

MEDICAL DEVICES

A QUARTERLY eBULLETIN FROM THE PEOPLE WHO BRING YOU THE MEDICAL DEVICES EXECUTIVE MINDXCHANGE

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Analyst Insight:

Growth Opportunities: What New Market Entrants Need to Know

Amid the current recession, manufacturers and services providers who have not traditionally focused on the market are looking at healthcare and medical technology sectors as their next major areas for growth. Companies like Google, Intel, Delphi, Microsoft, Wal-Mart, Procter & Gamble have targeted healthcare as a critical sector for future expansion. These “nontraditional” companies include:

- Materials, component and OEM manufacturers
- Finished goods manufacturers in non-healthcare sectors
- Service providers not currently in healthcare, but who see it as an important new vertical market
- Information technology companies
- Contract manufacturers
- Consumer goods companies
- Distributors and retailers

In most cases, these companies see a way to leverage their strengths, tapping into a market with strong fundamentals: an aging population, consistent growth and the ability to reward innovation. While the ultimate fate of healthcare reform is still to be determined, it will likely result in the expansion of healthcare services to millions of new consumers of medical goods and services. The recently passed stimulus bill includes billions of

dollars devoted to healthcare information technology, as well as improving healthcare infrastructure, expanding services to underserved communities and funding new medical research. The debate over healthcare reform has also put a spotlight on the challenges facing our healthcare system which has encouraged companies to focus their energies on developing solutions to those problems. Companies with a fresh, outside perspective will be invaluable to improving healthcare delivery and producing the next generation of medical technology.

The United States medical technology manufacturing industry is strong, consistently generating a net trade surplus of approximately \$4 to \$5 billion a year. Unlike the pharmaceutical industry—which is largely controlled by huge, multinational corporations—medical technology is a haven for entrepreneurs and new ventures. While the largest companies in the field, such as GE, Johnson & Johnson and Medtronic, still generate two-thirds of revenues, the United States is home to approximately 6,000 medical device companies. Most of the world’s largest medical technology companies are headquartered in the United States and the industry is the source of about 300,000 jobs. Compared to other manufacturing industries, medical technology manufacturing is typically cleaner and more eco-friendly. Owners

and employees also have the benefit of knowing they are serving the greater good.

Segments of the medical technology with some of the greatest growth potential include:

- Cardiovascular – interventional, CRM, CHF devices
- Orthopedics - spine, reconstructive
- Minimally-invasive applications
- Drug delivery
- Pain management
- Neurology
- Technologies for treating chronic conditions: ESRD, COPD, Diabetes, Arthritis, Cancer, AIDS, Obesity, Heart Disease, etc.
- Infection control/ risk reduction
- Clinical diagnostics
- Healthcare information technology
- Biologics
- Telemedicine

Nontraditional Companies Expanding into Healthcare

Healthcare has for years been an area of focus for information technology (IT) companies.

Using IT to collect, transfer and analyze information with the goal of improving outcomes and reducing costs will be

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critical to the future of medicine. Approximately \$19 billion in stimulus dollars promised to improving healthcare IT infrastructure has caused more companies to become interested in the market. Companies such as Dell, Cisco Systems, Qualcomm, Intel, Microsoft and Google have recently announced new services and products that will help hospitals and other healthcare facilities improve patient care and reduce technology expenses.

Qualcomm Inc., a leading manufacturer of wireless chips for cell phones and other portable electronic devices, entered the healthcare sector in 2003, through its partnership with CardioNet and introduced a remote continuous cardiac monitoring device. Since then, Qualcomm has developed several other medical devices and wireless health solutions. In March 2009, GE Healthcare and Intel announced a co-marketing agreement covering their wireless monitoring systems. Intel, which launched the health monitor Health Guide in October 2008, will benefit from GE's strong position in the home healthcare market. GE already offers the QuietCare, a wireless monitoring device used in nursing homes.

Automotive companies are also interested in entering the healthcare market, particularly the medical device industry. The leading automotive parts supplier, Delphi Corporation, has had a

wholly-owned medical devices subsidiary named Delphi Medical Systems since 2002. The company focuses on infusion therapy, oxygen concentrators, dialysis machines, wheelchairs and vital signs monitoring. In 2008, the automotive supplier Roush Enterprises acquired the life sciences division of Nypro, a company which manufactures plastic components for the healthcare industry, and created the Roush Life Sciences division. The company now develops and manufactures precision plastic products for diagnostic, laboratory and general medical applications.

Abbott Workholding Products Inc., which manufactures industrial tools for the automotive industry, recently expanded into the medical devices sector and now makes tools used to manufacture artificial knees and bone reinforcements. WJG Enterprise Co., a manufacturer of automotive air conditioner parts, car door decorative trim, and speaker housings moved into the healthcare industry late last year. The company now manufactures plastics for medical devices including parts used in X-ray and MRI equipment, as well as measuring cups used in medical facilities.

Challenges Facing Nontraditional Companies Entering Healthcare

While the healthcare industry has

many attractive features, nontraditional companies must conduct a careful assessment of their opportunities before making significant investments in this complex market. The healthcare industry is intensely regulated, litigious and heavily controlled by insurance reimbursement guidelines. Distribution and purchasing pathways are also complex.

Conclusion

The healthcare and medical technology industry is poised for significant growth in the 21st Century. The enormous demand for new technology and solutions to address both the clinical needs of patients and the systemic problems of healthcare delivery will create opportunities for companies with the foresight to identify and capitalize on opportunities before their competitors. For those companies new to the healthcare field, there is much to be learned, but as William Graham, the chairman of the medical manufacturer Baxter International once said, "We are lucky to be in an industry in which you can do well by doing good."

For more information, visit <http://www.frost.com> or contact Charlie Whelan, Director of Consulting, Healthcare & Lifesciences, North America at cwhelan@frost.com