



**DI**

# **DI-GEST ASIA MARKET REPORT**

**VIETNAM'S PHARMACEUTICAL SECTOR**

MAY 2021

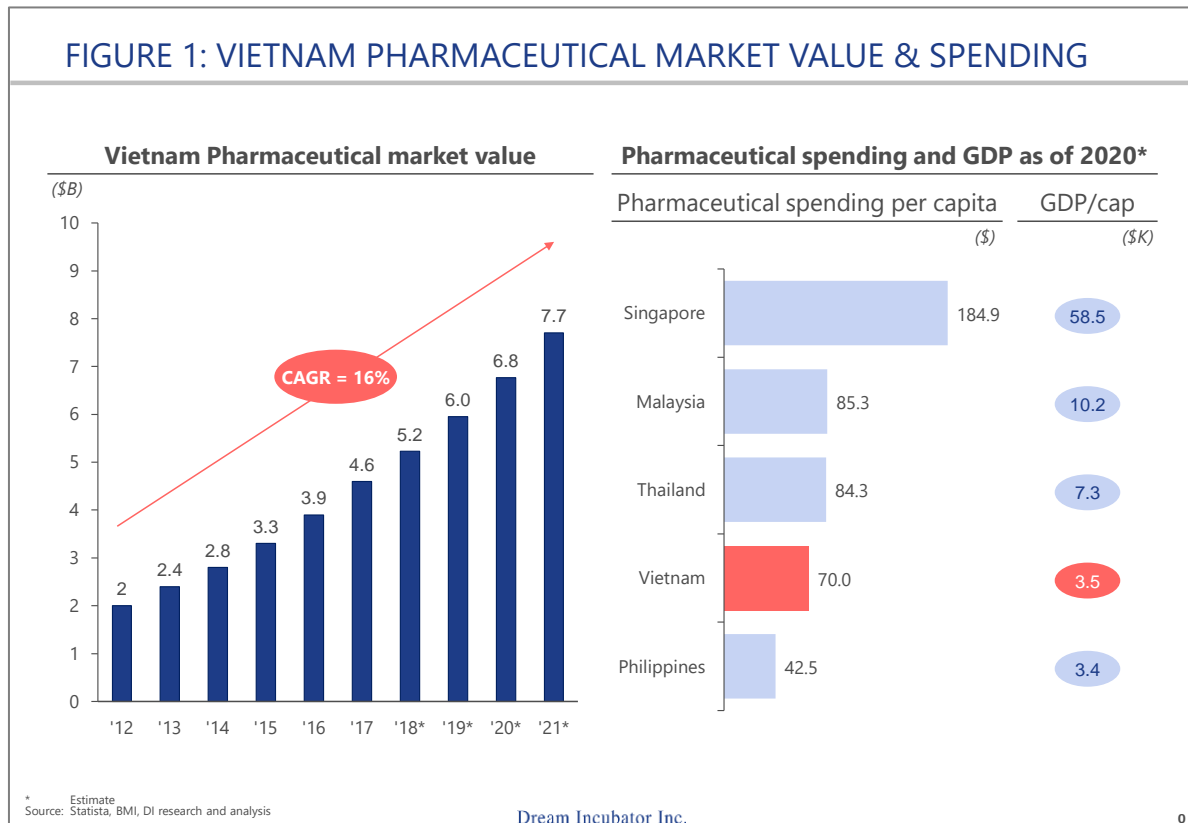
## **Disclaimer**

*The materials contained in this report serve only as the focus for discussion of any person or entity ("the Reader"); they are incomplete without the accompanying oral commentary and may not be relied on as a stand-alone document. Further, the Reader may not, and it is unreasonable for the Reader to, rely on these materials for any purpose whatsoever. To the fullest extent permitted by law (and except to the extent otherwise agreed in a signed writing by DI), DI shall have no liability whatsoever to the Reader, and the Reader hereby waives any rights and claims it may have at any time against DI with regard to this report, or other materials, including the accuracy or completeness thereof. Receipt and review of this document shall be deemed agreement with and consideration for the foregoing.*

*In furnishing this report, DI reserves the right to amend or replace the report at any time and undertakes no obligation to provide the Reader with access to any additional information. Nothing contained within this report is or should be relied upon as a promise or representation as to the future. The Reader should conduct his/her own investigation and analysis of the business, data and property described herein.*

## Vietnam's Pharmaceutical industry – A sector of high potential

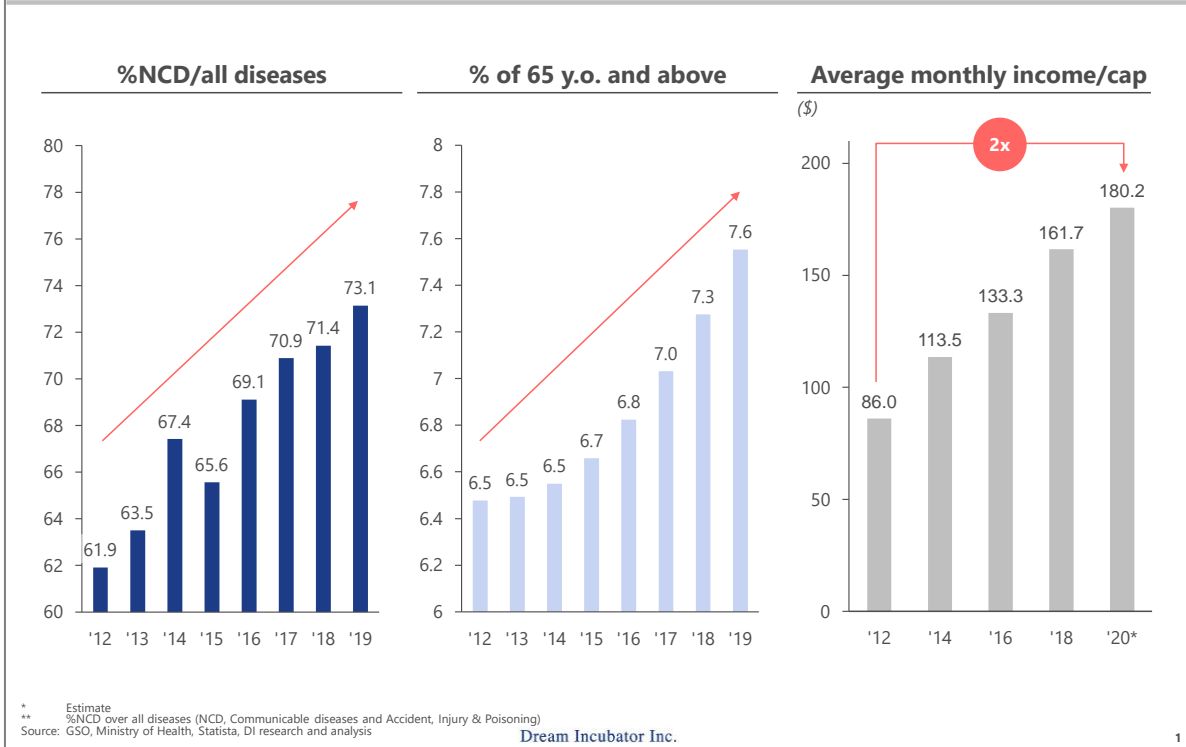
Vietnam Pharmaceutical market is estimated at 7.7 Billion USD this year with a 16% CAGR (2012 – 2021), more than double that of the nation's GDP (7%). Compared to neighboring economies, the low average of pharmaceutical spending per capita is suggesting more room for future growth. The market value is projected to reach 16.1 Billion USD in 2026<sup>1</sup>.



The increase in Non-communicable diseases ("NCD"), aging population and income are believed to be the major market drivers. According to Vietnam's Ministry of Health, the number of NCD cases recorded in Vietnam is surging. Cardiovascular and Cancer are reported to be the most common death factors. Besides, aging population (above 65-year-old people) is also rising quickly in recent years, triggering higher demand for eldercare. At the same time, average income also doubled between 2012 and 2020. Higher income is expected to boost Vietnamese consumers' awareness towards new demands for high quality healthcare and preventive healthcare including spending on wellness products such as vitamins and nutrition.

<sup>1</sup> IBM, 2019

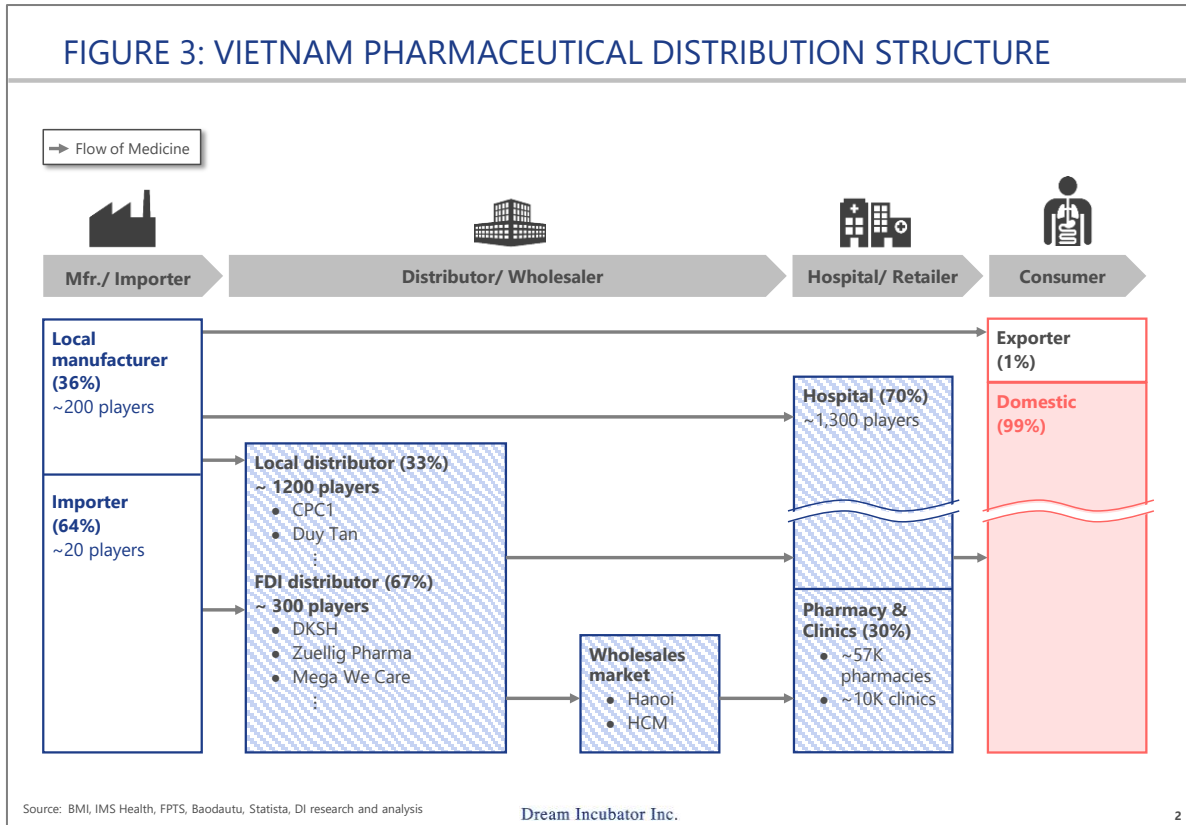
FIGURE 2: %NCD, > 65-YEAR-OLD POPULATION & INCOME



## Market fragmentation affects medicine price and quality

Similar to other emerging countries, Vietnam’s pharmaceutical market is facing fragmentation in the distribution chain. Our research shows that before consumption, there are at least 3 distribution layers with multiple players, which **prevent medicines from being properly controlled in both terms of price and quality.**

FIGURE 3: VIETNAM PHARMACEUTICAL DISTRIBUTION STRUCTURE



### High medicine price

A direct consequence of the fragmented distribution chain for Vietnamese consumers is high medicine price. There is a huge difference comparing local consumers' price versus international reference price of originator brands. In some cases, it can get up to 47 times higher<sup>2</sup>.

### The first factor is high import costs

Local manufacturers' lack of production capacity and capability results in a modest demand coverage of 36%, of which most medicines are generic. Consequently, more than half of the market value is from imported products, especially branded drugs. It is estimated that about 20% of retail price is from the costs of importation.

<sup>2</sup> Nguyen et al., 2009. "[Medicine prices, availability, and affordability in Vietnam](#)"

## **The second is high distribution costs (for sales representatives & logistics)**

It is estimated that Vietnam has roughly 10,000 clinics and 57,000 pharmacies, of which 98.5% are independent and small. Therefore, distributors-retailers is not as simple as a one-to-one relationship but in fact, a many-to-many. This multiplies the cost paid while they work together. Take **fee for sales representatives**<sup>3</sup> as an example. Given the large number of retailers scattered around the country, distributors and manufacturers must have a proportionate number of sales representatives to cover them all. Thus, this multiplies the cost spent on sales activities per revenue generated. It is estimated that the number of sales representatives required to generate 10 million USD is 55 in Vietnam, while the US needs only 3.

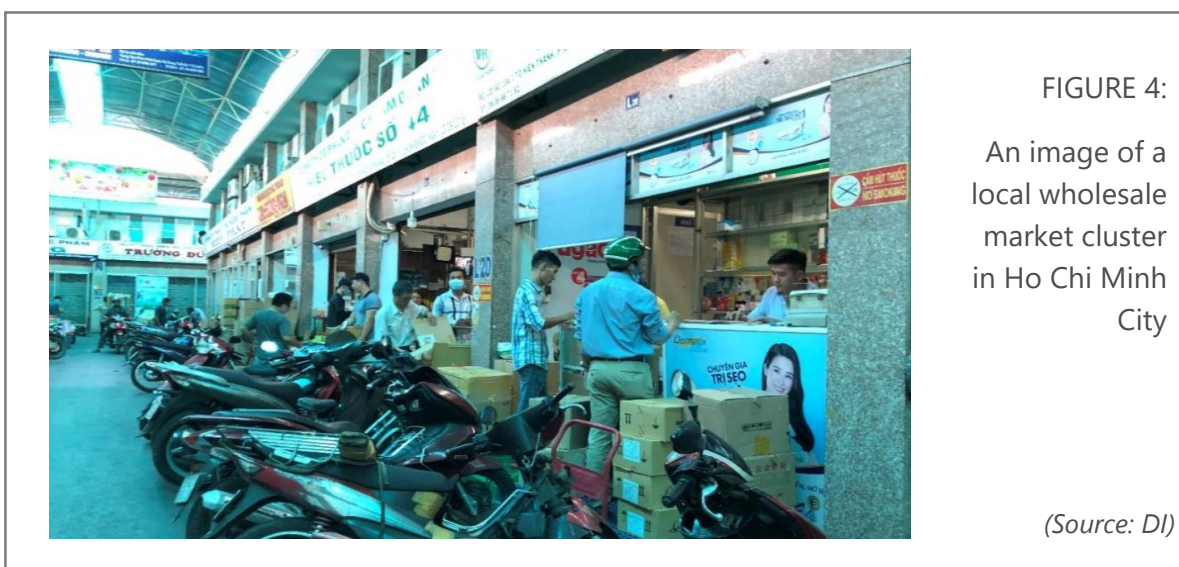
Such spider-web distribution network also makes **logistics costly**. In Vietnam, there are roughly 1,500 distributors, but none is having a sufficient medicine portfolio for any pharmacy. As an image for comparison, in the USA, 3 major distributors are accounting for roughly 90% of the market supply. On average, one pharmacy in Vietnam works with at least 5 suppliers to secure enough items for its retail purpose. That makes delivery costly. The cost is even higher for small and rural pharmacies because their orders are in small-quantity and distances are longer. Even if extra shipping cost can be compromised, not all distributors agree to ship to them, especially big brands, whose minimum order quantity is often too high. *"Most small pharmacies do not even have Pfizer medicines"*, said a founder of a B2B distribution startup in an interview with DI about same topic. With no other options, pharmacies and clinics must resort to wholesale market clusters to centralize buying orders and have access to big-brand products. This begets another pain of medicine quality for consumers.

---

<sup>3</sup> Sales representative is the most popular communication channel between distributors and retailers in Vietnam. They oversee product marketing and sell-out data collection from retailers to distributors and/or manufacturers.

## Uncontrolled medicine quality

Medicines sourced from wholesale markets often have unknown origins and contain the risk of being counterfeit. According to a pharmacist working in Ho Chi Minh City's wholesale market, no pharmacist at this market knows exactly from where the store owners source medicines. "*Sourcing always happens in private*"<sup>4</sup>. As reported by local news, from 2014 to 2018, more than 80 counterfeit medicine cases were discovered during market inspection in Vietnam<sup>5</sup>. The quality control problem could be more severe due to the lack of inspection staff, as recorded by Vietnam's Government Inspectorate.



## New business development has already been in progress

Leading players have been very active in addressing the above issues to unlock the full potential of the sector. As for pharmaceutical companies, the key focus is product R&D via new establishments of manufacturing factories and supply chain management. This promises to increase domestic supply capacity and reduce price. As for retailers, chains have emerged and are being standardized to meet the government's GPP<sup>6</sup> requirements. This guarantees consumers with quality-assured medicines. Given those dynamics in the sector, robust investment activities in recent years were recorded.

<sup>4</sup> Chat luong va Cuoc song, 2018

<sup>5</sup> Vietnamnet, 2019

<sup>6</sup> Good Pharmacy Practices

FIGURE 5: SOME NOTABLE PHARMACEUTICAL INVESTMENTS

	Name	Est.	Total accumulative inv. amount (\$M) <sup>1)</sup>	Period	Major investor	Deal type
Pharmaceutical companies	Pymepharco	1989	~90	2018 - 2021	Stada Service Holding	Acquisition <sup>3)</sup>
	TV.Pharm	1992	~10	2018 - 2020	Aikya Pharmaceutical	Acquisition
	DHG Pharma	1974	~180	2016 - 2019	Taisho Pharmaceutical	Acquisition
	Domesco	1989	~100	2017	Abbott Laboratories	Acquisition
	:					
Retail chain	Pharmacy	2011	~38 <sup>2)</sup>	2019 - 2020	Mekong Capital, etc.	Minority stake <sup>4)</sup>
	Long chau	2007	<i>Not disclosed</i>	2017	FPT Digital Retail	Acquisition
	An Khang	2017	~3	2017	Mobile World Group	Acquisition
	Phano	2007	~6	2013	DI Asian Industrial Fund	Minority stake
	:					
B2B Online Marketplace	PoC	2019	~4.5	2021	Febe Ventures, 500 Startups, etc.	Minority stake
	Thuocsi	2018	~3	2019 - 2020	Sequoia Capital India, Genesis Ventures, Cocoon Capital, etc.	Minority stake
	Medlink	2019	~0.7	2019	Accelerating Asia	Minority stake
	:					

1) Total disclosed investment amount  
2) Including ~\$6.5M Conventional debt (2019) and ~\$31.6M Series C Funding (2020)  
3) Acquisition = Total stake held by 1 investor is greater than 50%  
4) Minority stake = Total stake held by separate investors is lower than 50%  
Source: Speeda, Tracxn, DI research and analysis

Dream Incubator Inc. 3

Apart from the movements of traditional players, the rise of health tech startups is also worth noticing. These players are expected to solve market issues and disrupt the current situation in the distribution chain with new business models and service offerings. The new digital solution trend is also attracting much attention from Venture capitalists.

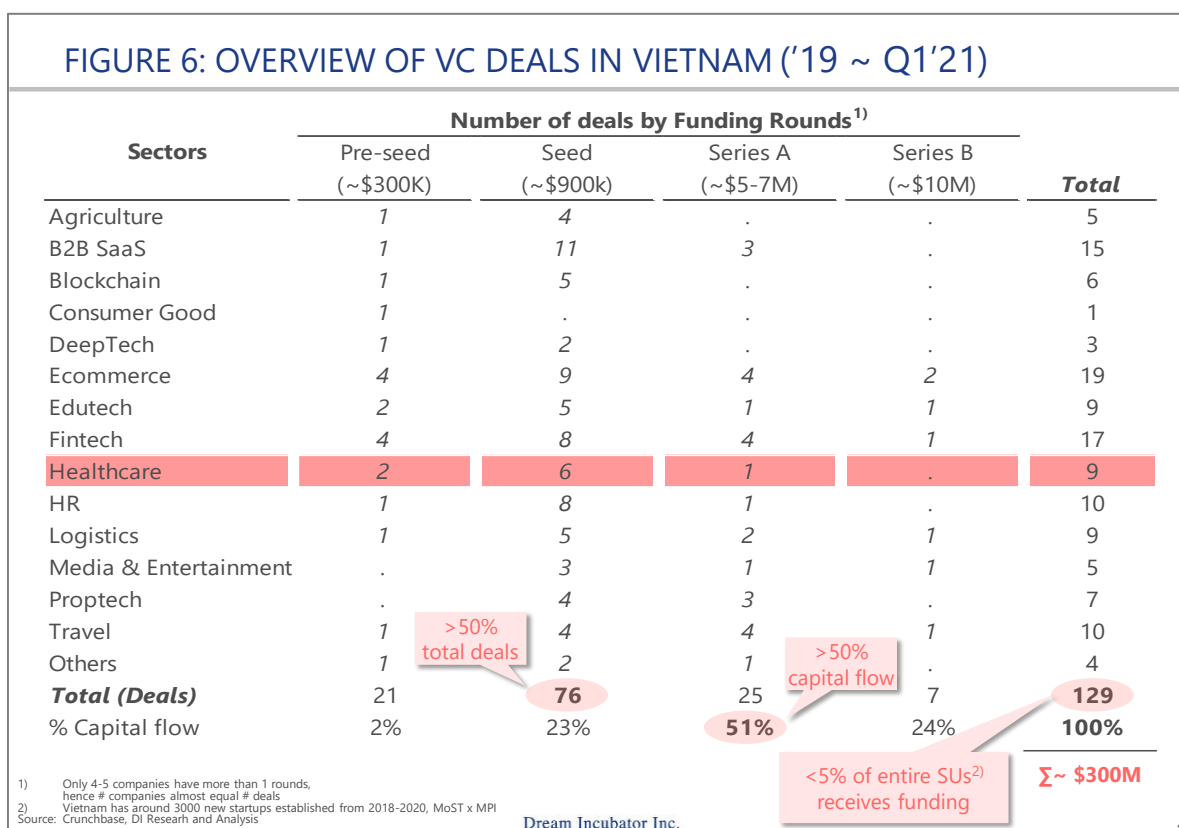
One example is a digital distribution business aiming at building an effective distribution channel for retailers. On a single digital platform, Thuocsi.vn connects medicine suppliers (Manufacturers and distributors) directly with retailers (Pharmacies and clinics) thus eliminating the hassles from multi-layered supply operations. The delivery service that comes along with the platform is highly appreciated by retailers, especially rural ones. By aggregating small-quantity orders, it reduces shipment fee. Small pharmacies and clinics can now purchase without the pressure of meeting the minimum order quantity from big brands by mixing different SKUs from different suppliers.

Some other startups solve the problems not only in distribution but also in providing medicine information, promotions, and business data collection, all of which are traditionally overseen by sales representatives. POC Pharma is an example for this. This Vietnam and Hong Kong-based startup offers pharmacies in Vietnam a SaaS solution



to digitize and automate pharmacy business management. It helps pharmacies better manage their businesses with real-time inventory report and reduce manual labor on stocks and sales management. This SaaS is also an effective communication channel between suppliers and pharmacies. On this platform, product information and promotions can now be sent straight to pharmacies and sell-out data can be collected directly without going through sales representatives.

Under the current circumstances, it is promising that health tech start-ups (including pharmaceutical businesses and other healthcare branches) are expected to grow in both quantity and quality.



## Authors

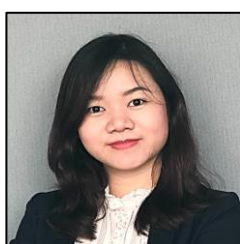


### **Nguyen D. D. Tuan-Anh (Andy) | General Director**

Andy leads the office of DI Vietnam and oversees the consulting practice across the SEA region (Vietnam, Thailand, and Indonesia). His practice is mainly new business strategy in several sectors including infrastructure & logistics, real estates, healthcare, and digital business.

Andy holds a BA in economics (NEU, Hanoi), an LL. B (Ho Chi Minh University School of Law) and an LL.M (IUC Law school of Turin, Italy). He is also an associate member of CPA Australia.

Reach Andy at [nguyen.tuananh@dreamincubator.com.vn](mailto:nguyen.tuananh@dreamincubator.com.vn)



### **Hoang Thi Tram Anh | Manager**

Tram Anh is a manager at DI Vietnam Office. Her practice is focused on market research & strategy formulation for clients in the FMCG & retail sector specializing in business analysis (business models, processes, system, and productivity) and new business model platform ideation and concretization.

Tram Anh graduated from Foreign Trade University with a BA Degree in International Finance.

Reach Tram Anh at [hoang.anh@dreamincubator.com.vn](mailto:hoang.anh@dreamincubator.com.vn)



### **Dang Mai Linh | Associate**

Mai Linh is a consultant at DI Vietnam Office. She is currently in charge of Pharmaceutical sector as part of her consulting practice, including market research, business model analysis & strategy recommendation. Prior to DI, Mai Linh was from the banking industry (Standard Chartered Bank).

Mai Linh holds an MSc. in Banking and Finance from the University of Nottingham and a BA in Economics and International Business from FTU Hanoi.

Reach Mai Linh at [dang.linh@dreamincubator.com.vn](mailto:dang.linh@dreamincubator.com.vn)

---

## About DI

More than a traditional consulting firm, Dream Incubator (DI) is a “business producing company”. DI’s services, which originally focused on strategy consulting and venture incubation, have currently evolved into “business producing”, which provides a wide range of support for client companies to create the business. DI is also committed to exploring new business fields with the management of group companies and investment and incubation of innovative venture firms.

More about our latest insights, please visit : <https://www.dreamincubator.co.jp/>