

# Independent Medical Laboratories in China

## A Sunrise Industry under the Circumstances of Healthcare Reformation

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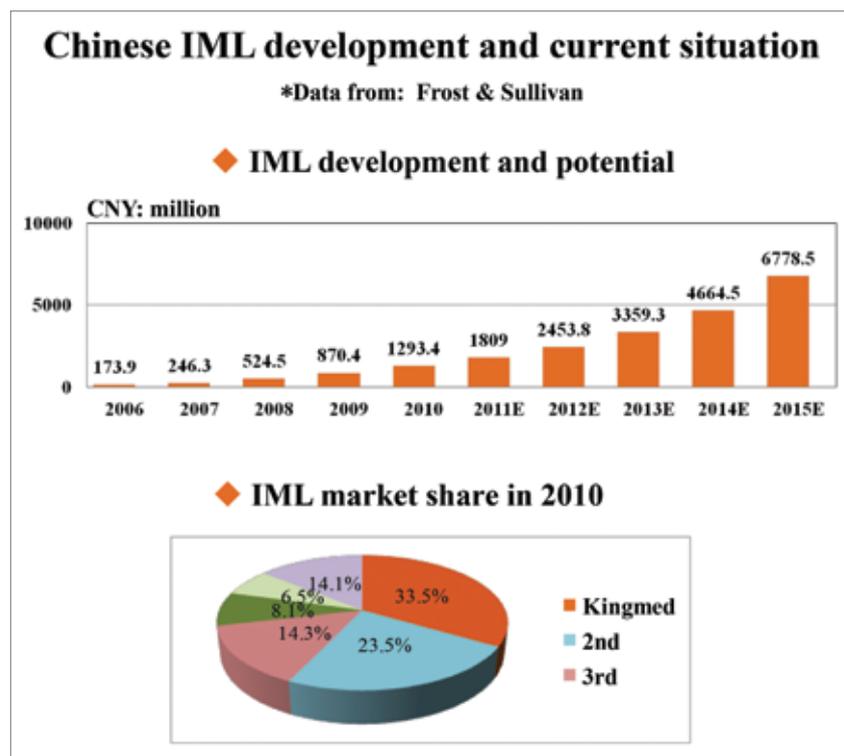
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**W**ith the rapid development of clinical medicine, the demand on laboratory testing has increased, new technologies and equipments supplied to generate a large number of new tests to meet the clinical demands. However, it is getting difficult to establish laboratories able to perform all the tests individually because of the technological, financial, and personnel limitations, which is the case even for some large-scale hospitals. It is easy to understand that the high-tech and throughput might also mean high cost and operation/management skills thus making it difficult or uneconomical for a single hospital to conduct all the tests needed. The allure of third-party medical laboratory appears and operates with the characteristics of resource sharing and intensive managing.

The third-party medical laboratory is a medical institution licensed by a government agency responsible for healthcare affairs, as an independent legal personality, and specializes in medical laboratory testing services. The third-party medical laboratory tests samples from patients from different hospitals and delivers the results to clients by establishing a cooperative relationship with the hospitals. The third-party medical laboratory is independent of hospitals and undertakes the legal responsibility independently, therefore it is also referred to as an Independent Medical Laboratory (IML) in China.

**KingMed Diagnostics is ranked among the Top 10 Enterprises with the Greatest Investment Value in the Chinese Healthcare Industry in 2009 and the 100 Enterprises with the Greatest Potential at the 2010 CV Awards.**





## Development status of IMLs in China

In China, IMLs appeared during the 1990s and has seen rapid development in the past five years. According to data from Frost and Sullivan (refer to diagram above), the total gross income was 1.3 billion RMB in 2010 and is estimated to reach up to 6.8 billion RMB in 2015. At present, there are more than 30 accredited IMLs with local IMLs dominant in China. According to statistical data, the income of the top five IMLs accounted for 85.8% of that of all IMLs. As the earliest and largest IML, KingMed has the most extensive network coverage and has contributed 33.5% of the total income of all IMLs in 2010.

The other well-developed local IMLs are Daan, Adicon, and Dian which together hold 46% of market share. The whole industry's income is estimated to achieve over 10 billion RMB by 2015 according to development trends of IMLs.

## Great potential for IMLs in the ongoing healthcare reformation

It has been estimated by Frost and Sullivan that the total healthcare costs will rise to 5370.8 billion RMB and lab-testing cost will reach 751.9 billion RMB by 2015. Currently, the ratio of lab-tests conducted by hospital laboratories and IMLs is 99.3% is to 0.7% in China, however in the United States, it is 62.0% against 38.0%. The ratio difference indicates the great potential for a significant growth in the Chinese IML industry.

Healthcare reformation in China covering the establishment of the basic healthcare system covering both urban and rural residents, the equalization of basic public health services, the repositioning of public hospitals, the introduction of market mechanisms, and the diversification of medical institutions, each of which has the potential to create more space for the progress of the IML field in China.

## The main driving factors for IML development

### 1. Substantial Change of the Disease Patterns Due to an Aging Population

Growth and aging of the Chinese population have increased demand on medical services. According to the National Bureau of Statistics, the Chinese population at age of 65 and older will increase to 139 million by 2015. The economic development, countryside urbanization and lifestyle changes are leading to the changes for disease patterns. The morbidity of chronic diseases is estimated reach to 20%, which represents about 270 million patients in total and 17 million new cases each year; the diseases include cancer, metabolic and cardiovascular diseases - most of which require new and high-costing lab-tests and lifelong treatment along with consistent lab-tested monitoring.

### 2. The Constant Improvement of Basic Medical Insurance System in the Future

The improvement of the health insurance system includes an increase of insurance coverage and reimbursement. According to statistics provided by the Chinese Ministry of Health, 835 million people have benefited from the rural insurance system, accounting for 95% of the total rural population in 2010. The rate of reimbursement for urban residents has increased by 30% in 2006 to 50% or higher in 2010.

### 3. The Significance of Lab-tests in Clinical Practice has Increased

It is estimated that lab-tests has contributed to 70% predictive value in clinical decision-making. Molecular diagnostics and more advanced technologies has elevated the sensitivity and specificity of laboratory tests

to achieve early diagnosis therefore the important role of lab-tests has been broadly recognized.

#### 4. Healthcare Reformation Encourages Market Mechanism and Medical Service Diversification

Market-oriented institutes are not in conflict with non-profit public hospitals. Introduction of competition mechanism will promote the diversification of healthcare system in China. The overall environment shall benefit the growth of IMLs rapidly.

#### 5. The Unique Advantages of IMLs Over Hospital Medical Laboratories

(1) A wide range of network coverage: It is different from a hospital laboratory in the sense that IMLs is part of a chain operation

and is engaged with each of the three grades of medical institutions that caters for different clients and various regions.

(2) A great number of testing items: To meet clinical demands, IMLs have to develop more testing items so as to provide more tests than hospital laboratories do.

(3) Cost-effective management: In general, the scale of an IML is much larger than that of hospital laboratory; the scale effect of an IML could accomplish a great number of tests with low cost due to optimum utilization of equipments, labors, reagents, and facilities.

(4) Provide high quality testing service and identical results for different clients: In order to convince potential clients, IMLs are more pro-active in achieving clinical laboratory accreditation. For instance, KingMed is the first IML accredited by both CAP and ISO15189 in the field, which ensures high detection quality; since one IML often offers services for many client institutes, the results are easily recognized in the circle.

(5) Advanced diagnostic technology: IMLs are more advanced in introducing and applying new technologies and equipments than hospital laboratories due to the intensive management of IMLs.

(6) The advantage of human resources: IMLs have the advantage of using human resource sufficiently, including high level personnel, depending upon the operation and management.

Based on the factors described above, we believe that the IMLs and the third-party service of lab-testing have been gradually accepted by the field of medical service and the overall environment is in favour of IML development. By taking advantage of government policy and healthcare reformation, Chinese IMLs might join in a wave of rapid growth to become more characteristic and effective so as to play a constructive role in the health care and the medical service system in China.

### About the Author



Mr. Liang Yaoming is the Board Chairman and General Manager of KingMed Diagnostics Group. He founded Guangzhou KingMed Medical Diagnostics Center in 1994, the first independent medical laboratory in China. Mr. Liang entered the Clinical Department of the Guangzhou Medical University in 1983 and graduated there with a Bachelor of Medicine. He also holds an EMBA degree from the National University of Singapore. He was sent by the Organization Department of the Guangzhou Municipal Committee to the Renmin University of China and the University of Oxford to study the "Public Administration Program for Senior Civil Servants (core MPA courses)". Prior to KingMed Diagnostics, he worked at Guangzhou Medical University where he held such posts as Director of the Academic Affairs Office, Director of Scientific Research Office and Director of Scientific Development Center, and he also held posts like Director of the General Services Department and Director of the University Properties Office concurrently.

He is a representative of the 10th Congress of the Guangzhou Municipality of the Communist Party of China, Vice President of the Guangzhou Branch of the China Chamber of International Commerce, President of the Biological Medicine Industry Association under the Guangzhou Branch of the China Chamber of International Commerce, Chairman of the Guangzhou Alliance of Bio-box Outsourcing, a member of the Guangdong Health Economics Association, a member of the Health Promotion Committee under the Guangdong Medical Doctor Association, a member of the 13th Executive Committee of the Guangzhou Federation of Industry and Commerce, and a member of the 8th Council of the Guangdong Quality Association. Mr. Liang was ranked among the Top 10 Persons of 2009 in the Healthcare Industry in Southern China and was granted with the title of Top 10 Outstanding Quality Managers in Guangdong Province in 2010.