



CONTRACT MANUFACTURING, A NEMESIS FOR DISRUPTION IN HEALTHCARE?

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“A disruptive innovation is an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market-leading firms, products, and alliances.”

“DISRUPTIVE” INNOVATION

Disruptive innovation always existed. However, these days, it has become a norm due to dynamic market changes in almost every sector.

Civil aviation is one of the early pioneer sectors for disrupting and evolving the market using new technologies and applications. As an example, early in 1950's, American Airlines' CEO, met an IBM sales representative and invited him to see their reservation system for areas of improvement. From there, American Airlines and IBM began collaborating on an idea of an automated airline system. In 1959, the venture announced the Semi-Automatic Business Research Environment, commonly known today as SABRE.

When completed, it became the largest civil data processing system in the world. Soon, travel agents began pushing for a system that would automate their side of the process giving them more control

on the choices. Of course with the Internet, the full control is, now, in the hands (clicks) of a passenger boarding a plane.

Disruptive innovation also explains how some companies, in an effort to deliver more affordable and accessible solutions, are able to sweep away once-dominant firms with alarming regularity, often before the incumbents and their leaders realize that their days are numbered.

Canon did it to Xerox by bringing slower but less costly tabletop photocopiers to the market. Toyota did it to General Motors by introducing less stylish but cheaper models, and Korean, Chinese, and Indian automobile manufacturers are disrupting Toyota by doing the same thing. One example everybody knows is the disruption of the mainframe and minicomputer by the less powerful but more affordable personal computer (PC).

Only a few decades ago, access to computing power was very expensive, and computers were complicated to use. Now it is almost contained in a phone that almost everybody uses around the globe. Basically it is cheaper to use and is accessible by almost all.

And...With technologies changing, new applications replaced the old ones.

In healthcare market, this is a little different....

First of all, healthcare is about “human life”.

Being “accessible” and “affordable” is a thin line between life and death in healthcare business!

Therefore, whether disrupted or not, some technologies/products will stay the same in the foreseeable future. On the other hand, a manufacturing plant that was set up years ago has certain limitations on the variety of production. This has created an environment where production of these products that have been in use for a long time and are still used, have moved to different regions of the world where labor is cheaper.

In other words, these products have become pure commodity. This move to other parts of the globe has also created concerns of “quality”, “compliance to ever -changing regulations”, packaging and distribution as well as after-service which are all equally important. Furthermore, new entrants have evolved especially from within the consumer electronics manufacturers that has raised the issue of “know-how” and “knowledge” of the medical device manufacturing market.

After all...again... It is all about human life...!

Smart companies choose a single contract manufacturer instead of investing finite resources and time into setting up the space, equipment, hiring and training new staff, packaging, testing, and logistics. Additionally, when industry trends inevitably change, companies who do not tie themselves down with pre-existing infrastructure have an upper-hand over their competitors in the form of flexibility. They can more

easily adapt to market shifts. In other words, offloading some production to another manufacturer gives them the ability to remain competitive by focusing on innovation.

So, yes, contract manufacturing of some medical devices is a nemesis but a "good nemesis" for disruptive innovation by providing time and effort for developing new technologies and applications.

Furthermore, it provides more time and effort for major medical device manufacturers to form partnerships with start-ups that continuously bring smart solutions to the healthcare market to combat major problems of "accessibility", "affordability" and "prevention".

Having said this, it is equally important for these companies to focus on some criteria to overcome any obstacles such as;

- Making sure the CM has the know-how
- Making sure the CM can become a good partner to respect all the "quality" requirements
- Making sure the distribution as well as compliance is up to par with the standards

Because...

Whether they do it to focus on innovation and start-ups or just for pure cost efficiency, everything that is manufactured in the healthcare industry is always related to "human life". Therefore, in this case it is a "good nemesis".... Because both the old and the new has to exist....at least for now...



Gülderen Somar

If all manufacturers of medical devices never gave up the production of "commodities", the new start-ups who try to disrupt would not be able to achieve their objectives.

Most importantly, affordability in medical care would be just a dream...

We, at Biçakçılar, believe in a world where everybody is taken care of, comfortable and happy, in sickness and in health.