Interview: Jaime Cervantes Covarrubias – CEO, Vitalmex, Mexico



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15.11.2016

Tags: Mexico, Vitalmex, Pharma, Pharmaceuticals, PPP

Jaime Cervantes, CEO of Vitalmex, provides insights into the company's ascendent trajectory, with Vitalmex now looking to leverage its leadership position in the public sector to venture in the private market, internationalize its activities in the US and Europe, develop its own network of specialized but affordable private clinics, and finally launch the "first Mexican artificial heart".

When we met with you in 2013, you introduced to us your development plan for the next twenty years. What have been some of Vitalmex's main achievements over the last three years?

Our progress has been positive in many different aspects and we have been able to further develop the company from both quantitative and qualitative points of view. In terms of growth for example, we have been growing at an annual rate of 19 percent over the last two years, and we stand as the largest integrator of personalized healthcare solutions in Mexico.

In the meantime, we have been able to consolidate our leadership position as the partner of choice for the Mexican public sector. In this regard, we have recently renewed most of our contracts with the main social security institutions of the country in key areas such as surgery, cardiovascular and imaging diagnosis. In terms of public market penetration, we have approximately 30% market share in minimal invasive and 37% in cardiovascular surgery, with a presence in the most important public institutions of the country.

We see our long-standing relationship with Mexico's public sector as a true partnership between our company and IMSS, ISSSTE and other social security institutions of the country. Obviously, our overarching objective is to increase the value we bring to our partners, especially considering the budget pressure faced by Mexico's public health sector. In this regard, we are currently implementing some innovations that reduce the average cost of each of our procedures conducted in these institutions by 12 percent, and up to 30 percent for IMSS in particular.

So far, 95 percent of our business comes from the public sector, but we're diversifying into the private sector. We are fully aware of the substantial differences that set apart the needs and expectations of the public and private sectors, but we have identified that the private health sector can also tremendously benefit from our offering and expertise.

How would you define Vitalmex's market approach?

The market approach sustaining our company's development is quite unique and relies on a mix of public and private investment. In this regard, Vitalmex has been a pioneer in the implementation of micro public-private partnerships (PPP's), in which the government invests in infrastructure and human resources, while Vitalmex takes care of supplying all the required equipment, material and medicines.

Vitalmex's vision is not to focus solely in the public or in the private sector, but to truly become the bridge that more efficiently links these two complementary healthcare providers. In this regard, our current strategy revolves around two main pillars.

The first one is to develop an independent healthcare capacity that will operate as a subrogate service of the country's main social security institutions.

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Our second strategic axis relates to the development of our own network of health clinics, which focuses on chronic diseases and specialized procedures. These clinics are meant to be extremely efficient and avoid luxurious and useless features, in order to offer affordable rates and be accessible to a larger part of the Mexican population.

How have you been progressing in the implementation of this network of private clinics?

In Mexico, there is a need to adapt patient treatment to the low-income segments of our population, and the public health sector requires more financial resources to develop a cost-

effective mix of infrastructure and technology. In this vein, I believe that the private sector plays a crucial role in fulfilling the existing gap – this is exactly where Vitalmex can be of most value.

We already are in the advanced phase of the project and we expect to open our first clinic unit in 2018. In the meantime, we are looking for partnerships to scale up this model and open several specialized clinics all around the country.

Vitalmex has been a pioneer in implementing health-related PPPs in Mexico. What is your assessment of the level of private-public collaboration in Mexico?

The long-awaited structural reform of the Mexican healthcare sector is pending; the partial reform that proposes exchange of services between the different social security institutions is still a work in progress. In addition, recent federal budget cuts are putting evermore pressure in the public system, while additional reductions are expected for 2017. Close to 17% of the Mexican population still does not have any access to healthcare, our population is ageing and healthcare requirements are expected to grow, following the increasing importance of chronic, non-communicable diseases in our country's epidemiological profile.

The private sector is fully aware of the current and upcoming challenges our public health system is facing, and it is certain that we will have an increasing opportunity to contribute to meet the health needs of our population. In my opinion, the government will soon start to implement strategic areas of collaboration for the future, leveraging private resources, capacity and expertise to deliver a better service to the Mexican population. In the Mexican health eco-system, an enhanced collaboration between public and private players is just starting to be considered as a promising solution for the future, but there is still a long way to go until we fully leverage the complementarity of our capacities and expertise.

Vitalmex also proudly stands out as the developer of the "first Mexican artificial heart". Could you tell us more about the development path of this unique project and the unmet medical needs it will target?

This project has been designed from the beginning to meet the highest quality standards while being accessible to cost-pressured healthcare systems, such as Mexico. Furthermore, Vitalmex's artificial heart comes as the result of more than a decade of R&D, which required an investment of more than USD 10 million.

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We are currently finishing the process of clinical trials with good results. In the meantime, we are looking for a strategic partner from the medical devices area in order to further ramp up the final development of the product and accelerate its launch. We also envision bringing this product to other international markets in the near future.

What is the current international footprint of Vitalmex?

We have been exploring various opportunities for replicating our micro PPP business model in Peru, Colombia, Brazil and Chile. In addition, we are steadily enlarging our presence in more developed markets such as Europe and North America. Vitalmex has recently acquired a US-based company and as a result, we are already delivering our services to five American hospitals.

In addition, we are about to start a very exciting project in Switzerland in partnership with a network of private clinics, which is particularly interested in the expertise we have been honing while designing our own clinics for Mexico. We usually consider that innovation only transfers from the most developed markets to emerging countries, but this interest shows that our value proposition can be particularly appealing to some of the most sophisticated markets in the world, which is a very good sign for the international development of our company.

How has this internationalization been impacting your organizational structure?

Two years ago, we initiated a transition phase that will allow us to better support our international ambitions. As a result, Vitalmex, our current organization, will soon give way to a new structure, Vitalmex Global, which will centralize all back-office and R&D functions. In the meantime, we want to open affiliates in all countries in which we currently have operations in order to propel our penetration strategy and fully implement our innovative business model.

What are the main milestones you want to reach over the next three years?

Besides enlarging our presence in Latin America, we want to leverage our partnership with the German company Gimmi in order to increase our presence in European markets such as Austria, Switzerland and Germany, while further developing our footprint in the United States. Currently, our sales in Europe are USD 11 million; whilst the U.S. accounts for USD 5 million and Mexico generates USD 170 million. Our objective is to reach USD 600 million of global revenues within the next decade.

In three years, we would like to see 30 percent of our global revenues coming from the private sector, while we want to develop a strong network of private clinics by 2020. Finally, we consider all development options that could help us to fulfill our objectives, including opportunities for

investors who are looking for solid business opportunities in the health sector.

We are extremely ambitious and all our people are working towards our fundamental objective: to establish Vitalmex as the most important health service supplier in the world by 2025.

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