Vietnam Healthcare - The Next Growth Frontier?

by **V.K. Sanjeed**

In April 2008, Vietnam's Ministry of Health announced plans to revamp the country's healthcare infrastructure. The system was starved of funds and a damp prospect for medical device manufacturers. A budget of roughly US$1 billion has been allocated to build and upgrade hospitals across the nation. This opens up a myriad of opportunities across the entire healthcare system, particularly for medical devices and equipment manufacturers. Despite its attractive growth potential, Vietnam's emerging economy presents its own set of unique challenges to would-be investors and foreign companies. APBN finds out more from Damien Duhamel, Managing Director of Solidiance, a marketing and innovation strategy consulting firm with strong focus on Medtech in Asia Pacific.

APBN: The Vietnam government is pumping in $US 1 billion in investment to strengthen its healthcare facilities for emergencies, diagnosis and treatment. Is there a similar budget planned for training more doctors, nurses and other healthcare professionals to utilize the new facilities and meet Vietnam's healthcare demands?

Damien Duhamel: I think this question highlights a serious problem in Vietnam. On one hand, it wants to develop its healthcare and hospital facilities while on the other, it faces a critical shortage of manpower. For example, Vietnam has about 4.5 doctors per 10,000 people. In contrast, Singapore has about 16 doctors per 10,000 people. Obviously, this is a nation-wide average and if you zoom in on specific localities, you will find wide disparities in the doctor-to-people ratio. In cities like Ho Chi Minh City and Hanoi, that rate goes up to about 8 doctors per 10,000 people, but in remote provinces or highlands, that number drops to as low as 1 doctor per 10,000 people. So as a first step, the Vietnamese Government - which by ideology is a Socialist Government - has as its first priority to rebalance this issue of disparity in the number of doctors across Vietnam. Doctors currently leave the countryside and go where the affluent live, namely, Ho Chi Minh City and Hanoi. The Government is trying very hard to address this issue. As recently as June 2009, the Ministry of Health had open talks with the Government about the Health staff training project in 63 cities and provinces nation-wide. There was a conference and several representatives from different provinces highlighted the shortage of doctors.

The irony is that Vietnam produces a large number of doctors from its medical schools every year. Currently that number of doctors is increasing by 25% every year, so on paper, Vietnam is producing more and more doctors every year. However, doctors graduating from public schools go on mostly to work either in a non-healthcare field or in a multi-national corporation (MNC) specializing in the healthcare field, which would pay more than a Vietnamese public hospital. This highlights a very serious problem. Salaries for medical staff at public facilities in Vietnam is very low if not extremely low. We're talking about nurse salaries ranging from US$80-100 a month. A doctor earns about US$450-500 a month. These salaries are typical of medical staff working in Ho Chi Minh City and Hanoi at public hospitals. Obviously the same staff can work elsewhere and earn much more attractive salaries. Until this issue is solved, it does not matter how many doctors the schools are producing. They will either find medical work in MNCs or move out of the healthcare industry altogether. Bear in mind though, the Government is trying to first rebalance the spread of doctors across the country. The Mekong Delta for instance has just 1.1 doctors for every 10,000 people. It is just not sustainable. This is the main issue the country is now facing and addressing.

Solutions wise, there are very few. One involves attracting its population of overseas Vietnamese, some of whom have gone through medical training and are keen to return to Vietnam to open their own clinics or to work at public hospitals. This is by no means a cure-all for the problem because there are very few such overseas Vietnamese doctors. NGOs in Vietnam are also very active in providing training and support in this field, but they cannot be expected to solve the country's healthcare problems. It will require action at the Government level to compensate doctors much more than they are presently. If you are a trained doctor in Vietnam you basically work for a public hospital and try to redirect patients to your private clinic. This is the only way you can earn money and survive. As such the whole system is in very bad shape. Doctors in Vietnam have to make decent salaries for this whole manpower issue to be resolved through market-forces.

APBN: Does Vietnam have plans to compete with India, Thailand, Singapore and other countries for a piece of the medical tourism pie?

Damien Duhamel: At the Government level, this is not part of any plans and the country has no intention of competing for a piece of the medical tourism industry in Asia Pacific. You do have some private investors who have opened fairly high-end clinics and hospitals in and around Ho Chi Minh City. These are geared mostly towards the affluent Vietnamese, the domestic market as well as overseas Vietnamese who want to come back for treatment as they feel comfortable with the culture and language. Looking at the medical tourism industry now, there is a very clear outflow of patients from Vietnam to Thailand, Singapore and Malaysia. It shows that Vietnam is not yet on the map of medical tourism and it will probably take another 10-15 years before we can really see it coming up as a potential player in the field. It still needs to address the issue of having enough doctors and nurses as well as a working healthcare infrastructure before it can play any role in regional medical tourism in Asia Pacific.

APBN: There is a strong push towards distributed healthcare in many countries. Is Vietnam's telecommunications infrastructure capable of supporting this trend – especially in the rural areas? How so?

Damien Duhamel: Vietnam does not possess the same level of telecommunications infrastructure as that which can be found in countries like Singapore, Malaysia and Thailand. So in terms of even Healthcare Information System (HIS), Clinical Information System (CIS), and healthcare informatics the country's industry is nascent, very small and for most HIS players, Vietnam is just not on the map yet. However, the country is a fast-growing market where technology adoption is even faster than it was in China, 10 years ago. The mobile phone market is the fastest growing in the world and I think Vietnam's mobile penetration will reach close to 100% in the next 8-10 years, including rural areas. Vietnam, still has a long way to go in terms of telecommunications infrastructure to support any distributed healthcare. However we should not discount Vietnam's ability to adopt new technologies very fast and probably faster than most South-East Asian countries. This country could have a very strong healthcare informatics and information systems infrastructure within the next 10-12 years. However, this is not at the moment the priority of the Government, the hospitals and the foreign players in the market.

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APBN: What unique features make Vietnam, as compared to other countries like China, India, Singapore, Korea and Thailand, a more attractive investment for medical device manufacturers?

Damien Duhamel: I think Vietnam is a good location for such investment and here is the reason. Obviously when you look at investing or opening a medical device plant, you look at the cost of manufacturing and the quality of output. In medical devices, you cannot afford to have too many defects, so in terms of cost of labor and cost of manufacture, Vietnam is definitely a very attractive destination and at the moment in Asia Pacific is probably the most attractive destination in terms of cost of labor. It has a very industrious population keen to be trained in whatever skills are necessary. A lot of engineers are able to speak different languages which is not the case across most of Asia. You will also find the central Government and local Governments very keen and welcoming. So in terms of cost of labor and cost of manufacture, Vietnam is a very attractive destination. Vietnam's manufacturing cost is probably close to half of that of coastal China's. Rural China's manufacturing cost is probably around the same as Vietnam's, but Ho Chi Minh City's cost is roughly half of what is typical in the Pudong area. Vietnam thus makes a very attractive investment destination. Now if you manufacture very high-end medical devices such as MRI or X-Ray scanners where the technology is much more important than the assembly, Vietnam is just not there yet. You'll have a lot more chances to manufacture high quality goods and products in Singapore, Korea and to some extent China. So Vietnam cannot yet manufacture very high-end, sensitive and high-tech medical devices. If you go more lower end, where the technology aspect of your medical device is not a critical component, then again, Vietnam is a very attractive place for such manufacturing. We can see more and more mid-sized/mid-cap medical device firms entering the market and opening plants typically in and around Ho Chi Minh City. These are small plants that employ anything from 100-400 people. They are not massed-scale operations and at this stage I think most MNCs are testing the grounds for medical device manufacturing in Vietnam. I think down the road Vietnam will be a clear contender once the country has been able to fix its domain knowledge in technology and provide engineers and RnD that are able to support the manufacturing of high-tech medical devices.

***APBN: You have mentioned before that in Vietnam, "…* one needs to understand the details and be able to tap into native intelligence to maneuver towards successful deals." Can you give a specific example of how this can be done?**

Damien Duhamel: A lot of companies that come to Vietnam typically adopt the cut-and-paste approach whereby whatever has worked in Thailand, Romania or Mexico is deemed to be an emerging country approach, which in turn should work in Vietnam. Well if it is not obvious yet, let me highlight that Mexico is no Vietnam, Romania is no Vietnam and quite frankly even Thailand is no Vietnam. You need to understand the dynamics of the Vietnamese market in order to make successful inroads. Just like in China 2 years ago, when you entered the market you did not use cut and paste approaches that worked in Mexico and Brazil. You needed to have a China-specific market entry approach, a China-specific distribution channels approach, and a China-specific lobbying approach with the Government and healthcare authorities. It's the same thing in Vietnam. You cannot succeed by driving Vietnam from Singapore, Hong Kong or Thailand. Those who are successful in Vietnam, are *in* Vietnam, have invested in the country, have management and support staff in the country, and have shown dedication and investment in time, money, resources and pain. It is a painful market that requires a lot of diligence, relationship building (like in China), and a clear understanding of where is the market. It is not always just Ho Chi Minh City or Hanoi. There are pockets of wealth spread elsewhere. If I remember correctly, Vietnam is the number 2 exporter of rice and number 2 exporter of coffee in the world. You can find very wealthy pockets of the population near the coffee-growing highlands. This is an example of in-depth local knowledge, that can help you figure out your specific marketing approach. The cut-and-paste approach will simply not work.

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***APBN:* What advice do you have for foreign companies interested in investing in Vietnam's healthcare industry?**

Damien Duhamel: I think we need to put the Vietnam medical device market in perspective first. It is still a small market. However we estimate the market overall for medical devices in Vietnam to be worth US$280 million in 2009. This market will double in size by 2017 so it is an attractive market especially since you do have double digit growth at the moment. In 2008/2009, the market grew around 15% while in 2009/2010 it should be closer to 12% growth, and from 2011-2012 onwards it should be closer to 15-18%. To sum up, the market is small but fast-growing.

The Vietnam market is only for serious players regardless of which industry you are in. It is a country where it is painful to enter and build market share. It is a market where you will probably make losses for a a couple of years before you break even, standardize your business and start reaping the fruits of your investments, but you must have - again like in China - a long-term view. You cannot expect to come and go with a transactional approach - you will fail. If you want to be successful in Vietnam, you have to come with a long-term perspective. Short-term will mean short burn.

To successfully build a business here with a long-term perspective, you first need to recognize this is a market for the Vietnamese. You have to surround yourself with people who understand and know Vietnam in your senior management. You really need to have Vietnamese staff on your team. There is no point in having an army of expatriates. This is a market where Vietnamese make the decisions in terms of branding, what they buy, the budgets etc. You need to build relationships and surround yourself with smart, ambitious, aggressive and knowledgeable Vietnamese staff. It is typically very hard to keep good staff in Vietnam, so you need to adopt the same approach you have in Singapore, US, UK, France or worldwide for that matter. I am referring to incentive programs, comprehensive HR and insurance, and generous HR policies. If you do not have these, your staff will be discontent and choose to leave your company. Even worse, they may leave with your client list, and just when you are about to reap the fruits of your investment, you will be back to square one. You must realize you are not investing in a plant. You should be investing in the relationships built with distributors, buyers, staff in hospitals and at government level. It takes time, and the more you are able to keep your staff, the more successful you will be in Vietnam.

Talking about healthcare, consultants are like your travel insurance before you go into a foreign country. You cannot enter into a murky, difficult market without understanding the inside-out aspects of that market. You need to know where is the market, what are the segments, where are the segments, how much they can afford, what are the growth inhibitors of this market, what kind of sales to expect 5 years from now, who is the competition, how strong they are, what can be learned from them, who is making the market etc. If you want to be successful in Vietnam, before you even enter the market, you need to take the time, money, and effort to have a really clear understanding of the market. Vietnam is no China, despite there being some similarities between the two countries, and the country is certainly as unique as any other. It has been away from global trade for some time and the way its people do business is very different. A lot of firms make the mistake of going in without a thorough understanding of the Vietnam market. Then they start to figure out what to do, when the investment is already a sunken cost and it is too late to turn around.

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APBN: Give some specific examples of diagnostic equipments Vietnam needs urgently.

Damien Duhamel: Well the overall market in Vietnam needs a lot across the board. Let's just take the Ho Chi Minh City market which is the wealthiest and largest in Vietnam. If you are not successful here, you would probably fail across the rest of Vietnam. In the next 10 years, Ho Chi Minh City will spend about a billion dollars to develop and boost its municipal medical sector. It is a plan to upgrade 40 over public hospitals, 30 over private hospitals and build a lot more new clinics. This is a huge opportunity for medical device manufacturers. I think there would be a lot of demand for equipment used in medical imaging, intensive care, patient-monitoring, operating theaters, cardiac treatment, laboratory and diagnostics and consumables. As for Information Technology (IT) in healthcare systems, 10 years from now, the Vietnam market will start to emerge. It is still at a very early stage today so there is no huge demand for healthcare informatics.

APBN: Describe what usually deters companies from venturing into Vietnam. Tell us how Vietnam intends to make the process easier.

Damien Duhamel: Well one reason why large companies do not often enter Vietnam is the murkiness. It's very hard to understand what is going on in the market, estimate the market size, find out what are the available channels to customers, assess what the competition is up to and even what the Government is up to. It is by default an emerging market, so on one hand you have good growth potential but on the other, it is a very difficult market to comprehend. This can deter many companies from venturing into Vietnam. We should also not forget that despite being taboo, Vietnam still suffers from heavy corruption. Even in the domain of healthcare, public hospitals are not immune to the problem. In terms of procurement, in Vietnam hospitals, you can be rest assured that someone will ask for some "gratitude". Again, big MNCs are not very keen on explaining to share-holders they had to buy their way in order to gain market share. Some distributors can handle this side of the business, but overall, the procurement aspect of

Vietnam may deter many companies from venturing.

I don't think the country can do much to solve the problem. These are issues you must understand and address in your plan before you enter an emerging market. The problems of murkiness and corruption are present in any developing country you venture into. Another issue is payment for very high-end devices. Getting paid is always a headache in Vietnam. One way is through bilateral aid programs in which the money is already pre-secured through Official development assistance (ODA) from a government. You can try multi-lateral aid which basically involves the United Nations Development Programme (UNDP), Asian Development Bank(ADB), World Bank and International Finance Corporation (IFC). In Vietnam, this would be advantageous as you have the guarantee of being paid down the road. If you work through distributors, then they may not have the millions of dollars to put down to stock your equipment, so these would be direct sales that your staff would do with private hospitals and the Government. There are not many private hospitals in Vietnam so the list of customers can be run through very quickly. Working with the Government takes a lot of time. You cannot just expect to get on a plane and have a deal in Hanoi - that is simply not seen. You need to be in Vietnam, work your way through, invest your time and resources before you can have any successful deals with the public sector in the country.

All these difficulties have an upside. Once you have defined a good path to profits and gain in market share, your competition can only watch from the side-lines. Vietnam is a market where the competition is not on a level playing field. Once you have the upper-hand here, you typically hold it for a long time. I've seen firms in Vietnam healthcare, which have 60%-70% market share today because they came early, invested, and inspite of their losses for a few years, fine-tuned their approach. High-risk - high-returns, is the name of the game in Vietnam.

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APBN: Are there currently any restrictions on foreign talent being imported to make up for the dearth of healthcare professionals?

Damien Duhamel: There are no open restrictions, but again this is a market where the consumers are Vietnamese. The expatriates go to the 4 or 5 expatriate hospitals scattered around Ho Chi Minh City and Hanoi, and by default this is not a market where the consumers speak English or other foreign languages. You may bring in some foreign doctors to compensate for the lack of local ones, but again this is not the answer to addressing the issue of bringing the overall rate of 5 doctors per 10,000 people to maybe 10 doctors per 10,000 people. The answer is in Vietnam - not from India, Philippines or elsewhere in the region. Even though there are no restrictions, I do not foresee a flow of healthcare staff from foreign countries into Vietnam.

APBN: Does Vietnam have a fast-growing aging population comparable to other countries like Japan and Singapore?

Damien Duhamel: I do not think Vietnam is aging at the same pace as Singapore or Japan. It is still a very young nation. Vietnam adds 1.2 million people to its population every year. However, the country is evolving. It is becoming more wealthy and its healthcare system is helping to increase life-expectancy. At the same time, families are shrinking in terms of number of children. It was very common to see families with 10-12 children ten years ago. These days, it is more common to have 3-4 children in a family. The current birth-rate close to 1.9 children per woman, is below the 2.1 required for replacement of generations. At the moment, 10% of Vietnam's 86 million people are aged 60 years and above. By 2050, it is estimated that 26% of Vietnam's population would be aged 60 years and above. These factors obviously will have tremendous impact on the nation's healthcare requirements, the kinds of prevalent diseases in Vietnam, and pension schemes in the years to come.

***APBN:* Will foreign companies with experience venturing into China have a distinct advantage in Vietnam?**

Damien Duhamel: Yes, they would have an advantage but I am not sure it is a distinct advantage. You see, if a company thinks it has been successful in China and therefore by default it will be successful in Vietnam, that company will be in for a rude shock. However, it is true that if you have done a good job in China, and you are successful with your medical devices manufacturing and distribution, you would have learned a lot of best practices which can be implemented and fine-tuned in Vietnam. I would say that such a firm would have a substantial advantage over another firm based in Ohio or Illinois and never been to Asia.

Biography

Damien is the Managing Director of Solidiance, a marketing and innovation strategy consulting firm with focus on growth in Asia Pacific. The company works closely with Medtech clients to outpace the competition, close gaps in growth and capitalize on market opportunities. With offices in Singapore, India, Thailand and China, Solidiance's Asia focus provides clients with a better understanding of intrinsic Asia issues.

Prior to Solidiance, Damien started out his career by setting up a boutique business-consulting firm in Vietnam helping foreign companies to enter the country. The company was sold early 2000. With an accumulation of experience in B2B marketing and competitive strategy, Damien joined the Asia marketing consulting arm of London-listed Aegis Plc. He led the largest office in Singapore and became Managing Director Asia Pacific in 2004. Damien is credited for quadrupling revenues and profits in three years as well as expanding geographic imprint from 5 offices to 15 across Asia Pacific and the United States.

Damien has worked on hundreds of engagements with Fortune 500 clients, including some of the largest Medtech companies. He is a recognized Innovation and Competitive Strategy expert and has been interviewed widely on the subject. In 2006, Damien was listed in the International Who's Who. His articles on Vietnam strategy are regularly published in leading publications.

Damien studied at the Hanoi University in 1990, holds a business bachelor degree from the Victoria University and a MBA from the University of Chicago Booth School of Business. He speaks English, French, Vietnamese and "survival Japanese". ■