Interview: Paulo Henrique Fraccaro – Superintendent, Brazilian Medical and Dental Devices Manufacturers Association (ABIMO)



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Paulo Henrique Fraccaro, superintendent of the Brazilian Medical and Dental Devices Manufacturers Association (ABIMO), describes the central role of the association within the Brazilian medtech industry, the phenomenal potential of Brazil's medtech sector for companies choosing to establish a production facility in Brazil and the importance of increased efficiency and investment in the public healthcare system.

Could you briefly introduce the Brazilian Medical and Dental Devices Manufacturers Association (ABIMO) and give an overview of the association's impact on the Brazilian medtech industry, health and economy?

The Brazilian Medical and Dental Devices Manufacturers Association (ABIMO) is a Brazilian association regrouping hospital, laboratory, dental, and medical product companies founded 55 years ago. Today, it has over 400 members whose compiled annual turnovers account for 85 percent of the total public and private markets in Brazil excluding the pharmaceutical drugs.

The association's mission is to advise the government in creating ideal conditions for companies to produce locally, regardless of the investor's nationality. Once it is established, local production makes it easier to address the market than working with a distributor. This mission is important for the country because it also has positive economic impact on Brazil. However, as of today,

establishing the structures to produce locally is complicated, especially with regards to the complexity of Brazil's tax system. Therefore, creating ideal investment conditions is paramount for us. Furthermore, I regularly encounter investors looking to establish a production facility in Brazil who inform me they intend to use the country's production facility as the starting point of their sales activities for the whole of Latin America. This would contribute to reinforcing Brazil's economic importance in the continent.

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Currently, most companies willing to establish a production plant in Brazil chose to establish a small affiliate with a participation in a local company before gradually increasing their commitment. In this regard, ABIMO's role is to analyze the company's plan and support the company by suggesting multiple options that could lead them to implement a production facility in Brazil. Some country managers struggle to convince their managers that Brazil is the right place to establish a production plant. In these cases I take it as ABIMO's responsibility to help the country manager of a member company to clear any doubts in his management's mind. While ABIMO doesn't have internal power to finalize projects on behalf of a member company, ABIMO will do its best to inform its members of the elements that could result in a favorable final decision for the company and the country.

What experience do you bring to the table to help ABIMO's members fulfill these objectives?

I have worked in several multinational medical device firms in Brazil and even set-up my own business in the sector. The latter was sold to Fresenius, before I was appointed general manager for the Brazilian affiliate of Fresenius. More specifically, I have dedicated my entire career to helping multinational medical device companies establish a strong foothold in Brazil.

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I can leverage my past experiences in the domain to help country managers convince their board of directors of investing in a manufacturing plant. As a matter of fact, I myself was the instigator of Fresenius' acquisition of a production facility in Florianopolis a few years ago. With regard to my experience and position, it is very easy to posit solutions for national and international companies.

ABIMO regroups the experience of all its board members and staff to help its international and national member companies have stronger negotiation power to resist the current political problems that Brazil is facing.

What challenges might country managers be facing when trying to convince their board of directors to invest in Brazil?

The companies are facing a highly complex environment in Brazil. There are barriers to entry on the legal side for instance. Tax laws in Brazil make it difficult for one to grasp the potential return on investment in a straightforward manner. The political uncertainty and recurring corruption scandals at the highest levels of power tend to dry the decision maker's appetite for the Brazilian market.

On the other hand, the market potential in the medical device sector is tremendous. Demand is constantly increasing at rates of ten to twelve percent annually. Furthermore, establishing a manufacturing facility in Brazil is the best way to tap Brazil fast growing market. Therefore, one must not be deterred by the relative riskiness of the investment and focus on the opportunities Brazil has to offer. More specifically, an investment in a developed country like Germany might be safer but the market only offer a one or two percent annual growth rate while establishing a manufacturing plant in Brazil will be less expensive and offer exceptional return on investment with a marginal risk increase.

How is the medical device market demand structured in Brazil and how do you see it evolving?

To address the issues linked to increased expenses, the government has recently decided to cap the growth of public healthcare expenditure to inflation rate for the next 20 years. This idea conflicts with the fact that the government claims the healthcare system's development is a priority. As a result, the public sector is restricting the purchase of new medical equipment. In fact, while the Brazilian public sector is much larger than the private one *[it addresses the needs of 75 percent of the population – Ed.]* the public sector only account for 60 percent of the medical device market's value. In other words, public hospitals are underequipped to address the public's needs. On the other hand, the private sector is flourishing. It serves 25 percent of the population and accounts for 40 percent of the medical device market's value.

The country's political future remains uncertain. However, every time there is a new government, ABIMO takes upon itself to establish the dialogue with the politic personalities to promote its member's agenda. Thus facilitating the sector's growth and establishment of local production facilities.

As I said earlier, I believe Brazil's market potential is tremendous. Unfortunately some issues such as budget mismanagement and inefficiency are currently hindering our ability to fully realize it.

Unless resolved, Brazil will never achieve the desired outcomes. For instance, we are currently facing some financial difficulties with our system which I believe could be resolved if the government's budget was used as if it were the one of an individual. We could be saving up to USD2 billion, which could be invested in the public sector to improve the quality of the service offered to our patients.

What can be done to increase the budget's allocation efficiency?

The system's structure and healthcare facilities' network has to be reformed. Several facilities are too small to be profitable. Regrouping the small sized healthcare facilities into mid-sized and large structures could help with the government's finances without affecting the quality of the service delivered to Brazilians in the long run. Indeed, sooner or later these facilities would require the taxpayer to increase his contribution to continue accessing a local hospital.

In the cases where centralization is necessary there is a lot of work to convince both the public and local political personalities of these actions. Indeed, the politicians fears the loss of electoral support and the public are concerned about a potential decrease in the quality of the service. In reality the costs associated with travelling to a larger facility turn out to be inferior to those associated with the tax increase linked to sustaining a local facility. Our association holds an important responsibility in convincing local populations that this type of system benefits them in the long run, and medtech companies can help mapping out the network of profitable and unprofitable healthcare infrastructures.

Minister of Health, Mr. Ricardo Barros, believes we can improve the outcomes of health through digitalization. What's your take on this?

I also believe the digitalization of the healthcare system is positive. By facilitating the sharing of information between healthcare facilities and practionners, we can improve the doctor's ability to deliver health services to patients. However, this is a long process that could take up to two years before it is implemented. For example we are working on a system that would allow doctors to track a patient's medical records regardless of the facility he has been treated at. Eventually, the physician can take a more informed decision on the way she should be treating a patient's condition.

Another program that is being put into place is a system allowing the purchasing departments of healthcare facilities to consult the reference price of any type of medical product. Currently the information asymmetry with regards to the purchasing price of products creates huge gaps in our healthcare system's budget. I have heard of a purchasing department that had no other reference

than the local drugstore to check prices. By facilitating the access to any product’s reference price we will induce saving that will help the system’s achieve financial sustainability. Eventually these savings will help healthcare facilities deliver better services to patients in hospitals.

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