Interview: Fernando Oliveros Arreaga – Vice-President, Medtronic Mexico



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Fernando Oliveros, VP of Medtronic Mexico, explains how the global medical devices leader wants to leverage Covidien’s integration to improve health outcomes in Mexico. By taking advantage of an innovative product portfolio, the potential of their services portfolio and closely partnering with public stakeholders, Medtronic is ready to become a crucial contributor to the improvement of Mexico’s health system, as illustrated by the company’s new fundamental approach: “further together”.

With the acquisition of Covidien, Medtronic now proudly stands as the largest medtech company in the world. How have you been progressing with the integration of Covidien in Mexico?

The integration of Covidien reflects a strategic and crucial milestone for Medtronic, as it provides our new organization with a larger opportunity to fulfill our fundamental mission: “alleviate pain, restore health and extend life”. First, it allows us to increase our impact: before the integration, Medtronic was treating one patient every three seconds on average globally, while now two patients per second can benefit from our expertise. While some of our competitors are divesting parts of their portfolios, Medtronic has been massively investing in broadening its offering and increasing its impact for the benefit of our patients. We now hold the largest and widest product portfolio in the market, which not only generates a heightened competitive advantage, but also a new leadership position in the industry. As a result, we are able to offer more comprehensive,

integrated solutions to our partners, which also entails larger responsibilities towards our customers and patients.

On the business side, the integration of Covidien has been progressing extremely well in Mexico, and we have already been able to significantly accelerate the growth of the new company over the last eighteen months. Over the 10 business lines that constitute our new portfolio, there was only one that truly required merging portfolios, thus the complementarity between the two companies' portfolios and their very limited overlapping really contributed to ease the integration and keeping focus to execute our business priorities.

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Medtronic Mexico now holds six manufacturing plants, with three coming from Covidien, which means that we have a true complementarity of expertise, as example electronics has historically been one of Medtronic's specificity, while Covidien holds an unrivalled expertise in plastic moldings. Overall, the integration allows us to create tremendous synergies and cost-efficiencies at operational, financial, marketing, and manufacturing levels that can now be leveraged to fuel further growth of the company in Mexico.

The second aspect of this integration relates to the development of a new, unified culture for the company. In Mexico, we now hold more than 12,000 employees, making the Mexican affiliate one of the largest in the world after the US. As a matter of fact, Medtronic's workforce in Mexico represents around 10 percent of the total number of employees working in the Mexican medtech industry. In this regards, our objective is to take the best of the two companies' cultures to create a strengthened, outcome-driven organization. We already start to reap the rewards of this ongoing consolidation, but completing such integration obviously takes time. I expect that we will need two more years to fully leverage the capacity of our new, heightened scope of action.

Omar Ishrak, Chairman and CEO of Medtronic, recently highlighted that the financial year 2016 was a transformative year for the organization, as it was the first full year after closing the acquisition of Covidien. Following this transformative year, what are your strategic priorities as Vice-President Mexico?

My first and foremost priority is to look at how we can fully leverage the unique potential of our strengthened portfolio in Mexico, and better combine our new capabilities, for example, Medtronic's expertise in cardiology with Covidien's surgical solutions. In the meantime, we strive to expand this holistic approach beyond our products and devices and replicate a similar effort for our service and solutions offering.

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With our new portfolio, we are able to supply almost all the needs of any operating room in Mexico. Surgeons and nurses already use an incredibly large number and a great variety of our different products everyday. As a result, our main objective is to make their lives easier when they operate within Medtronic's eco-system of products and solutions.

How would describe the new responsibility that this strengthened portfolio entails for Medtronic Mexico?

We cannot anymore content ourselves with being an innovative medtech developer and supplier; our role within the health eco-system must go beyond that. Of course, Medtronic DNA's will remain centered around innovation. Nevertheless, we want to increase our partnership with other healthcare stakeholders to find solutions that will raise the health outcomes in Mexico and around the world. The only way to improve and transform healthcare is to start co-creating and co-designing solutions, to which products and devices will only stand as the structural basis. This collaborative approach, where Medtronic sees itself as an essential part of the health eco-system, is perfectly summarized by our new corporate slogan: *"further together".*

For example, currently in Mexico around 1000 patients affected by diabetes type 1 have access to our insulin pumps, while we count more than 350,000 of these patients in the country. We are left with only two options: either we continue to follow a niche, specialized approach and we maintain our prices and business model, or we start partnering with public authorities to ensure these 350,000 patients can finally access the insulin pumps they need.

By choosing to partner with the government to find innovative access solutions, Medtronic is now following a completely different approach than the one the overall medtech industry has been pursuing over the last decades. At Medtronic, the core of our relationship with public stakeholders has clearly moved from a transactional to collaborative approach.

How would you rate the openness of public stakeholders to partner with Medtronic to design and implement these innovative solutions?

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In Mexico, there clearly is an open- and willingness attitude from public stakeholder to collaborate with the private sector, but we also have to learn how to better work together – as it is the case

every time you start a new partnership. In the past, the discussion between private and public players was essentially focused on the transactional side, and medtech companies certainly hold an important responsibility in the prevalence of this approach.

However, our new approach implies a mutual learning curve. Instead of just selling devices, we are now working with them on a continuous basis, because we want to accompany them and follow-up with the evolution of their needs. Together with our partners, we need to build a sustainable eco-system.

In a Mexican context marked by the recently announced health budget cuts and a total healthcare spending that remains particularly low (at 6.2 percent of GDP), how can Medtronic concretely bring cost-effectiveness to the Mexican healthcare system?

We all agree that healthcare spending in Mexico remains low in comparison to other OECD countries and we should obviously increase this in the upcoming years. Nevertheless, I am one of the people in this country who truly believe we can still increase health outcomes with the current level of financial resources available in this country.

As an example in Mexico, between 15 and 20 percent of the procedures conducted in catheterization laboratories (“cathlabs”) could be postponed due to lack of equipment, medical staff, or other reasons. If we are able to bring this percentage closer to zero, which is certainly within reach, we will be able to make tremendous savings and improve overall efficiencies. For us is clear, if we want to really generate further cost-efficiencies, we have to move our focus from cost to value.

In the cardio-vascular area for instance, In Mexico are around 180 Cathlabs, approximately 100 of them being privately own. Considering the level of investments needed to maintain and expand installed base of Cathlabs , there is no doubt that the Mexican government currently is not able to bear the financial burden. We only have two solutions: either we keep on complaining about the necessity to increase public health spending in Mexico, which is a relevant and legitimate claim, or we look at how we can effectively partner with the government to increase the number of cathlabs on the short to mid-term.

Medtronic is a multinational company that holds great financial resources, which could be used to invest in capital equipment in Mexico and build new, state-of-the art facilities throughout the country. In turn however, the government will also have to direct its resources to finance the procedures performed in these cathlabs. Some may argue that financing these procedures would also be out-of-reach for the Mexican public health system. Still, with the patient and product

volumes we could nurture in these new cathlabs, Medtronic, under this new partnering, will have a widen opportunities to implement innovative financing solutions. This means that it would ultimately lower the costs the government will have to bear, i.e. by moving from a pay-for-device to a pay-for-procedure system, which has been already successfully implemented in other geographies.

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Talking about building a sustainable eco-system, what is your assessment of medtech investments in Mexico?

Unfortunately, in all product categories, Mexico is displaying the lowest penetration rate among all major Latin American markets. For example, in Mexico there are on average two stents per thousand inhabitants, while in Brazil this compares with approximately 40 stents per thousand inhabitants. Medtech investments haven’t reached Mexico at the level we expected because the domestic market remains significantly underdeveloped.

When a multinational is considering different countries to set up its innovation center, the level of development of the domestic market stands as an important parameter counting toward final decision-making. Most of Mexican medtech manufacturing plants are located close to the US border because Mexico’s medtech attractiveness remains mainly centered on the favorability of its productive workforce, and not on the strength of its domestic market. Furthermore, a substantial part of the finished medtech products used in Mexico are in reality imported from the United States. For this same reason, In the near future, our objective should be to ensure innovative medtech companies invest in the country to develop products for the Mexican market.

Medtronic is indisputably willing to further invest in Mexico, and my responsibility is to build and develop the market conditions that will make these investments sustainable. As a matter of fact, Mr. Ishrak, CEO and Chairman of Medtronic, was visiting the Mexican affiliate a few months ago, and our main focus was to determine why are the key barriers in the Mexican market , and how can invest to break these barriers.

We understand your fundamental endeavor to build a renewed relationship with Mexican stakeholders, based on a true collaborative approach. Building trust requires time, but in the meantime, you have to deliver on your growth objectives. Within your

product portfolio, what are the most promising growth drivers?

In Mexico, we want to achieve a double-digit growth rate in 2016 as well as in the upcoming years, which stands as an ambitious but reachable objective. Looking at our strategic priorities, they are clearly aligned with Mexico's epidemiological profile, and will mainly target diabetes, obesity and cardiovascular diseases.

In certain areas, we really need to adopt a market development approach. For instance, in Mexico the number of pacemaker implanted are as low as 25 per million inhabitants in Seguro Popular, similar to that of Armenia. While the average for the European Union is 532, and 833 for the United States. In the meantime, we will also implement a more mature growth strategy for the most established market niches, such as minimally invasive surgery products, for instance. For these established segments, our main objective is to continue gaining market share against our competitors to further fuel the affiliate's growth.

We have already been implementing this growth strategy over the last 24 months, and our results speak for themselves: we have consistently been outpacing the market growth, displaying an overall double-digit growth of our sales.

Globally, the diabetes business line is the fifth largest of the group in terms of sales. In Mexico, there are more than 13 million diabetic patients, half of them are diagnosed, and only 25 percent of them have their disease under control. Considering this dramatic situation, what kind of projects are you specifically developing in Mexico?

First, I think that 25 percent of the patients under control is an optimistic figure: our own analysis shows that the in some cases these percentages of under-control patients would more likely revolve around 5 to 15 percent of the total diabetic population. In Mexico one of the main challenges we face in tackling this critical issue relates to the fragmentation of our health system, which comprises various public social security institutions (ISSSTE, Seguro Popular, IMSS) and similar institutions covering the army or PEMEX (the Mexican state-owned petroleum company) – without forgetting the private sector. All these different sub-markets display different reimbursement processes, various levels of infrastructure, equipment and financial resources.

Medtronic Mexico is currently working hand in hand with these public stakeholders to conduct a comprehensive analysis of our system's performance to finally understand how we can help the institutions to improve the percentage of diabetic patients who are under control. Understanding our current processes' frailties is absolutely paramount if we want to prevent new, recently diagnosed diabetic patients to follow an therapeutic path that has areas of opportunity to be

improved. Furthermore, the current level of public investment dedicated to treat diabetes in Mexico is already substantial, so we truly hold the resources to display better results – and Medtronic has a huge role to play in this regard.

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First, Medtronic holds a deep experience with regards to insulin pumps, and to date, Medtronic has collected and analyzed millions of data points from our thousands of insulin pumps used every day all over the world. Globally, Medtronic has been partnering with IBM Watson to combine the information Medtronic technology gathers with Watson's analysis ability, to discover new clues that can advance the treatment of diabetes. Thanks to this partnership, we are now possible to predict hypoglycemic events three hours before they actually happen.

Secondly, Medtronic is already expanding to operate clinics in some countries, and this something we could also implement in Mexico, by adopting innovative pay-for-performance and pay per-capita schemes.

What is your vision for the Mexican affiliate and the fundamental objectives you want to achieve in the next two years?

I want Medtronic Mexico to be recognized as a leader in the transformation of Mexico's health system from a price-based to a value-based eco-system, in order to fully leverage our current financial resources by generating greater efficiencies within the system.

Second, I want Medtronic Mexico to strengthen its positioning as the affiliate displaying the highest level of operational excellence among all Medtronic affiliates in Latin America. In Mexico, we hold the resources, the talent and the opportunities to become a benchmark for other countries.

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