ARY INDUSTRY MARKET AND LOGISTICS PROFILE

Medical Devices and Equipment

Structure of the Health Care Sector in Mexico

The national health care system in Mexico covers 89.7 million people, or approximately 93 percent of the population. The remaining 7 percent of the population lives in the most remote rural areas of the country where health care facilities are not accessible. The National Health Care System is divided into two main systems.

The first is a system which incorporates 53 percent of the Mexican population and is designed to service the health care needs of all people in Mexico who are not employed. It is referred to as the system servicing the *población abierta* — open system.

Industry Market Profile

Foreign Affairs and International Trade has prepared an extensive study of the Mexican market for medical devices and equipment. This report has been produced and published under the Access North America Program. Entitled *Sector Profile: The Market in Mexico for Medical Devices and Equipment*, it is available from:

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Table of Contents

The second system provides services to the remaining 47 percent of the population including all employees within the public and private sectors and their families. It is referred to as the system servicing the *población derechohabiente* — premium-based system. Each system includes an infrastructure comprised of primary, secondary and tertiary health care facilities and each system offers these services throughout the 31 states of the country.

There is a parallel private health care system, which is financially supported through user fees. The market served by the private health care system tends toward the higher socio-economic levels of Mexican society. Estimates vary on the percentage of the population using the private health care system from 3 percent to 20 percent. Based on figures provided by the *Asociación Mexicana de Instituciones de Seguros* (AMIS), the number of Mexicans covered by private health insurance, including accident insurance, rose in 1993 to approximately 2 million people. This would confirm the low range estimate of 3 percent, or 2.6 million people, electing to use the private health care system.

Customers

The body responsible for health care policy and regulation in the country is the *Secretaría de Salud* (SSA) — the Secretariat of Health. SSA also delivers medical services to the poorer segments of Mexican society through the SSA system of clinics and hospitals.

Open System

The open system includes the following providers of health care services and facilities:

- *Secretaría de Salud* (SSA) — the Secretariat of Health;
- *Departamento del Distrito Federal* (DDF) — the Department of the Federal District;
- *Instituto Mexicano del Seguro Social — Solidaridad* (IMSS-*Solidaridad*) — encompasses the services provided under the national welfare system of *Solidaridad*;
- *Sistema Nacional Para el Desarrollo Integral de la Familia* (DIF) — the National System for the Development of the Family;

Highlights

This guide has been prepared to assist Canadian firms interested in exporting medical devices and equipment to Mexico. The main objectives of the guide are to:

- **explain the structure and operation of the national health care system and the private health care system;**
- **identify areas of opportunity for Canadian companies in the medical devices and equipment sector; and**
- **develop an understanding of the business environment affecting this sector.**

- *Institutos de Especialidades* — Specialty Institutes which are clustered in Mexico City and serve as both hospitals and teaching institutes; and
- *Servicios Estatales, Municipales y Universitarios* — medical units which depend on funding through various state and municipal governments and universities.

Premium-Based System

The premium-based system includes the following providers of health care services and facilities:

- *Instituto Mexicano de Seguridad Social* (IMSS) — the Mexican Institute for Social Security;
- *Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado* (ISSSTE) — the Institute for Security and Social Services for Public Sector Employees;
- *Secretaría de la Defensa Nacional* (SDN) — the Secretariat of National Defense;
- *Secretaría de la Marina* (SM) — the Secretariat of the Marine; and
- *Petroleos Mexicanos* (PEMEX) — the Mexican petroleum company.

Private Health Care System

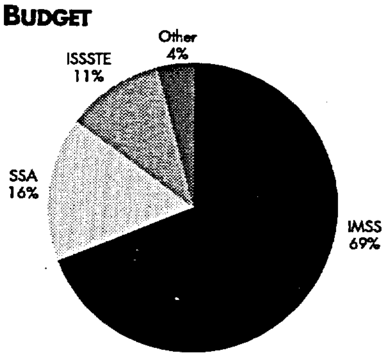
The largest private hospitals are located in México, D.F. (Distrito Federal). There are also important facilities, although fewer of them, in most major cities of Mexico including Monterrey, Guadalajara, Monterrey and other large urban centres. Hospitals within the private system operate independently of each other. Few have "branch" hospitals in other locations.

Health Care Budget

Public sector spending in the health care sector, as a percentage of GNP has been decreasing over the period 1980 to 1992. However, as a percentage of total public spending the health care sector commanded an impressive 16.2 percent in 1992. The total budget of the national health care system was U.S. $9.1 billion in 1992. The IMSS managed the largest budget within the system, accounting for 69 percent of total expenditures in the national health care system. The SSA was the second largest entity in the system accounting for 16 percent of the budget. The third largest entity was the ISSSTE which controlled 11 percent of the budget.

The budgets of the private sector hospitals are not available to the public.

Breakdown of Health Care Budget

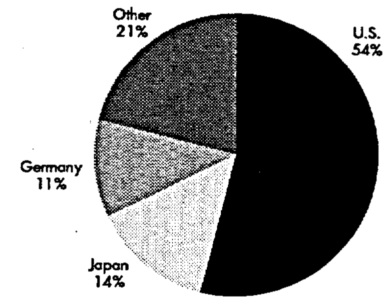


Note: Percentage per Government Department

Foreign Trade

Forty-seven categories of products were considered for the purposes of this study. Imports of medical devices and equipment have grown dramatically over the four year period, 1990 to 1994. In this period Mexico's purchases of foreign medical devices and equipment increased by 141 percent from U.S. $147 million to U.S. $354 million, excluding ambulances. If one includes ambulances in the picture, the import picture would rise to U.S. $260 million in 1990 and to U.S. $607 million in 1993, representing a 133 percent increase. Exports from three countries make up 80 percent of the imports into Mexico or medical devices and equipment, excluding ambulances. The U.S. had a 54 percent share in 1993, Japan 14 percent and Germany 11 percent.

Market Share of Imports by Country



Note: Percentage Market Share.

Trends in the Health Care Sector

Political Influences

On December 1, 1994 a new President will assume power in Mexico and newly-elected officials will be appointed to head up the Secretariats for the period 1994 — 2000. The direction of health care policy, new infrastructure development, and the emphasis on equipment purchases, etc. will remain a question mark until mid-1995 in order to allow the new administration time to put its stamp on the health care system. Purchases meanwhile, will continue in accordance with last year's budget allocations with the emphasis being on day-to-day maintenance of the national health care system.

The result of the transitional period between two federal administrations is that there is no new construction of secondary or tertiary health care facilities foreseen for 1994 or 1995 within the national health care system. New construction is anticipated in 1996. There is increasing interest in looking at future construction on a turnkey basis where the contractor would develop the site, build the building and equip the hospital.

This would be a significant departure from the current approach in which the provisioning departments of each purchasing entity within the health care system would coordinate all purchases.

Privatization

In many federal jurisdictions in Mexico there has been a movement toward the privatization of government services. This trend has not been carried into the medical sector. There does not appear to be an impetus to concession medical services in general. Until a new administration declares its views in this regard, it is difficult to anticipate what the direction will be.

Budgets

Definitive figures on the total purchases of medical devices and equipment are not available. Conventional wisdom in the market place supports the belief that the national health care system purchases 80 to 90 percent of products sold in this category.

Declining budgets within the federal government and a growing population have had an impact on the type of expenditure being made in the health care system. Emphasis has been placed on:

- the construction of primary health care facilities which service more people; an remodeling and renovating existing facilities rather than new construction; and
- on purchasing used and up-graded equipment and new equipment to a more limited extent.

The private health care system was growing in the early 1990s in Mexico but in view of the economic recession which began in 1993, and has continued through 1994, the private sector purchases are expected to remain stagnant until the economy begins to grow again.

Disease Related Care

In the fight against diseases such as polio, tetanus, tuberculosis, brucelosis, rubella, and diptheria, the public health care system has invested significant resources. It is committed to making continued advances, in the area of vaccination programs for all children under the age of five years. Programs such as *Semana Nacional de Salud* — National Health Week (during the month of October), and *Días Nacionales de Vacunación* — National Vaccination Days, are promoted and supported through the primary care clinics across the country.

Respiratory diseases have noticeably increased, particularly in large urban centres. Related respiratory problems, in children and adults alike, are requiring more attention by medical staff.

Control of cholera is an area which is receiving significant attention given increasing numbers of outbreaks in recent years[1]. There were 43 cases reported in 1993.

AIDS is recognized as a growing problem in Mexico. A number of major centres in the country are reporting increases in the number of diagnosed cases for the period 1992-1993 in excess 100 percent[2]. Nationally it is estimated that the number of known cases increased 88.8 percent in this one year period. Investment in the prevention, diagnosis and care for the population suffering from the disease has begun to increase significantly and is expected to continue to do so for the coming years. Awareness campaigns and telephone hotlines are tools which are being used throughout the country as part of a national familiarization program.

Interviews with surgeons and caregivers in the national health care system and the private system revealed that more "first world diseases" are being seen in the system such as heart problems, hypertension, cancer, diabetes, and respiratory diseases. This trend is expected to continue as life expectancy increases, the population ages, and disposable income improves. Surgeons also reported an increased number of organ transplants throughout the national health care system. Laparascopic surgery is also on the increase.

Opportunities in the Market

The major buyer in the market is IMSS and most companies will focus their marketing emphasis on developing sales to this entity. A number of *Institutos de Especialidades* — Specialized Institutes exist in Mexico and these would include an Institute of Cardiology, the Institute on Nutrition, and the Institute of Pediatrics. All the institutes offer interesting potential for manufacturers of specialty equipment. The larger private hospitals are also attractive as potential customers.

The areas of opportunity include equipment which is used in the treatment of cancer such as alpha beta radiation technology. There is more emphasis being placed on physiotherapy, and the demand for hydrotherapy, electrotherapy and ultrasound equipment is increasing. Respiratory ailments and related problems are expanding, requiring more sophisticated means of treatment. The treatment of heart disease and related complications is growing, thus underscoring the heightened demand for related devices and equipment.

Market Entry Strategy

In considering the opportunities in Mexico in this sector, it is important

Footnotes

[1] *Presidential Address*, December 1, 1993, pg. 150
[2] ibid

to begin with an assessment of the domestic manufacturing ability and the price point at which an imported product would have to enter the market. It is also important to bear in mind the appropriateness of the technology — ask yourself if **more** people could benefit from a piece of equipment which would cost **less**.

Market demand will remain stable at the very high end of the technology spectrum but will continue to grow in areas where low to medium-technology satisfies significant demand. Remember that the national budget and the budgets of the private hospitals are being constrained by the recessionary economic conditions prevailing in Mexico while, at the same time, existing budgets must satisfy ever-increasing demands being placed upon the existing health care infrastructure.

The second set of considerations deals with product registrations. A firm must check to ensure that its devices or equipment appear in the *Quadro Basico*, the Basic Formulary, prepared by each buyer in the national health care system. These annual publications dictate which products, meeting established criteria, will be purchased in the following year. The subsequent registration of the product to be imported into Mexico with the Secretariat of Health, must be undertaken including any product testing which may be required.

Finally, a firm should consider how a product is to be promoted within the health care system. The process of appointing a representative or agent, or selecting a partner, will be one of the most important decisions a company will make in support of its market-entry strategy.

The purchasing systems of medical devices and equipment are complex and public tenders are difficult to manage from a Canadian beachhead. Having the right person in Mexico to act on your interests will be key to success in the market.

Purchasing Practices

Most purchases within the open and premium-based systems are made pursuant to a public tender process and governed by the federal *Ley de Adquisisiones Publicos* — Public Procurement Act.

This is the legislation controlling all federal government procurement of goods and services, including purchases within the national health care system. The legislation requires that all purchases, except for limited discretionary budgets allocated to each purchasing entity, must be acquired through a public tender process. Within the NAFTA framework, Mexico will re-align its government procurements practices making them more consistent with the policies of Canada and the U.S.

The one exception is the procurement within the *Institutos de Especialidades* which have particular discretion over the purchasing of equipment for use within the institutes. Monitoring and responding to notices of public tenders is the means by which devices and equipment will be sold within the national health care system.

Purchases within the private system are made on a case-by-case basis in accordance with the purchasing practices of each hospital. Each hospital must be approached individually by a company representative or agent in order to promote the use, within that particular hospital, of a given medical device or piece of equipment.

Tender Notification

The first step in the public tender process is the tender notification. Calls for tenders are published in the *Diary Oficial* — the National Gazette, and they must be published in at least two national daily newspapers. *El Excelsior* and *El Universal* are commonly used. In practice, tender notifications (*avisos*) will only be publicized for a few days. The notification will provide information on the bid reference number, the goods being purchased, the cost of the bid documents, where they can be obtained and as of what date and time. It is therefore necessary for a Canadian company, interested in competing for public contracts, to establish a mechanism for scanning the appropriate publications on a daily basis. As of January 1, 1995 there will be a special newspaper for the publication of public tender notices.

Buying Cycles Within the National Health Care System

The outset of the buying cycle within the national health care system commences by establishing purchasing priorities in May and June within each purchasing entity. These priorities then become the basis for the budget submission in August to the *Secretaría de Hacienda y Crédito Publico*, more commonly referred to as *HACIENDA* — the Secretariat of Finance and Public Credit. The budget is finalized and returned to the purchasing entities to be allocated internally by the end of November. Purchasing tenders are then announced in January and February. In prior years an effort was made to concentrate all buying within the months of January and February however there has been a noticeable shift in recent years toward purchasing year-round.

Buying Cycles

There are three points at which a company should actively pursue the major purchasing agencies to ensure the latter are aware of its product and its features: in May and June when the purchasing priorities are being established for the following year; during the late summer when the items for inclusion in the Quadro Basico are being selected; and, in early January when the purchasing priorities are being adjusted in accordance with the budget allocations.

TRADE SHOWS

Annual trade shows of interest to companies in the medical devices and equipment sector include *Expo Médica*, *Médica Mex*, and *Expo Hospital*. A solo Canadian medical trade show is in the planning stages and will be scheduled for México D.F. at the new Canadian Trade Centre for early 1995.

WHERE TO GET HELP

The ***Department of Foreign Affairs and International Trade (DFAIT)*** is the Canadian federal government department most directly responsible for trade development. The InfoEx Centre is the first contact point for advice on how to start exporting; it provides information on export-related programs and services; helps find fast answers to export problems; acts as the entry point to DFAITs trade information network; and can provide companies with copies of specialized export publications.

InfoCentre
Tel: 1-800-267-8378
or (613) 944-4000
Fax: (613) 996-9709

The ***Commercial Division of the Embassy of Canada*** in Mexico City promotes trade with Mexico. There are several trade commissioners at the Embassy, and there is a satellite office in Monterrey. Trade Commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in trade fairs, helping identify suitable Mexican firms to act as agents, and compiling credit and business information on potential foreign customers.

Commercial Division
The Embassy of Canada in Mexico
Schiller No. 529
Col. Polanco
Apartado Postal 105-05
11560 México D.F.
México
Tel: 724-7900
Fax: 724-7982
Contact: Ms. Kathryn Aleong

Canadian Consulate
Edificio Kalos, Piso C-1
Local 108A
Zaragoza y Constitucion
64000 Monterrey
México
Tel: 443-200
Fax: 443-048

Note: *to telephone México, D.F. dial: 011-52-5 before the number shown below, for contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes or contact the international operator.*

International Trade Centres have been established across the country as a first point of contact to support the exporting efforts of Canadian firms. Co-located with the regional offices of Industry Canada (IC), the centres operate under the guidance of DFAIT and all have resident Trade Commissioners. They help companies determine whether or not they are ready to export; assist firms with marketing research and market planning; provide access to government programs designed to promote exports; and arrange for assistance from the Trade Development Division in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you.

The ***World Information Network for Exports (WIN Exports)*** is a computer-based information system designed by DFAIT to help Canada's trade development officers abroad match foreign needs to Canadian capabilities, experience and interests of more than 30,000 Canadian exporters. To be registered on WIN Exports, call: (613) 996-5701.

The ***Market Intelligence Service*** provides Canadian business with detailed market information on a product-specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer, and new manufacturing investment opportunities. The intelligence is used by Canadian business in decisions regarding manufacturing, product development, marketing, and market expansion. The information includes values, volume and unit price of imports, characteristics of specific imports (e.g. material, grade, price, range, etc.), names of importers, major countries of export, identification of foreign exporters to Canada, Canadian production, Canadian exports, and U.S. imports. Two-thirds of the clientele for this service are small businesses. Call: (613) 954-4970.

The ***Embassy of Mexico***, Mexican Trade Commissioners in Canada, and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about doing business in Mexico.

Embassy of Mexico
45 O'Connor Street, Suite 1500
Ottawa ON K1P 1A4
Tel: (613) 233-8988
Fax: (613)235-9123

KEY CONTACTS IN CANADA

The Canadian Council for the Americas (CCA) is a non-profit organization formed in 1987 to promot business interests in Latin American and Caribbean countries. The CCA promotes events and programs targeted at expanding business and building networking countries between Canada and the countries of the region. It also publishes a bimonthly newsletter.

The Canadian Council for the Americas (CCA)
Executive Offices, Third Floor
145 Richmond Street West
Toronto, ON M5H 2L2
Tel: (416) 367-4313
Fax: (416) 367-5460

Canadian Exporters' Association (CEA)
99 Bank Street, Suite 250
Ottawa, ON K1P 6B9
Tel: (613) 238-8888
Fax: (613) 563-9218

Canadian Manufacturers' Association (CMA)
75 International Boulevard
Fourth floor
Etobicoke, ON M9W 6L9
Tel: (416) 798-8000
Fax: (416) 798-8050

The Canadian Chamber of Commerce (CCC)
Suite 1160
55 Metcalfe Street
Ottawa, ON K1P 6N4
Tel: (613) 238-4000
Fax: (613) 238-7643

Forum for International Trade Training (FITT)
155 Queen Street
6th Floor
Ottawa, ON K1P 6L1
Tel: (613) 230-3553
Fax: (613) 230-6808

Language Information Centre
240 Sparks Street, RPO
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Additional Contacts in Mexico

Secretariat of Health
Secretaría de Salud (SSA)
Lieja no. 7, Piso 1
Col, Juárez
06600 Mexico D.F.
México
Contact: Individual purchasing managers within SSA
Tel: 553-7670

Mexican Institute for Social Security
Instituto Mexicano del Seguro Social (IMSS)
Reforma 476, Piso 6
Col, Juárez
06600 México D.F.
México
Contact: Individual purchasing managers within IMSS
Tel: 211-0018

Institute for Safety and Social Security for Public Service Employees
Instituto de Seguridad y Servicios Social de los Trabajadores del Estado (ISSSTE)
Callejon Via San Fernando No. 12
Col. Barrio San Fernando Tlalpan
14070 México D.F.
México
Contact: Individual purchasing managers within SSA
Tel: 606-2121

Secretariat of Trade, Commerce and Industrial Development
Bureau of Standards
Secretaría de Comercio y Fomento Industrial (SECOFI)
Dirección General de Normas (DGN)
Puente de Tecamachalco No. 6
Lomas de Tecamachalco
Sección Fuentes, Naucalpan
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Tel: 540-3736

Mexican Hospital Association
Asociación Mexicana de Hospitales
Quéretaro 210
Col. Roma
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México
Contact: Ing. Adriana Velazquez
Tel: 574-0128

National Chamber of Hospitals
Cámara Nacional de Hospitales
Miguel Avila Camacho No. 479
Col. Periodistas
11220 México D.F.
México
Contact: Dr. Roberto A. O'Farril
Tel: 557-3183

Secretariat of Finance and Public Credit — *Secretaria de Hacienda y Crédito Público*
Palacio Nacional
1er. Patio Mariano
Col. Centro
06066 México, D.F.
México
Tel: 518-5420, through 29
Fax: 542-2821

National Chamber of Industrial Transformation — *Cámara Nacional de la Industria de la Transformación (CANACINTRA)* offers a wide range of services to companies wishing to do business in Mexico. It offers information on government regulations and procedures as well as advice on trade, financial incentives, industrial parks, and joint ventures. A separate division of the Chamber prepares studies of Mexico's economic situation while the international affairs division focuses on trade promotion.

National Chamber of Industrial Transformation — *Cámara Nacional de la Industria de la Transformación*
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Col. Nápoles
03849 México, D.F.
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