emerging Trends in Chinese Healthcare

The Impact of a Rising Middle Class



The ChinaCare Group

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Executive Summary

In this report, the ChinaCare Group examines a major phenomenon in the Chinese healthcare marketplace: the explosion of a vigorous and demanding middle class and its impact on the future directions the industry should pursue.

Little is known about the expectations of the middle class regarding their healthcare needs other than through anecdotal or informal sources. The views of the middle-class are shaped by a variety of influences which include exposure through direct personal contact with international healthcare facilities when traveling abroad or indirectly through increased exposure to the entertainment industry with its abundance of hospital and medical dramas. In addition to a general increased international awareness arising from more advanced education, the perspective of the middle class consumer is also shaped by the reality of what is currently available in China and what is realistic to expect. This report addresses this lack of factual data through an extensive survey of middle class consumers in three major cities in China: Beijing, Shanghai and Chengdu.

The survey took a practical and pragmatic approach to exploring this issue. No attempt is made in this study to explain why the consumer feels the way they do about their healthcare expectations.

Our purpose was simply to outline what expectations the middle class have for the healthcare marketplace in China.

In some respects the results are not surprising. They are the expectations that people have in any country, any where. They expect greater privacy and dignity in the care-giving process. They want to be more involved in the decisions that are made regarding their care. They would prefer a personal, private physician as opposed to a revolving door of faces they will never see a second time. They rely strongly on family and friends to advise them on their choice of provider. They expect clean, well-maintained facilities, efficient systems and courteous personnel.

In other respects, the conclusions are not necessarily expected. They feel strongly that their hospital or provider of care should be located in a residential area. They are willing in some circumstances to pay more for their care in order to meet their expectations but not significantly more. Despite acknowledging that many of the facets of care they seek such as greater respect for privacy and a generally perceived more positive attitude in the care-giving process are found in foreign physicians, middle class consumers do not express a strong preference for foreign physicians but opt instead for Chinese physicians.

The ChinaCare Group hopes that you will find the report interesting and informative. If you have any questions or comments regarding the report, please contact me or any member of the consulting team.

David Wood
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Introduction

The dual burdens of developing countries have fallen hard on the population giant China: the fastest rate of population aging in the world accompanied by a dramatic yet inequitable rise of standards of living has led one-fifth of the world's total population towards a diversifying portfolio of chronic diseases. The needs of this population, marked with the rise of a young urban middle class, are currently unmet by the Chinese public hospital system through the lack of access to care as well as dissatisfaction with the services provided. Consequently, this underserved market translates to opportunities for foreign and domestic investors, as urban Chinese grow increasingly affluent and amend their consumer behavior from traditional conservatism to indulgences through self-satisfaction and self-expression.

The emphasis in lifestyle manifests itself in healthcare through the patient's clinical and non-clinical expectations. China's economic transition from a command to a market economy has attained great success in the past quarter of a century, leading to improvements in living standards and unprecedented changes in socioeconomic stratification¹. While growth-led outcomes are remarkable in many aspects, compatible gains have not been observed in some other areas. Healthcare, in particular, has

¹ Blumenthal, D., Hsiao, W. "Privatization and its discontents: the evolving Chinese health care system." N Engl J Med. 2005 Sep 15;353(11):1165-70.

demonstrated a rising trend of individuals' out-of-pocket payments and a decline of governmental and social responsibilities. For example, health appropriations from the government budget declined from 32.16% in 1978 to 17% in 2003². Policies of governance and fiscal decentralization, coupled with increased market competition, have significantly altered the public financing scheme and resource prioritization. As a result of the high out-of-pocket expense, consumers or patients have more at risk and therefore, are more demanding and value conscious.

The healthcare investment market is a high stakes game. Entering into the Chinese market, hospital investors/managers must have a strong understanding of the market and its demand for the individual service lines or whether enough customers are willing to pay for international standard services. In the context of China's increasingly value-conscious healthcare system, investors who pay attention to the needs and demands of consumers are the ones who gain a significant advantage over competitors. Hospitals must identify the characteristics of the patients they can best serve and attract those people by creating specific value propositions. Hospitals must understand what their customers want and how they want it³.

² Ministry of Health of the People's Republic of China. Research Report on China's National Health Accounts. 2004.

³ Grote, K.D., Levine, E.H. and Mango, P.D. "US hospitals for the 21st century."

Through a tri-city survey of consumer healthcare trends conducted by the ChinaCare Group, the reader will have the opportunity to gain an in depth perspective to target consumers with differentiated services.

The McKinsey Quarterly, August 2006. McKinsey & Company: 2006.

For further information, please contact:

The *ChinaCare* Group

The ChinaCare Group was formed in 2003 by skilled, senior-level, international healthcare executives for the purpose of providing consulting, development and management services to the Chinese healthcare industry. The foundation of the firm's success has been its ability to successfully integrate the principles of international level healthcare into China's healthcare facilities in a culturally-sensitive manner. As the only international healthcare consulting firm in China focused on healthcare delivery, the ChinaCare Group takes its responsibilities for representing the international model of healthcare delivery very seriously and provides a significant amount of education and training free to the healthcare community as a public service. The consultants of the firm are frequent speakers at seminars and conferences and the firm's research papers, the ChinaCare Group White Papers, are provided free of charge to the public. Whether it is a Chinese hospital working to improve its services or whether it is an international joint-venture project seeking to become established in China, no one is better equipped and able to bring success to the effort than the ChinaCare Group.

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