

> In response to changes in the medical industry, the Medical Systems Group has developed a series of new products and business models centered around two core systems: a per use charging system for endoscopic procedures and a nursing operations support system.

Q.1:

The medical industry is said to be going through a period of radical change. What sorts of changes are taking place?

> Controlling medical costs is one current issue we see at the state level. Countries around the world have all struggled with this same issue in various ways. In Japan there is a movement to transform national universities and hospitals into independent administrative institutions, and measures are being taken to alter the base for insurance costs.

Until recently hospitals in Japan have been able to operate without regard for profitability, but they are now increasingly coming under pressure to evaluate income and control output like

any ordinary corporation. Physicians are confused by the business of running a hospital, and the number of cases where administration is outsourced to specialist organizations is increasing. As administrative belts tighten, the way that medical equipment is purchased also changes. Purchasing decisions have been ceded from doctors to hospital administrators, with the result that these decisions are made on the basis of cost-effectiveness. Also, the changing nature of the doctor-patient relationship cannot be overlooked. Because information on doctors and new technologies can easily be found on the Internet and in other sources, patients are beginning to be more selective of the medical care they receive, choosing hospitals they prefer.

These changes are occurring in all developed countries. Accordingly, it is necessary for the medical equipment industry in Japan to also change. A business model that relies on the purchase of equipment with "functional value," suited to specific care needs, is no longer sufficient—we must compete by providing "usage value," that is, the services that physicians and hospitals are able to offer. This means that when we develop medical equipment we must take into consideration not just the

*a clear vision:* we no longer simply sell equipment; we change



Koji Miyata,  
President of the  
Medical Systems  
Group

▲ 20%

SALES RATIO OF  
CPP SYSTEMS IN  
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STATES

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our business ways to solve customer problems

needs of physicians, but also those of hospital administrators and healthcare professionals as a whole.

For example, when a hospital purchases an endoscope, securing the necessary budget is often difficult. A manufacturer realizes this is a capital investment for the hospital, therefore it should assume the burden of securing the budget and determining the most appropriate means of purchase, while also working out the cost by figuring the cost accounting, capacity utilization, and other factors. Manufacturers can no longer simply sell equipment; they must change the way they do business to include solving customers' problems.

Q.2:

Is the charge-per-endoscopic-procedure system also part of this response to a changing business environment? What is the LUCERA VPP system that was launched in April 2004?

> VPP is the abbreviation for Value Per Procedure. Under this system, we provide a hospital with the EVIS LUCERA, the latest model endoscopic videoscope system, launched in Japan in late

2002, which allows for efficient endoscopic examinations. The usage contract includes warranty and maintenance costs in a single package, and charges are made on a per use basis.

Olympus' endoscope business has a 40-year history, and has grown to a level of approximately ¥217 billion in sales worldwide. To grow further, however, we believe that it is necessary to provide economical added value. This means that the business of the Medical Systems Group is not just to sell things straight out of a box, but to be able to provide "usage value" by clarifying the management of income and expenditure in accordance with the number of procedures.

Looking ahead, as Japanese hospitals pursue greater efficiency in the care they provide following reform of the medical care system, the demand for accurate and minimally invasive endoscopic examinations at these facilities will increase. This system is already a part of the cost per procedure (CPP) service menus used in the U.S., accounting for approximately 20% of sales in the gastrointestinal endoscopy field. We can no longer just sell products, but must also offer services that support the introduction of new equipment.

# #1 respected company

## OUR MEDICAL SYSTEMS GROUP VISION

We seek to be the most respected brand name in the medical equipment business worldwide.

*a clear vision: to be the most respected brand name*



Under the charge-per-procedure system the hospitals do not have to buy the equipment, so they do not have to incur a capital expense. Which is why this new service, named LUCERA VPP, is now being offered to several customers. We have received an extremely favorable response from St. Luke's International Hospital in Tokyo, where we have secured a contract and introduced the endoscopy equipment. Previously, after a sale had been completed we concentrated on maintenance and follow-up services; it was rare for us to get involved with the operating status of the equipment. However, we are now looking to be a partner supporting the hospital administration, ultimately playing a consultative role that offers a wide variety of added value.

### Q.3:

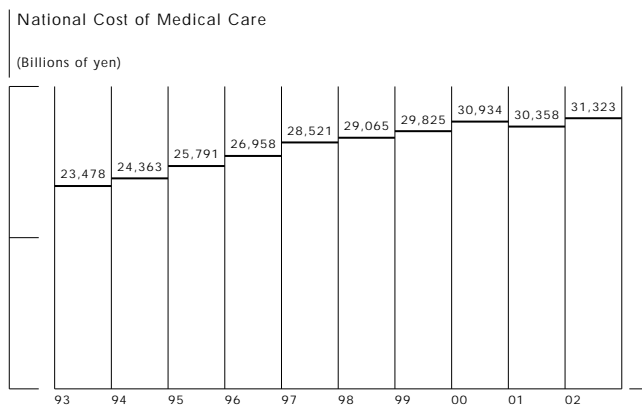
Information networks within hospitals are becoming more prevalent. What is the aim of the nursing operations support system, Solemio NURSE?

- > Our goal with Solemio NURSE is to aid in greater operational efficiency and prevent malpractice in Japanese hospital wards,



leading to greater management efficiency for the entire hospital. With this system nurses use a Personal Digital Assistant (PDA) unit to scan barcodes on drug prescriptions and wristbands on patients, crosschecking to ensure that dosages are in line with doctors' orders, and that proper care is given. The treatment details entered into the PDA are immediately transferred to an electronic care card, eliminating the possibility of input omission and increasing operation efficiency, as well as allowing for more precise management of inventory. Olympus' development efforts, carefully incorporating the needs of doctors and hospitals, have resulted in this extremely innovative product. Developed with the cooperation of the International Medical Center of Japan and Morioka Red Cross Hospital, the system was launched in April 2004.

Rigorous efforts to improve the efficiency of diagnostic procedures are now being carried out in the United States. The endoscopic examinations that used to be performed in the hos-



Source: Ministry of Health, Labour and Welfare

## worldwide in the medical equipment business

pital are now increasingly being done in other locations. There are now three to four thousand Ambulatory Surgical Centers (ASCs) that offer endoscopic examinations, where the procedure can be performed on an outpatient basis. Because ASCs are extremely businesslike, their management consultants have all built up programs that allow them to run business simulations, helping them to increase efficiency and lower costs. It is impossible to say whether Japanese hospitals will adopt a similar system or will head in an independent direction, but it is certain that there will be increasing demand for solutions like Solemio NURSE that provide economical added value in hardware.

Q.4:

In conclusion, what is your vision for the Medical Systems Group?

- > We seek to be the most respected brand name worldwide in the medical equipment field. And what does it mean to be respected in the medical equipment business? Our performance is judged by every phone call we receive. If our response on the

telephone is considered poor, this alone will diminish us. To prevent this from happening, we must do whatever is necessary to build a structure whereby the objectives of the Medical Systems Group are shared throughout the entire organization. We must also recognize that our business is one that deals with disease.

The business of medicine contributes to the well being of our society. And it fills us with joy to know that we are helping people; we seek to provide medical equipment and service that are safe, reliable, and effective.

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