

viewpoint

SHOULD YOU BE MAKING MEDICAL EQUIPMENT?

Suppliers may need to look beyond the auto industry for growth. One intriguing possibility: manufacturing medical devices such as orthopedic implants. The best candidates



Michael Gross

are suppliers with strong capabilities in engineering, precision machining and manufacturing tight-tolerance parts, according to Michael Gross, director of investment banking at Beringea LLC in Farmington Hills, Mich.

Beringea is a global private equity, investment banking and strategic consulting firm with expertise in both the automotive and medical device industries. Gross explains how the two sectors may connect.

How big is the medical technology market?

The orthopedics sector alone represents a market greater than \$20 billion, and it's growing at more than 10% per year. There are many other segments in the medical technology industry that also represent high-growth markets. There are hundreds of medical device manufacturers, ranging in size from large conglomerates to very small operations, and many are located in the Midwest.

Wouldn't it be a very significant transition?

If you're a manufacture-to-print commodity supplier, you're probably not a good candidate. But because there are many highly engineered precision parts that go into a car, automotive suppliers can more easily transition into medical device manufacturing. If you're a significant auto supplier, you probably already have strong engineering skills and know how to hit high tolerances and make complex small parts. There are several examples of companies that have leveraged their manufacturing capabilities in automotive, aerospace or defense to become suppliers to the medical device industry.

You must have engineering ability and experience in making precision parts to enter the medical field. It's also important to be able to work with a broad range of materials. Many medical products are evolving into complex materials such as cobalt chrome, ceramics and PEEK.

Is the medical industry open to outsiders?

Very much so. Most of the sellers in the market have multiple suppliers, although there is a trend toward consolidation of the supply base. They want the best manufacturing

sources they can find. As with the auto industry, they just want quality parts from people that can deliver on time.

Aren't the volumes much lower?

Yes, volumes are lower, but the margins are more lucrative. The lower volume is one reason why much of this work hasn't moved to Asia. Typically, a customer needs a small quantity quickly, so local sourcing is a plus.

How can a company learn more about the medical devices industry?

The first step is to visit a trade show and find out what kinds of products are out there. Some shows, such as the Orthopedic Manufacturing and Technology Exposition in Chicago in June, are manufacturing-focused. You can see what's out there and find out who makes what. It's a great place to interact with potential customers. You can hold the parts in your hand and ask yourself, "How would I make this?"

Also, many manufacturing societies, such as the Society of Manufacturing Engineers, are increasing their focus on medical device production. SME even has a 2008 yearbook devoted to medical manufacturing.

How can an auto supplier make the move into the medical device industry?

One way is to make prototypes for a medical device OEM. Start-up companies are often the key to a first contract. There is continuous innovation in this field, and many new medical devices come from venture startups with zero manufacturing expertise. They are focused on product development, marketing and regulatory approval, and they aren't set up to do the manufacturing. These companies need a partner that can assist with design and make prototypes. They may have limited capital, and they are open to just about anybody who has the necessary machining capacity. Working with one of these startups is an easier way to get into the industry without trying to land a big contract with a big medical equipment supplier.

Acquisition is another option, and this is one area where Beringea can provide merger and acquisition support. This is a very fragmented industry, so there are abundant opportunities to acquire a small, focused supplier already in the medical device business.

To learn more about opportunities in medical device manufacturing, contact Michael Gross at (248) 489-9000 or e-mail mgross@beringea.com.



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