



Rigid Endoscopy – Feature Article and Executive Summary

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Rigid Endoscopy – are you tough enough to compete?

Within Europe, rigid endoscopes are still a potentially exciting clinical area where both new and existing competitors are fighting hard for market share. Although this market is seen as becoming saturated, the drive to develop new technologies and new procedures continues. In addition, growing restrictions on pricing and a tough competitive environment make this a challenging area where competitors will need to pull out all the stops to win market share.

Minimally invasive surgery is a well-accepted technique, and rigid endoscopy is considered to be a mature market within Europe. The larger, most established clinical areas such as laparoscopy, urology and arthroscopy have reached a state of steady growth, although the search for new procedures for rigid endoscopes within all these areas goes on. One example of this is arthroscopic procedures in difficult anatomies such as the shoulder and wrist. Companies such as Atlantech have been able to build up this niche market by developing rigid endoscopes with a wider field of vision that allow the area to be observed with a single optic. Newer applications, such as neuroendoscopy, have shown much faster growth rates as new procedures become possible and new regions of the body become accessible. Growth

rates for increases in the number of neuroendoscopy procedures are believed to be in the region of 7-15% a year. Neuroendoscopy promises to take rigid endoscopic techniques to a new level. The central nervous system poses challenges to minimally invasive surgery including:

- The use of gas insufflation or fluid perfusion to optimise the field of vision (as is done in conventional endoscopic procedures) is not possible because of the likelihood of damage
- Minor bleeding can be catastrophic
- Utter sterility is a pre-requisite

This has created the need for instruments that are specifically designed for use in the CNS. Examples of new procedures that have become possible involving the use of rigid endoscopes in neuroendoscopy include:

- Treatment of hydrocephalus (third ventriculostomy and fenestration)
- Removal of tumours and cysts
- Evacuation of some types of subdural haematomas (chronic and multilocated)
- Placement of shunt catheters
- Treatment of aneurysms
- Treatment of sympathetic mediated pain
- Endoscopic procedures on the CNS of children and infants

Market Segment	Opportunities
Laparoscopy	A large market where growth has slowed as the market has matured.
Urology	A large, well established market where new technology may increase revenue growth through price increases
Gynaecology	A large, well established market where new technology may increase revenue growth through price increases
ENT	Paediatric ENT is one area where doctors are developing new techniques.
Arthroscopy	Newer procedures treating difficult areas such as the shoulder and ankle are experiencing faster growth.
Neuroendoscopy	The fastest growing market for rigid endoscopes.

New competitors, from within Europe, the US and Asia have begun to gain a foothold in some of the larger European regions such as Germany, but for the foreseeable future the current market structure is unlikely to show dramatic changes. Brand and regional loyalty are still important in Europe and

established competitors have built up strong customer relationships and continue to be regarded as providers of high quality equipment. In Germany in particular, the label “made in Germany” continues to be seen as a vital sales tool.

Key factors for success are summarised below

Pricing	Identified as a key factor across Europe. However, although prices are very competitive, European based companies do not at present see cheap Asian imports as a major threat.
Customer service	Successful endoscope companies offer a range of after sales services to customers. These include instrument repair and replacement, instrument loans, maintenance contracts, training and technical support.
Product quality	High quality optics are always important in endoscopy. With the introduction of compulsory autoclaving for longer times, product durability has become increasingly important.
Product range and compatibility	Successful companies offer a product range across clinical areas. A wide range of accessories, and accessories that are compatible with pre-existing equipment, are valued.
New technology	“Chip on the tip” or videoendoscopy is expected to become a more established, although still specialist technique. Endoscopes that provide a 3D view have raised mixed opinions. There are concerns that end-users see this technology as being expensive for the results obtained.

Future developments

European industry members do not appear to be unduly concerned about the influx of cheaper imports from regions outside Europe, specifically India and China. Although prices for these products are significantly lower (costing perhaps \$300 in comparison to \$2500 for a European product), there is scepticism about product quality. As one interviewee put it *“People need to buy quality products and cannot use bad optics or instruments.”* In view of the loyal customer base that most major rigid endoscope suppliers have established, and purchaser’s requirements for a high level of customer service (including product replacement and repair), the barriers to cheaper imports becoming widely established in the market appear to be significant.

Views are mixed as to the threat posed by products aimed at niche areas of the market. It is possible, that if effectively marketed and competitively priced, a new market entrant could have an impact in this area. However, many established companies feel that the threat from niche competitors should not be overstated since large existing companies have achieved almost blanket coverage of the market and are able to support the introduction of new products with an established customer support

system. One area where smaller companies are reported to have successfully developed a specialist market is in small joint arthroscopy, where Atlantech have carved out a foothold in the market. This company is highly focussed on arthroscopy and reports that its success has been aided by good customer service back up to quality products that are compatible with systems that are already installed.

Overall, the rigid endoscopy market is driven by applications rather than product innovations. HBS estimates indicate that overall the number of procedures carried out in Europe is growing by 5-7% a year. This includes that development of new procedures in addition to increases in patients receiving treatment using established procedures.

Rigid endoscopy presents a potentially hostile environment for new market entrants in view of the dominance of a few, well established companies. Companies wishing to enter the market would do well to look at ways to achieve sufficient coverage in large European markets. Strategies should focus on customer service, including training and support, price and new applications.

Executive Summary

This report provides a detailed analysis of the market for rigid endoscopes across Europe, including technology trends and a breakdown of procedures. A small sample of end-users have also been interviewed to gain an insight into where they perceive gaps exist in the support and current technology provided by competitors.

The following market segments, based on clinical areas, are covered:

- Arthroscopy
- ENT
- Gynaecology
- Laparoscopy
- Neuroendoscopy
- Urology

An overview of the rigid endoscopy markets in China, India and Russia is also included. These are areas that present diverse challenges to new market entrants. Competitors from within these regions have also begun to make an impact on the European market, where they are able to offer technology at significantly lower prices than native companies.

Key Findings

Market Size

- The rigid endoscope market has reached a mature stage and growth rates for most market segments are steady but modest. The total European rigid endoscope market has been valued at €132.88 million in 2002, with annual growth of 5.2%.
- The laparoscopy market segment accounted for the largest proportion of market revenues (35%), followed by arthroscopy (29%), urology (14%), gynaecology (12%), ENT (6%) and neuroendoscopy (4%). Although a very small market segment in terms of revenues and sales, neuroendoscopy has been the fastest growing sector. This market is younger than other areas of the market and

the number and type of procedures being performed is increasing at a faster rate.

- The 3 largest regional markets in Europe in terms of revenues are calculated to be France (accounting for 26.7% of the market), Germany (23.8%) and the UK (19.1%).

Competition

- The market is heavily dominated by a small group of competitors, making it difficult for new market entrants to become well established. Major competitors account for 80% of market revenues.
- Karl Storz contributed the largest proportion of market revenues in 2002 followed by Olympus and Richard Wolf. Stryker and Smith and Nephew held smaller, but significant, market shares.
- Important competitive factors for the European rigid endoscope market include:
 1. Price
 2. Customer service (including instrument repair and replacement facilities)
 3. Reputation
 4. Customer relationships
- Product innovation and new technology appear to be less important factors to customers in Europe.

Conclusions

There are still opportunities for new companies to make an impression of the European rigid endoscopy market but success is most likely to be found in specialist markets such as small joint arthroscopy and sinus surgery. Although competition in major regional markets such as Germany, France and the UK is fierce, success is more likely to be found in these large markets where greater sales volumes and economies can be achieved.

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