



Instrument Business Outlook Volume 31 - Issue 8

Publication date: Monday, 1 August 2022

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August 2022

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Market Services Firms Help Accelerate Lab Tool Demand in Southeast Asia

Asia remains a vital market for laboratory tools. Although the pandemic negatively affected sales by shutting down labs, it also benefitted certain parts of the market where demand for some research/clinical solutions skyrocketed. After slower growth in 2020, sales in the region expanded in 2021 and are expected to again this year (see “The *IBO* 2022 Mid-Year Forecast”). Although China, the third-largest instrument market in the world, is the most influential market in the regions and continues to be sources of demand for lab products across the board, it is the laboratory tool market in “Other Asia” (defined as excluding Japan and China), including Southeast Asia, that is expected to grow the fastest between 2021 and 2026, according to SDI’s latest “Global Report,” published in June.

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Southeast Asia is comprised of mostly emerging economies, such as Thailand and Vietnam, as well as the developed economy of Singapore. According to the IMF’s July forecast, among the countries with the fastest expected GDP growth will be the Southeast Asian nations of Indonesia, Malaysia and the Philippines, whose GDP are set to post increases of 5.2%, 4.7% and 5.0%, respectively.

In both established and developing other Asian countries, growth for laboratory testing is being driven by new food safety and environment regulations and an increasing multinational manufacturing and supplier presence, both of which are further supported by free trade agreements. On January 1, the Regional Comprehensive Economic Partnership (RCEP) came into effect lowering tariffs for 10 Asia nations, including China and Japan. Southeast Asia countries that have signed onto the agreement are Brunei, Cambodia, Laos, Singapore, Thailand and Vietnam.

While many analytical instrument and lab product providers have direct sales offices in Southeast Asia, as well as manufacturing and R&D operations, they still rely on distributors and market service providers to cover a region that spans a geographic land area over 1.7 million square miles in size, is made up of 11 countries and numerous cultures and languages, and has limited infrastructure in some areas. *IBO* interviewed two major Asian distributors of analytical instruments to learn more about the region and how they do business there.

DKSH

Listed on the Swiss stock exchange, DKSH provides market expansion services mainly in Asia. In 2021, the company delivered 3.4% growth, including 4.6% organic growth, to show sales of CHF 11,106.3 million (\$12,202.1 million at CHF 0.91 = \$1). Market expansion services are offered by the company's four Business Units: Healthcare, Consumer Goods, Performance Materials and Technology. One of the product markets for which the Business Unit Technology offers services is scientific instruments, which made up about 27% of Technology sales in 2019. The Business Unit also offers them for hospitality equipment; industrial markets and supplies; the IoT; packaging, printing & converting; precision machinery; semiconductor & electronics; and specialized industrial applications. In 2021, Business Unit Technology had sales of CHF 430.3 million (\$472.9 million), up 12.5% or 13.3% in constant exchange rates.

Southeast Asia has been impacted by China's COVID-19 lockdowns, which has limited imports and exports and manufacturing and limited sales opportunities between China and the region's nations. DKSH, which operates in both southeast Asia and China, has felt the lockdown's effects. The main impact for DKSH's Technology business has been on sales and services in Shanghai, according to Hanno Elbraechter, Head, Business Unit Technology and Member of Executive Committee, DKSH Group. "However, with the additional support from our demonstration lab in Beijing, distribution center in Hong Kong as well as many local branches in various locations, the impact to our business in other cities is contained." In Shanghai, the company has reacted by shifting to new ways of offering service, application development and customer interaction, explained Mr. Elbraechter. "We mobilized our service engineers from various cities to ensure that there is no disruption of services at least outside of Shanghai. Though our demo lab in Shanghai is shut down due to the lockdown, we've shipped as many customer samples to our Beijing lab to support application development."

To reach DKSH customers and company staff during the pandemic-related shutdowns in China, the company has relied more on its online presence. "We also shifted in-person meetings to online and seminars to webinars to continuously educate customers on latest applications and products," noted Mr. Elbraechter. Online interactions also included meetings, training and courses for sales and service personnel.

The lockdown has exacerbated supply chain issues. Although improving, this continues to be an issue for analytical instrument companies as well as their partners such as DKSH. Commenting on supply chain challenges tied to China, Mr. Elbraechter told *IBO*, "As supply chain restrictions continue to be a major challenge, we are working closely with our partners for lead time management."

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Even before the latest lockdowns, this growing online presence has been one contributor to DKSH's commitment to using more digital tools. "Due to COVID-19, DKSH has accelerated our digital transformation in various aspects including sales, marketing and services," explained Mr. Elbraechter. "We leverage technologies to continuously engage our customers and enhance our

customer satisfaction while in-person meetings are limited. We are also rolling out our LabShop, our ecommerce platform, and upgrading our service management tool to ServiceMax.”

Besides DKSH’s digital enhancements, Mr. Elbraechter attributes the company’s strengthening of its instrument business in Asia, including Southeast Asia, part of what he calls DKSH’s “unique” regional footprint. In 2021, Thailand accounted for 30% of the company’s total revenues and Malaysia/Singapore accounted for 20%, while China contributed 22%. DKSH’s lab instrument business has also expanded through new partnerships and an expanded offerings of instruments, consumables and reagents. In regard to consumables, DKSH recently announced partnerships with Corning Life Sciences covering eight countries, including six Southeast Asian nations (see News). The company also recently partnered with lab plastics maker Wuxi NEST Biotechnology to serve seven markets, including five located in Southeast Asia (see *IBO* 7/15/22). On the instrument side, agreements this year for Southeast Asian countries include Stilla Technologies (see News), Waters’ TA Instruments and Leica Microsystems.

In addition to new products and Center of Excellence, DKSH has also grown its analytical and life science instrument business through acquisitions. Purchases include SPCR, a Thailand-based lab equipment distributor with sales of around CHF 50 million (\$55 million), in 2019, and South Korean instrument distributor Bosung Technologies last year, which has annual sales of CHF 40 million (\$44 million). Also in the area of scientific instrumentation, the Business Unit Technology in March bought Singapore’s DNIV, a provider of semiconductors and electronics manufacturing equipment, with annual sales of CHF 45 million (\$50 million). Mr. Elbraechter commented that the company will continue to pursue acquisitions.

Beyond its digital presence and M&A, a diversity of markets has also been key to driving DKSH’s APAC growth, especially in Southeast Asia, according to Mr. Elbraechter, particularly markets involving rapid technology development. “We see an increasing of electric vehicle- and battery-related research such as lithium-ion battery (LIB) in the Southeast Asian markets due to government policies to support the growth of electric vehicles and plans to enlarge the electric vehicle charging infrastructure.”

The diversity of markets the company serves spans batteries to cell and gene therapy (CGT). As Mr. Elbraechter told *IBO*, “The gene and cell therapy market in Asia is growing at a CAGR above 40% and is now outpacing the rest of the world by nearly 4%.” Asia is home to a growing number of CGT clinical trials and a progressive regulatory environment. This ties in with the overall growth for life science and medicine in the region. “For example, Asia’s large and rapidly aging population means there is a focus on cancer research, especially on those that disproportionately affect Asians such as lung cancer,” he noted.

Even more mature markets, such as the food and beverage market, are showing rapid growth in Asia in general and Southeast Asia in particular. “Due to the increase of international trade, stringent regulations, and awareness of health and food safety, the R&D and testing in the food and beverage sector is growing,” observed Mr. Elbraechter. In fact, newer markets in the sector are requiring more testing. “For example, the Halal food authenticity is gaining ground in many Southeast Asia countries, therefore stringent food testing procedures need to be put in place,” he explained.

To serve customers and promote suppliers, DKSH also establishes local Centers of Excellence, which Mr. Elbraechter describes as “hub[s] of knowledge, expertise and capabilities to foster the collaboration between DKSH, academia and industries.” Industries served include pharmaceuticals, food & beverage, life science and material science. “In all this, key is our expertise in application development and after-sales services through continuous training, talent recruitment and opening new demonstration labs to differentiate ourselves from our competitors and better serve our customers.”

Among the specific countries in which DKSH is making investments in is Vietnam. In June, the Business Unit Technology opened a lab in Vietnam located at Phenikaa University at Ho Chi Minh City University. The lab houses instruments from several companies with which DKSH works, such as Agilent Technologies, Binder and Merck KGaA, Darmstadt, Germany. “We have two offices and demo labs in Hanoi and Ho Chi Minh City, and we are planning to open a third one in central Vietnam,” said Mr. Elbraechter. “We have a total of 40 staff including sales and service supporting various sectors such as pharma, biopharma, food and beverage, agriculture, cosmetics, construction and life sciences sectors.”

Vietnam is a fast growing market in Southeast Asia. The country’s analytical instrument demand is growing 8%, according to Mr. Elbraechter, which is faster than the APAC market overall. “Vietnam aspires to be a high-income economy by 2045 and reaching net zero emissions by 2050. To achieve this, innovation supported by research and technology will be fundamental in improving the quality of growth,” he told *IBO*. The economic boost will benefit a number of end-user markets. “That means there will be a significant increase in research and development across industries, especially in the healthcare, food, electronic and energy industries.”

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Vietnam’s increased trade is also driving demand for laboratory instruments, according to Mr. Elbraechter, especially inter-Asian trade. “We see local manufacturers constantly enhancing their output quality and efficiency to stay competitive and to meet international common standards. This means a high demand for precision analytical equipment to meet international standards and regulations,” he told *IBO*. He noted the Vietnamese government’s adoption of DKSH’s integrated solutions testing for testing imports and exports.