

Healthcare in Cape Town **Growth Prospects for Dealers and Distributors**

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Exploring the Healthcare Trade Market in Cape Town

Cape Town has a population of nearly 5 million and GDP of 489 billion South African rand (USD 26 billion). The town's prominence in the healthcare trade market extends beyond its bustling port. It houses some of the best medical infrastructure with a sophisticated health system comprising of public facilities, private clinics, hospitals and medical schemes. The city also boasts of one of the highest densities of medical equipment and healthcare firms in the country.

The city hosts one of the three premier International Centres for Genetic Engineering and Biotechnology (ICGEB), positioning it as a hub for innovation / research. The institute is renowned for its research in life sciences, biotechnology, infectious diseases and non-communicable diseases.

Some prominent institutions like the University of Cape Town (UCT), house specialised research units such as the Holistic Drug Discovery and Development Centre (H3D), Africa's first integrated drug discovery and development facility. The collaborative ecosystem, exemplified by the Western Cape Medical Devices Cluster (WCMD), makes Cape Town an attractive platform for businesses entering the African healthcare market.

The thriving research landscape, particularly at UCT, generates substantial demand for high-quality consumables, providing an untapped opportunity for distributors and dealers. Cape Town's healthcare market is poised for remarkable growth, with a projected compound annual growth rate (CAGR) of 7-9% until 2030.

The healthcare industry in Cape Town, while being better off in terms of the number of facilities and quality of care, resembles the larger South African medical market in a nutshell.

Market Dynamics

Regulatory Oversight: The South African Health Products Regulatory Authority (SAHPRA) manages the registrations and supervisory landscape for all medical as well as healthcare products in the city. SAHPRA primarily deals with licensing of locally manufactured, distributed, imported and exported products. An application for registration may be initiated only by authorised representatives who are residing in the country. Regulatory bodies such as the Supply Side Regulator for Healthcare (SSRH) and Provincial Departments of Health (PDoHs) also supervise national policy and implementation of

healthcare-related mandates in Cape Town, especially in the context of UHC.

Competition: The private healthcare system faces challenges such as rising costs, while the public system is resource-restrained and lacks quality healthcare. The main issue is the lack of financial plus human resources, leading to long wait times and poor service.

Cape Town's healthcare industry is dominated by a limited number of players. More than 75% of the region's market is shared among three

distributors – DSV, Imperial Logistics and United Pharmaceutical Distributors (UPD). It's a similar story when it comes to wholesalers with the top three, UPD, Dis-Chem Pharmacies and Alpha Pharm Group, taking up 66% of market share.

Digital Transformation: The Western Cape provincial government has made strides in developing a digital health information ecosystem, integrating existing data systems and introducing new ones. Challenges include the need for stronger national leadership, a

clear understanding of the task scope and easing of the tender system. Further progress in building national electronic health records and a robust digital health ecosystem is hindered by budgetary cuts, emphasising the importance of a systematic investment plan in infrastructure.

Strategies for Dealers and Distributors

Cape Town hosts numerous players in the small dealers and distributors sector, with overall 600 suppliers in the country. The profile varies from Johannesburg Stock Exchange listed firms to smaller traders. The diversity contributes to market fluctuations plus price changes, creating intermittent instability. Dealers / distributors includesuppliers to large multinational companies, major equipment manufacturers, and healthcare facilities in both the public / private sectors.

Critical Link: Partnerships between local firms and U.S.-based multinational companies, including Johnson & Johnson, GSK, Pfizer, Sanofi, and AbbVie, dominate South Africa's pharmaceutical market. Aspen plays a pivotal role in the biotech and innovator drugs segment. The World Health Organisation (WHO) has established an mRNA vaccine manufacturing center in Cape Town to address potential disease outbreaks. The city, housing the NantSA vaccine manufacturing campus, anticipates modest growth in the innovator drugs sector. Nearly 270 active oncology trials are currently being conducted in South Africa with 77%

trialed in partnership, primarily with the U.S. Generic and prescription drugs are poised for significant growth, driven by public sector demand. Government policies supporting local production are anticipated to further fuel this growth. Western Cape Premier Alan Winde highlighted Cape Town's evolving health technology sector, foreseeing growth with improved vaccine access and job creation.

Diverse Landscape: The city's healthcare relies on public funding, private options, and out-of-pocket payments. Limited income hinders private healthcare access, burdening public facilities. Healthcare professionals in government facilities serve significantly more patients than private clinics, contributing to a brain-drain phenomenon

Thecityhouses130primaryhealthcarefacilities, including 63 regular clinics, 12 satellite clinics, 14 Community Day Centres, and 4 Mobile Clinics. The centres serve as crucial referral points to secondary district hospitals, regional hospitals, and central tertiary hospitals. Primary centers act as the first line of defense catering to over four-fifths of the city's population.

Value Proposition: The Cape Town healthcare industry offers numerous opportunities for dealers and distributors, given South Africa's attractiveness in Sub-Saharan Africa. Distribution for medicines is dominated by a few key players, making it challenging for new entrants without local partners, particularly in high-demand



regions or product segments like type 2 diabetes drugs. Collaboration is recommended while exploring opportunities in fringe market regions and low or mid-demand product segments.

Challenges

BudgetaryCuts:TheWesternCapegovernment's provincial budget for healthcare reduced to 60.1 billion South African rand (USD 3.1 billion) in the fiscal year 2023-2024 from 64.5 billion South African rand (USD 3.3 billion). The Department of Health and Wellness receives 37% of the total Western Cape provincial budget.

The budgetary cut has led to a hiring freeze on new doctors and affected the delivery of healthcare services in Cape Town. Over the past year, National and Provincial Treasury budget cuts have caused significant austerity in health services nationwide, with both initial plus unplanned mid-year reductions due to underfunded public sector wage rises.

Dr. Joe Phaahla, Minister of Health, emphasised the need for innovative funding mechanisms in the short, medium, and long term to ensure sustainability. He highlighted the importance of

“appropriate trade incentives” to create a more secure demand, enabling the healthcare industry to expand beyond the country's borders.

Weak Regulatory Enforcement: The South African Health Products Regulatory Authority faces significant capacity constraints, posing challenges in implementing new regulations. It necessitates coordination between businesses and governments to establish a viable regulatory framework. Poor enforcement of public sector laws and regulations have also lead to corruption.

Experiencing Stock-outs: The Western Cape, including Cape Town, faces critical stock-outs of life-saving medicines for infectious plus non-communicable diseases. These stock-outs result from central inefficiencies like delayed tender awards, lack of contracts for specific medicines on provincial code lists, and suppliers’ failure to meet contractual agreements. The impact extends to health facility operations, notably the Chronic Dispensing Unit (CDU), responsible for prepacking medicines for over 300,000 public sector patients and community-based medicine distribution systems.

Limited Medical Device Manufacturing: The province’s medical device production capacity is low, relying heavily on imports. The funds available for medical device manufacturing firms are scarce due to the capital-intensive nature of the industry, which necessitates expensive machinery.

Opportunities

Cost Drivers to Ensure Cost Competitiveness: The private healthcare system grapples with rising costs and resulting medical inequality. Government management, industry regulations, plus market share play pivotal roles. Public-private partnerships can tackle infrastructural / clinical deficiencies in diagnosis, care, and treatment.

Private hospitals, while having a mature chain operation model, require enhanced management for precise accounting and improved cost control. Centralised procurement along with online process management can reduce costs. Varied tax treatment for similar services under the current tax policy has led to an increase in costs.

Develop Value chain and Skills: Strengthening staff capacity in procurement presents a strategic advantage for the Western Cape, offering the potential to enhance efficiency, improve processes, plus elevate the overall quality of public procurement. Implementing specialised training, establishing dedicated competence centers, and fine-tuning of the procurement workforce can position the region as a hub for skilled and adept procurement professionals. This initiative aligns with global best practices to provide a unique opportunity to attract / retain top talent in the field, contributing to the overall growth and success of procurement activities in the Western Cape.

Implement Monitoring System: The establishment of a National Health Insurance fund in South Africa presents a potential shift towards leveraging Electronic Health Records (EHRs) to monitor outcomes and inform procurement decisions.

Develop Enabling Policy: The establishment of the Supply Side Regulator for Healthcare (SSRH) presents a significant opportunity to enhance oversight in the healthcare market. By regulating service providers, conducting economic assessments, monitoring services, and setting pricing, the SSRH can foster market efficiency, healthy competition, and enhanced consumer protection.

Recommendations and Future Outlook

In 2024, South Africa’s healthcare sector is poised for significant transformation, focused on enhancing access and health outcomes. Emerging trends such as virtual healthcare, proactive and preventative care, along with increased mental health awareness gained traction in 2023.

Despite these positive shifts, concerns arise with the introduction of the NHI, emphasising the need to address potential healthcare fraud and safeguard the vulnerable sector from misuse. The ongoing integration of AI, particularly generative AI, is set to streamline



administrative processes and facilitate information access through electronic health records. Virtual healthcare's continued growth promises increased accessibility through mobile devices and telemedicine with entities like Momentum Health Solutions utilising AI to enhance efficiency and patient care.

Holistic Healthcare Ecosystem: The Biovac Institute in the Cape Town city has played a pioneering role in vaccine production on the continent. The pharmaceutical company is expected to play a vital role in any pandemic preparedness measure in Africa. The city's strategic location has enabled it to receive foreign direct investment totaling more than USD 600 million for 20 projects related to medical devices and pharmaceuticals .

The South African Medical Research Council's regional office and the Centre for Proteomic and Genomic Research too are part of the city's healthcare landscape making it a prime destination for research grants. The country spends 20 billion South African rand (USD 1.05 billion) per year on research / development. The Western Cape Province is allocated 3 billion South African rand (USD 158 million) on account of its research capability. The largest recipient of the amount is the health technology segment.

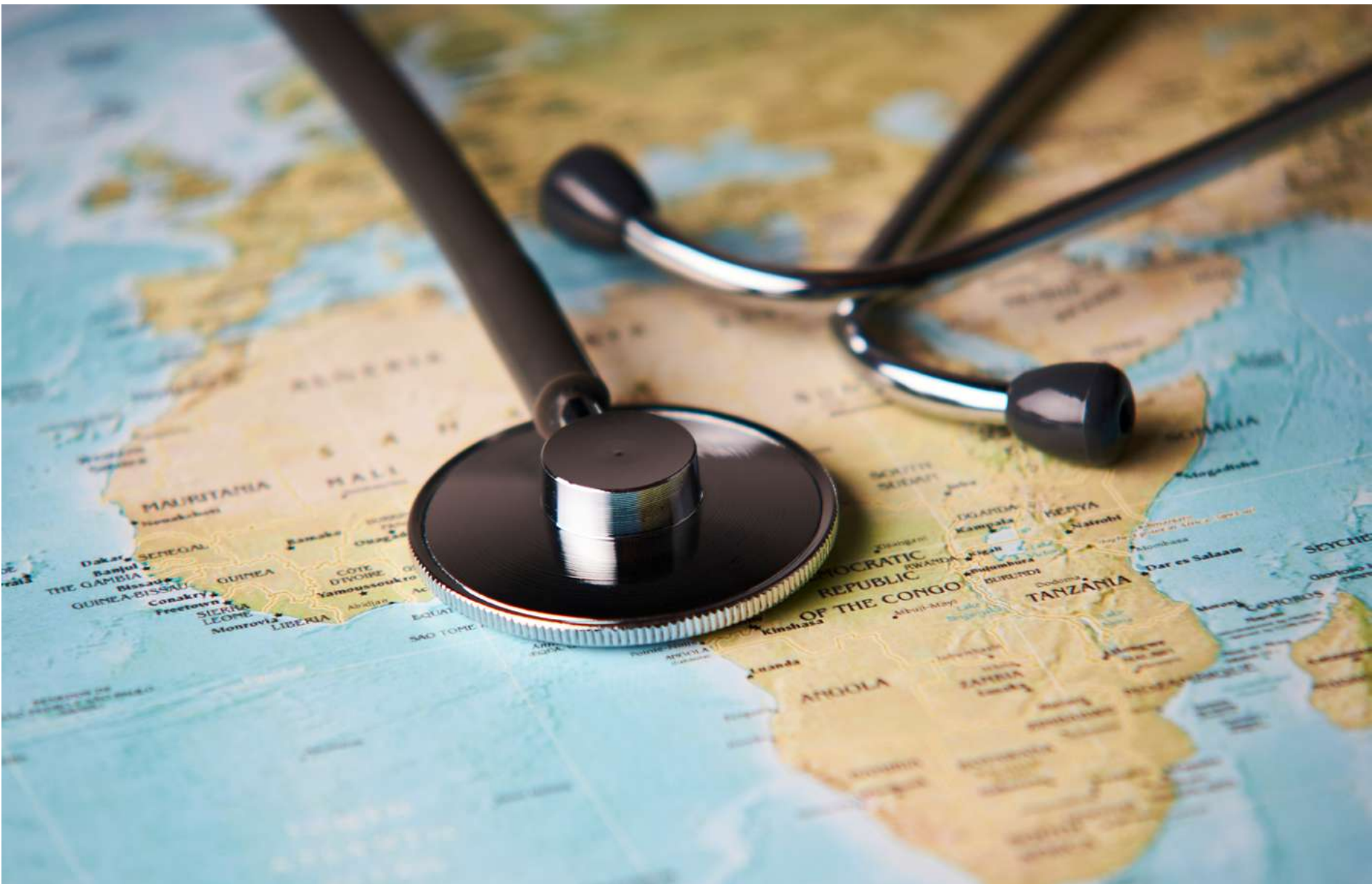
The Cape Health Technology Park in the city is among the province's major healthcare infrastructure development projects. The

initiative is a partnership between the national Department of Science and Technology, the Western Cape government, the City of Cape Town and The Western Cape Tourism, Trade and Investment Promotion Agency.

Strategic Partnerships: Forming public-private partnerships is essential to address regional needs for PPE, vaccines, and diagnostics. Multilateral plus regional institutions should assist local manufacturers in producing and supplying items that meet international standards. Collaborating with national regulatory agencies ensures sharing of best practices, standard harmonisation, together with the enforcement of high-quality, safe products through post-marketing surveillance.

Promote Local Manufacturing: Encouraging local manufacturing helps health systems avoid dependence on foreign partners and ensures a consistent supply for residents. This reduces vulnerabilities, enabling healthcare systems to provide essential services even in adverse conditions. Investment in local manufacturing fosters the growth of knowledge, infrastructure, job opportunities, enhancing the healthcare system's resilience during challenging times.

Research, Development & Innovation: The expansion of research, development and innovation (RDI) will focus on preclinical and clinical trials, focusing on diseases affecting the region. This collaborative RDI approach



will contribute to new knowledge, policy development, along with the creation of products and services. Collective RDI initiatives enhance global competitiveness plus sustainability, while tackling health challenges for improved economic, societal, and health outcomes.

Insurance and Risk Mitigation: South Africa's National Council of Provinces (NCOP) has approved the Universal Health Care Bill

establishing a National Health Insurance Fund. Despite opposition from private companies, eight of the nine counties voted in favor. Western Cape MEC Noma French Mbombo expressed concern that the provincial government did not support the bill in its current form, saying it was unclear. Notably, Discovery Health, the largest programme, covers 1.3 billion people, with Momentum Health and ZestLife being prominent players in the segment.

Emerging Technologies: The city of Cape Town is looking to new technologies to fulfil its healthcare needs after experiencing a dearth of vital medications during the COVID-19 pandemic. The Western Cape health department is utilising robots for critical care in remote areas through the TeleICU pilot project, facilitated by George Regional and Groote Schuur Hospitals. This initiative aims to overcome challenges in providing care outside metropolitan areas.

Additionally, Groote Schuur Hospital has launched two new linear accelerator devices, costing R47 million each, to improve radiation therapy for cancer patients.

Health tech firms offering allied technology to improve healthcare services can tap into a plethora of growth opportunities driven by innovation. It includes the internet of medical things (IoMT), mobile apps or software as medical device (SaMD), wearables, cybersecurity and data analytics.

Vaccine production too has come to the forefront in South Africa with Cape Town serving as a regional hub. The International Finance Corporation, a member of the World Bank Group, partnered with BioVac to augment vaccine production capacity with a new plant. The facility will boost the firm's capacity to about 560 million doses annually from the current 150 million for ailments such as HPV, meningococcal disease and cholera.

Dr Tim Forgan, the first surgeon to perform a colorectal robotic operation in a government hospital in South Africa, said that robot-assisted surgery decreases the chance of complications, while allowing for successful major surgery through small incisions as everything is magnified ten times compared to unaided vision.

Revolution in Trade and Supply Chain Management

As we step into 2024, the healthcare supply chain in Cape Town and the broader SADC region faces ongoing challenges from the lingering effects of the epidemic. Issues like supply chain disruptions plus manpower shortages impact the financial performance of provider organisations. However, amidst these hurdles, there lies an opportunity for a transformative revolution in trade / supply chain management.

The healthcare software sector is experiencing a surge in popularity, driven by the adoption of Software-as-a-service (SaaS), next-gen cloud applications, and the demand for efficient workflow management, especially with the shift towards value-based care in developed economies. Cloud computing usage among healthcare providers, despite security concerns, is transforming the market, aiding inventory / procurement management.

The introduction of advanced technologies like generative AI, data analytics, automation, and blockchain is ushering in a "smart" supply chain era. Imagine distributors in Cape Town using AI to predict demand, optimise stock, along with blockchain-based smart contracts to ensure transparency and trust across stakeholders. The rewards of this revolution are promising – modern

solutions offer optimised operations, reduced costs, and better control over the flow of medical products. For distributors in Cape Town, this translates into growth opportunities, expanded reach, enhanced services, along with a thriving healthcare landscape. The trajectory towards a tech-centric and efficient supply chain positions the region for a resilient and prosperous future.



To learn more about the African healthcare industry, join us in **Cape Town, South Africa** from **22-24 October 2024**.

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