
From Fiat to heart valves



By [Scott Hammen](#)

How one CEO took part of a huge Italian industrial complex and turned it into a high-tech healthcare company...

Born in Algeria, raised in France, with both an MSc degree in engineering and an MBA from INSEAD, André-Michel Ballester (MBA '83D) joined The Sorin Group in 2004 at the dawn of a new age for the world leader in medical technologies for cardiac surgery: it had just de-coupled from its "parents" - Italian industrial giants Fiat and Montedison - and listed on the Milan stock exchange. Since then fundamental changes at the fifty-year-old company have come at a relentless pace. Many of them have been a result of strategic moves by Ballester, who moved into the CEO office in 2007.

Sorin opened its doors in 1956 as a research subsidiary to pioneer the nuclear energy projects that the two groups were planning. Over the decades, it developed extensive expertise in a broad array of scientific domains and began to specialise in medical technology.

When Ballester joined as president of Sorin's Cardiac Rhythm Management Business Unit, the company had, in his words, "great engineers, great technicians, people inventing a lot of stuff." But although they were "pretty good at making stuff" he acknowledged, "they were not so good at

marketing and selling it." Ballester spoke with INSEAD Knowledge at the INSEAD Alumni Healthcare Summit in Berlin last autumn.

Ballester saw that the company's narrow focus on engineering had left it with too much bureaucracy and a rigid hierarchy. "If you had to define the culture that Fiat and Sorin had in the eighties and nineties," Ballester recalls, "the word 'flexibility' would not come to mind."

Marching to a different drummer

It's a very different story today – both at Sorin and at its former parent, Fiat. While Ballester might reject any attempt to equate his efforts to transform Sorin with the far larger-scale ones occurring at Fiat at roughly the same time, there are certain parallels. When Sergio Marchionne assumed control of Fiat - Italy's most important industrial group - in 2004, it was shackled by a hermetic technocratic company culture. Marchionne's success at turning Fiat around has won him international recognition, but part of that turnaround included spinning off Sorin.

The company, therefore, did not benefit from the Marchionne renaissance at Fiat, and instead retained the problems of its parent company. Ballester remembers the multiple challenges: "We were losing money, we had no growth, and the company was spread too thin. We were trying to do too many things in too many different businesses, in too many different geographies."

Like Marchione, Ballester needed to move quickly to transform an inward-looking, highly nationalistic company culture into a more open, global, and customer-oriented one. So he looked for talent outside the medical device sector in the automotive, aerospace, and electronics industries – engineers (like those from Fiat) who could look at the design and production costs of medical devices in a new way. Coming from very highly cost-conscious industries, these people, said Ballester, "came in with a very strong commitment to reducing cost embedded in their management style."

Growing pains

But beyond cultural transformation, Sorin is now also facing a more immediate challenge: competing in the U.S. While some sectors of its business are doing well there, Sorin is struggling to gain a foothold in cardiac rhythm management: "We have less than 1 percent of the U.S. market,"

Ballester said, "whereas the U.S. represents 60 percent of the world market. It's a huge opportunity, because of the size - it's a five billion euro market."

But penetrating it means competing with big American firms with well-entrenched positions, very large sales forces, and excellent customer reputations established over many years. Ballester knows that a very intense focus is needed - first on the market segment (in this case, the high end), second on geographic targets - certain strategic cities. "If you get lost in the huge overall market and try to cover all cities in the U.S., you can't compete with the big guys," he observes. "So we decided to work in concentric circles, starting with certain cities where we already had a significant share of the market and then expanding from there. We know from experience that it is not so much a problem of being a European company in the U.S., but more one of having the right strategy and implementing it well."

But, even if he succeeds at increasing market share in the U.S., Ballester knows that the real key to the company's future is going to be influenced by something not unique to the U.S. but common to developed economies worldwide: an ageing population destined to live longer and therefore needing healthcare over a longer time.

"The challenge for companies like ours is to look at the 'old world' as still a land of opportunity," he asserts, "but we need to capture these opportunities in a different way. There was a time when only technology and the clinical results mattered. Today clinical results are still very important but now products not only have to improve the lives of patients but also reduce the costs of the healthcare system."

Delivering economies

Since keeping patients at home instead of in hospital is far less expensive, Sorin has started to look at ways in which their products can help reduce both the number and length of hospital visits. In March 2011, for example, they released a new heart valve that allowed patients to leave the hospital sooner - reducing all the costs associated with a hospital stay.

But keeping the patient at home also requires new remote monitoring systems - technology that has not previously been part of Sorin's product range. So Sorin is identifying strategic partners in such previously unrelated areas as data management and telecommunications.

It is clear to Ballester that designing and manufacturing devices will no longer be enough. He foresees "a convergence of the various components of the healthcare industries - drugs, devices, services - because the healthcare systems will demand integrated solutions."

"We will need new skills and have to invest in new talents," says Ballester, and success will not be immediate. "We have to walk before we can run."

The INSEAD Alumni Healthcare Summit was held in Berlin between October 6 and 7, 2011.

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About the author(s)

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