Medical Design & OUTSOURCING

Medtech contract manufacturing: THEN & NOW

A decade ago, a number of notable trends and market forces began to change how the medical device manufacturing sector brought its products to market. They're still shaping the market today.

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THE CONTRACT MANUFACTURING SECTOR serving medical device technology has grown over the last two decades into an integral part of medtech's success story.

Companies have adeptly changed to meet new clinical demands. They've reshaped manufacturing models to better respond to shifting economic realities.

Evolution in the space includes the expanding role of additive manufacturing, cloud computing and increased supply chain efficiencies, among many others. So what are the changes we've seen over the last decade, and what are the trends we see now?

A historical look at medical device manufacturing trends

In the early 1990s, computer and other industrial outsourcing proliferated as companies such as Flextronics International (now Flex Ltd.), Jabil and Celestica quickly acquired their customers' manufacturing operations and grew in areas such as consumer electronics. Despite the expansion, outsourcing in the medical device sector lagged in market share due to the regulatory nature of the business as well as the inherent risks associated with medical products. There were only a few significant players, and a lot smaller highly specialized process-based shops providing unique skills. But, slowly, a more robust medical device outsourcing market and supply chain began to emerge. About 10 years ago, some notable trends and market forces started to change how the medical device manufacturing sector brought products to market. They're still shaping the market we have today.

Major consolidation

Companies merging – combining complementary skills to secure more market share – has been one of the top trends in medtech outsourcing in the last decade. Accellent, for example, acquired Lake Region Medical in 2014, and Greatbatch, in turn, purchased the combined company in 2015 — with the new medical device manufacturing juggernaut evolving into the $1.5-billion-a-year Integer by 2016.

Other significant consolidations included Jabil's acquisition of Nypro in 2013, the Flextronics purchase of Avail in 2007, and the Molex buyout of Phillips-Medisize in 2016. These manufacturing conglomerates combined account for nearly $3 billion in medical manufacturing revenue a year. Also, Viant (formerly MedPlast) has neared the $1 billion revenue mark based on the acquisitions it has made the last few years, such as Vention, Coastal Life and Integer's Advanced Surgical and Orthopedics business.

New entrants

Another defining characteristic of the medical device manufacturing space over the last decade has been companies entering the sector without much prior experience in medical technology, but eager to create a healthcare niche within their business. Molex is an exciting example of this trend. The company, which is owned by the Koch brothers, didn't have much of a history in medical device manufacturing. It focused mostly on consumer electronics, information technology, automotive and other industries. Other large industrials that have moved into medtech manufacturing in the recent past include Freudenberg, Trelleborg, Nordson, Lubrizol and TE Connectivity. Many other global and broadly diversified manufacturers have been active in medtech mergers and acquisitions but so far have come up short in their bids to assemble market-leading medical device manufacturing portfolios.

Distributors evolving

Medical technology distributors have moved from being simply hospital suppliers to creating a niche as supply chain and healthcare solutions providers. For example, MedLine Industries has been an active manufacturer in the distributor world for a long time (and with many private-label commodity products, many made in Asia with contract manufacturers). However, two of their competitors have made recent moves to add to their own manufacturing capabilities and product portfolios. Cardinal Health acquired Cordis from Johnson & Johnson and Covidien's Medical Products Division from Medtronic. Just recently, Owens & Minor purchased a large chunk of the surgical supply business from Halyard Health (formerly Kimberly Clark Health Care).

Minimally invasive

Depending on whose research you use, the global market for minimally invasive medical technology will be worth $50 billion by the end of this decade. With the move to more catheter-based and laparoscopic procedures and the miniaturization of technology in general, the potential of this market will continue for some time to come. For contract manufacturers, it has emerged as a particularly desirable segment to target and attempt to provide a full range of outsourcing capabilities. Companies such as TE Connectivity (with its purchase of Creganna, AdvancedCath), Nordson (though the acquisitions of Vesta and Vention Medical Advanced Components), and Freudenberg (with its MedVenture Technology Corp. buyout), clearly demonstrate that companies are willing to invest to meet the minimally invasive sector's needs and create a one-stop-shop solution for their OEM customers.

Contract manufacturing sophistication

As medical device OEMs have looked to decrease their brick-and-mortar operations and turn manufacturing over to one-stop shops, they've demanded more from their suppliers. This demand has changed the complexity of the work for contract manufacturers over the last 10 years. Not long ago, the legacy medical device companies and OEMs simply told contract manufacturers what products to manufacture and how, but the relationship has now shifted. Contract manufacturers have created value propositions in being able to provide services from product concept and development, to highly specialized manufacturing and even supply chain management and delivery to the end customer.

Medical device manufacturing probably will never look like the tiered system used in the automotive industry, but some aspects are similar. For example, OEMs value suppliers that have tightly integrated themselves into the OEM supply chains. They also call on top suppliers to manage other smaller and non-strategic suppliers on behalf of the OEM.

OEM consolidation has, in turn, forced consolidation within the contract manufacturing space. Contract manufacturers turn to mergers and acquisitions to quickly expand and position themselves as trusted partners.

Private equity

Over the last five to seven years, private equity investment has had a profound impact on medical device contract manufacturing. Private equity investment has brought liquidity, mergers and acquisition knowledge and professional management to what mainly has been an industry consisting of smaller owner/operators. Examples include: Golden Gate Capital purchasing Phillips-Medisize (now owned by Molex) from Kohlberg & Co. (another private-equity firm); the RoundTable Healthcare Partners purchase of Vesta (and its subsequent sale to Lubrizol); Permira's acquisition of Creganna (which later was sold to TE Connectivity); Inverness Grahams's ownership of AdvancedCath (which also was sold to TE Connectivity); Ampersand Capital Partners' purchase of MedVenture Technology (which later was bought by Freudenberg Medical), and many others.

What's next

The trends we've seen over the last decade have reshaped the medical device contract manufacturing landscape. They're not over yet, either. Expect further development of a tier system in coming years, as well as more consolidation.

To achieve success, CMOs will need to focus on increasing velocity even amid pressures from OEMs. They'll need to be nimble as they adopt new technology. The competitive advantage will go to the firms that demonstrate the most responsiveness. M