

Interview with Jose Manuel Lezama , General Manager, BSN Medical Mexico

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When you joined BSN Medical 3 years ago, what was the roadmap set in place for the growth and development of the company? Which opportunities did the company see in Mexico?

From very early on, the major opportunity BSN Medical saw in Mexico was the manufacturing possibilities. The production facility we have in Reynosa, Tamaulipas is the largest one worldwide for BSN Medical, and serves as an export base, along the maquiladora business model. In terms of commercial operations, the company started as a very small sales office in Mexico DF to support our major distributors.

I was appointed to put together the entire subsidiary and push forward our commercial activities in the country. We are building the business operations from practically nothing. We have 3 business units: orthopedic, wound care and compression therapy. Our goal is to grow our volume and market share inside the Mexican market. For the public hospital business, we can compete in tenders thanks to our nationally manufactured products as well as high volume â?? top quality mature products. In the private market, we have identified a large growth opportunity, and we are now competing in pharmacies â?? especially the large retail networks. We have been exponentially growing in both channels (Hospitals â?? Pharmacies) over the last two years. At the same time, we are developing our local marketing expertise and putting in place added value programs. Last but not least, we are building our distribution network, with a mix of direct sales and indirect via distributors. This allows us to feel the market and have the control of the market while extending our geographical coverage via distributors.

Why did BSN Medical decide to scale up operations in Mexico?

Our global strategy shifted to put a major emphasis on emerging markets, and especially on three markets: Mexico, India and Indonesia. Therefore, Mexico has been put in the spotlight. As a testimony of the BSN Medical success in emerging markets, the Mexican operation doubled sales in 2011 just in 2 years since we started the revitalization of Mexico.

Where has the growth been coming from â?? and what was missing in the last years to develop Mexicoâ??s potential?

Growth has been coming from across the board: all the business units, all the different channels have been growing. We have been working on every single product category as part of our focus on Product Category Management which major challenge is improve margins and market share at the same time.

As to why we didn't achieve these results earlier, as mentioned, the Mexican office was a small operation, and we were lacking the focus and the resources for the country.

For the institutional market, do you feel the tender process is transparent enough and what could be improved?

I believe the process is transparent enough. However, it's been hard because Mexico is a highly competitive market and the price of reference in the mature products is extremely low. We actually need to invest additional resources and be creative to participate in government tenders, but it is necessary to create a commercial momentum, put our product in the hand of physicians and start rolling. If you understand the complexity of the market and the dynamics of the different channels as well as how they are interconnected, there is a lot of healthy business to be done in Mexico, and this is why I was hired.

And in the same way, what are your strategies to penetrate the private market?

It's a combination of factors. The first is to have a good team very professional, results driven, sharp in what they do. Second, you look for the different opportunities, through a lot of market research to assess how competitive you can be product by product. You cannot be competitive for every product, but once you have identified your potential you have to be highly efficient in the implementation. Then, you increase your competitive advantages by putting together a package of value added services such as clinical education or customer service support. Last but not least to ensure product availability at all times which is a major big challenge in Mexico, with the problems at customs, registration, suppliers, etc. You need to be a trusted provider and deliver month after month. Our market is driven by relations and being reliable is the strength of commercial interaction, building trust over the years, every month, and every day. If you can't deliver a product on time, distributors and customers will go buy it from someone else because the patient can't wait. You have to be sensitive to the needs and reactive to the emergencies that arise every day.

You were talking about value added services. Could you develop on those, and how they give BSN Medical a differentiated value proposition?

In the case of clinical education, we have different courses. We have the Gypsona Academy with courses on casting techniques and with a program called Delta Solutions, solutions for advanced and customized casting. We also send clinical specialists for wound care and orthopedics to different hospitals to train the users in to the best practices and make sure our products rotate in hospitals. Sometimes the hospital has the product but doesn't use it or if they use it, they don't use it properly.

Clinical education is extremely important to us and needs to be consistent. You cannot only have training programs when you launch a product, because you constantly have new nurses and new users. If you are seriously committed to clinical education like we are, you have to do it every day to make a difference. Year to date we have trained already 500 healthcare specialist all over the country.

The Ministry of Health has been doing a lot in terms of training their nurses and specialists but it's not enough. Traditionally, a lot of the training was done by the companies, but in the last years, many have been pulling back from these clinical efforts simply because you cannot measure the direct impact on sales. Particularly in terms of government business, you don't know if you're going to win the tender the following year so it's a gamble. In our case, it's very clear. We don't only sell medical devices, we are committed to clinical education. Every week, we are doing training in different hospitals, we continually train nurses, physicians and wound care

specialists. If you want to make a difference, you have to be committed to clinical education. Sales will follow after you have made a positive impact on users.

To summarize, what is your value proposition to the Mexican healthcare system compared to other local companies in the same market segment which probably offer cheaper products?

It's a combination of excellent branded quality product, the latest technology in the field, local expertise (best team you can find) in terms of marketing, clinical education and commercial operational excellence. We also do clinical protocols with key institutions to bring new treatments to the country.

As part of our local strategy to differentiate from local competitors, during 2012 we invested in a state of the art new warehouse in a partnership with Hellmann Logistics to be able to offer to our customers packaging and delivery solutions rather than just product deliveries. At the same time we make sure to comply with local medical devices regulations.

BSN Medical is also involved in Mexico via a large manufacturing plant in Reynosa. Could you develop on BSN's manufacturing strategy in the country?

It's the largest facility that we have as a company; now we employ more than 500 people although most of the facility is automated. We have 5 different manufacturing lines. 10% of the production stays in Mexico; the US represents 70% of exports and the rest goes overseas. We are in the optimizing phase for the moment, but when we'll need additional capacity we do have additional plans for another facility in Reynosa. Mexico is in a very good place in terms of production hub of the group.

On a personal basis, why did you choose to work for BSN Medical after working for giants like GE Healthcare, Covidien and J&J Medical?

First of all, it was the challenge. I found out through my career that I'm more inspired when driving something new or to the next level rather than just maintaining an ongoing business. BSN contacted me, they explained the challenge opportunity, I met the management team and I immediately realized that this was a great company thanks to the people sitting on our Board of Directors. They truly care about people and understand that investments are long term. Last, BSN Medical just got acquired by private equity fund ETQ and this is going to be great for us. Of course, ETQ is result and equity driven, but they also share our long term vision and are driven by the potential to develop companies in their respective industries markets. Today, BSN Medical has the best culture coming from its investors and its top executives, so we can expect a bright future, and I am very proud to contribute to the story. Mexico is in the spotlight of that story, so we're going to be busy!

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