

# Japan 2020-2021 Hospital Insights Survey



# The Evolving Landscape for Hospitals in Japan: Opportunities for Medtech Innovation

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L.E.K. Consulting recently surveyed 81 decision-makers at hospitals in Japan to better understand how strategic priorities and purchasing behaviors in those institutions are shifting, especially in light of COVID-19. The outreach, which builds on a comparable survey L.E.K. administered in 2019-20 as part of the broader hospital research we conducted across the Asia-Pacific region, sought to identify any opportunities and imperatives for medtech manufacturers going forward. We carried out parallel surveys in the United States and Europe as well.

The results of our survey made clear that financial pressures on Japanese hospitals are being exacerbated by the COVID-19 pandemic. While a post-pandemic recovery is anticipated, overall profitability levels are expected to remain low, which suggests that longer-term pressure on the financial sustainability of hospitals in the country will not go away anytime soon. To be sure, acute bed redeployment as a result of COVID-19 has slowed, but longer-term financial pressures and government policy targets suggest this reduction of acute beds will continue, even though hospitals may strategically maintain acute capacity. And patient care is still largely being provided in hospitals, despite some experimentation with alternative settings. It will likely take a major shift in both policy and incentives to drive any meaningful change in that approach.

In the meantime, restrictions on hospital access for medtech manufacturing representatives will remain at heightened levels, even after the pandemic. While such restrictions had begun to emerge prior to COVID-19, they became more pronounced during the pandemic. Some hospitals struggling to engage through alternative models are unclear about the path forward; others have found that physicians and their teams have adapted and are more comfortable engaging with medtech companies through alternatives to in-person meetings.

At the same time, hospitals continue to view medtech players as product companies instead of as solutions providers or partners. That said, hospital management is playing an increasingly important role in purchasing decisions, even in categories that are traditionally left solely to the discretion of clinicians. However,

different types of products (e.g., consumables versus capital equipment) and hospitals are assigned different levels of priority, which requires sales reps to take a customized approach.

Based on those findings, we recommend that in order to best engage these new stakeholders and their purchasing priorities, needs and behaviors, medtech manufacturers serving the Japanese hospital market should develop new commercial models. Doing so will require that they:

- Deepen their understanding of their hospital customers in Japan, to identify who they are, what they need, how they purchase and where they are present
- Engage with a broader set of stakeholders — those who matter today, not those who mattered in the past
- Tailor their product and service value propositions to address their customers' unique needs
- Create new engagement models that acknowledge limits on face-to-face interactions, and revamp their salesforce organizations and territories, as well as their content and related capabilities, to enable those models and realize efficiencies

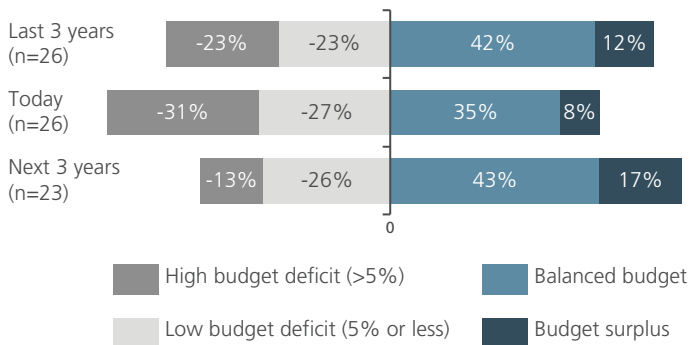
## Context: Japan's delivery system faces existing demographic, financial and social pressures

Japan's hospitals — and medtech manufacturers' customers — are continuing to face fundamental pressures on the sustainability of their operations, rooted in the broader financial challenges within Japan's healthcare system. Japan's demographic situation — the "oldest" country in the world and still aging, combined with negative population growth — is largely to blame and has been compounded by increasing public indebtedness and slow economic growth. Healthcare expenditure is forecast to grow rapidly in the coming years, yet the country's ability to pay for this growing expenditure is increasingly compromised, as evidenced by the dependency ratio of the working-age to elderly population.

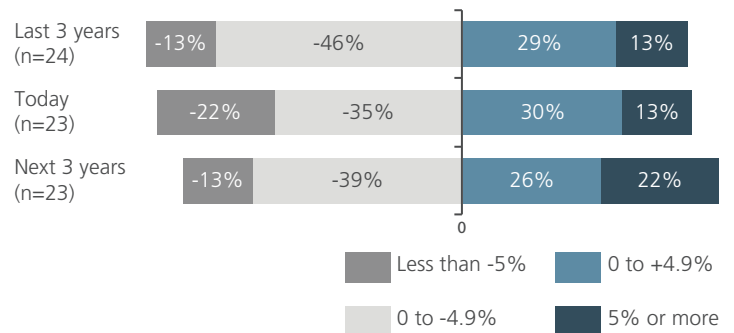
In the following sections, we cover survey findings that show evolving customer priorities and a shifting purchase process.

Figure 1  
Hospitals' historical financial performance and forecast

Budget outlook for public hospitals\*  
Percentage of respondents^



Profitability/EBITDA margin outlook for private hospitals\*\*  
Percentage of respondents^



Note: \*Question: What is the level of budget surplus/deficit incurred by your hospital over the following time period? \*\*Question: What is the EBITDA margin/profitability level of your hospital over the following time period? ^Responses with "I do not know/prefer not to disclose" have been excluded  
Source: L.E.K. 2020 APAC Hospital Priority Survey

### COVID-19 has impacted hospital finances and will drive changes in strategic priorities

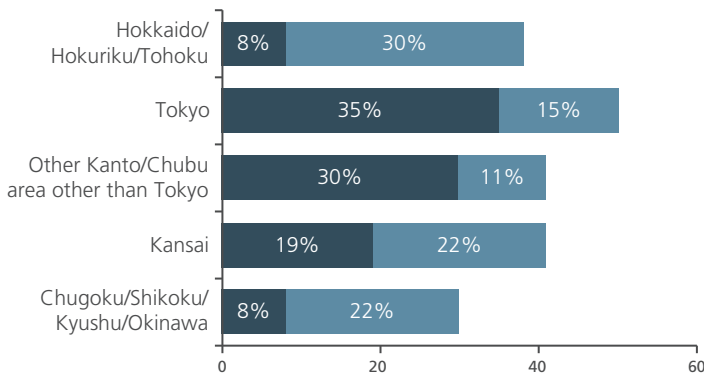
The financial pressures already impacting hospitals are being exacerbated by the COVID-19 pandemic, and while a recovery post-pandemic is anticipated, overall profitability levels are expected to remain low, suggesting longer-term pressure on financial sustainability of hospitals in Japan will remain a factor (see Figure 1).

Of the surveyed institutions, 59% treated COVID-19 patients, with a greater proportion of public hospital respondents treating

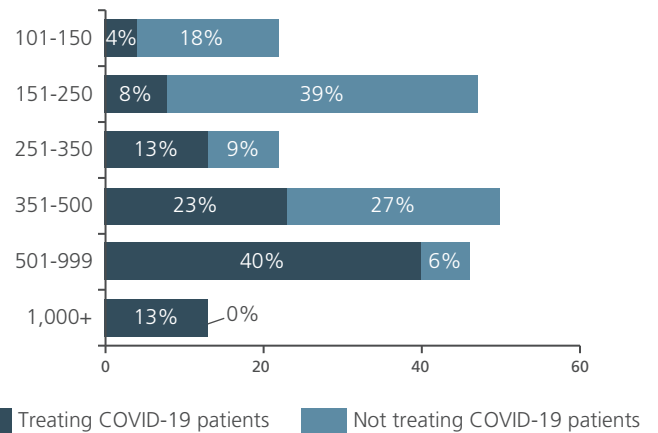
COVID-19 patients. Some 80% of public/university/government hospitals surveyed had treated COVID-19 patients, as compared with 46% of private hospitals — despite private hospitals making up 70% of the 8,300 institutions nationwide. This placed a significant burden on public hospital capacity and financial performance, given the increased requirements to treat COVID-19 patients and the reduction in elective procedures due to capacity constraints.

Figure 2  
Hospitals treating COVID-19 patients

Hospitals treating COVID-19 patients by location\*  
Percentage of respondents (n=64)



Hospitals treating COVID-19 patients by number of hospital beds\*  
Percentage of respondents (n=81)



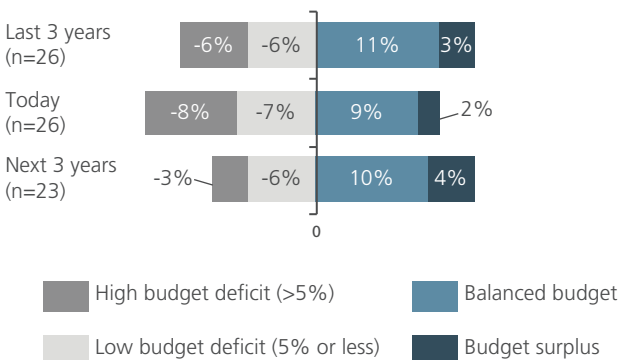
Note: \*Question: Did your hospital treat or are you currently treating COVID-19 patients? \*\*Question: Please select the type of hospital at which you work  
Source: L.E.K. 2020 APAC Hospital Priority Survey

Tokyo and other metro areas in Kanto and Chubu are mostly treating COVID-19 patients; mid-to-large hospitals are key treating institutions (see Figure 2).

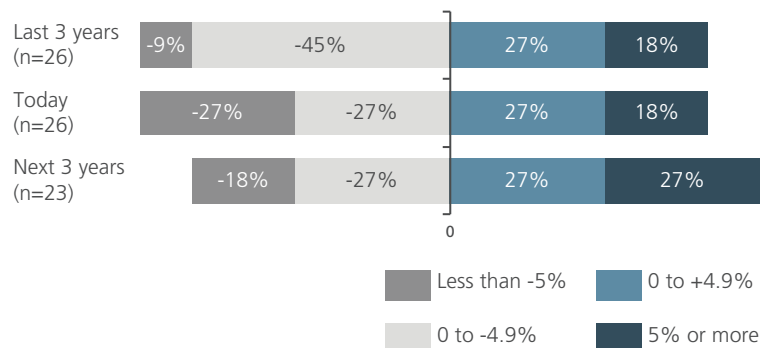
Hospitals treating COVID-19 patients have been financially impacted by the pandemic, but public hospitals expect to recover over the next three years as the pandemic comes under control and because they anticipate further government support. Private

Figure 3  
Historical and forecast financial performance across hospitals treating COVID-19 patients

Budget outlook for public hospitals treating COVID-19 patients\*  
Percentage of respondents^



Profitability/EBITDA margin outlook for private hospitals treating COVID-19 patients\*\*  
Percentage of respondents^ (n=11)

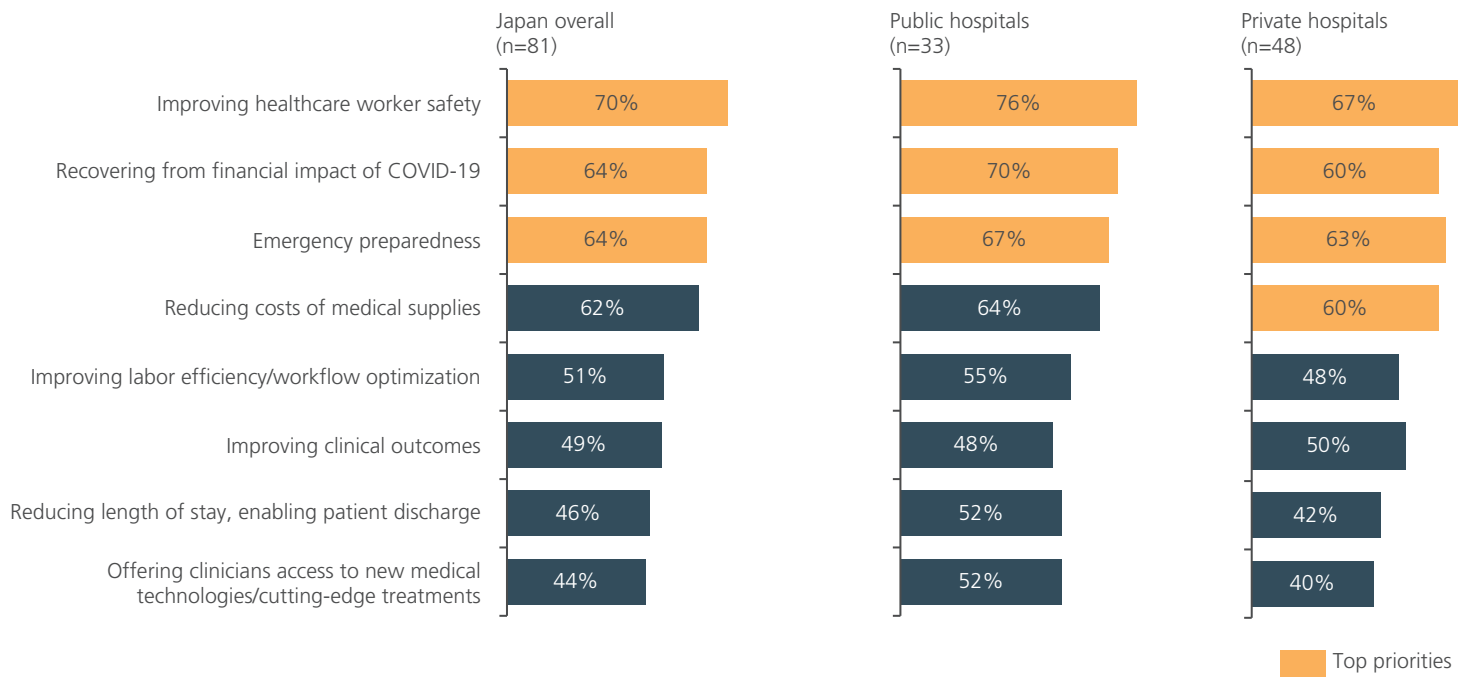


Note: \*Question: What is the level of budget surplus/deficit incurred by your hospital over the following time period? \*\*Question: What is the EBITDA margin/profitability level of your hospital over the following time period? ^Responses with "I do not know/prefer not to disclose" have been excluded  
Source: L.E.K. 2020 APAC Hospital Priority Survey

Figure 4  
Hospitals' strategic priorities going forward

Importance of strategic priorities over the next 3 years\*

Percentage of respondents with 6 and 7 rating, with 10=highest



Note: \*Question: How important are the following strategic priorities for your hospital over the next 3 years? "Enhanced clinical data connectivity" and "Partnering/merging with other hospitals and healthcare providers" have been removed

Source: L.E.K. 2020 APAC Hospital Priority Survey

hospitals that have treated COVID-19 patients continue to expect margin pressures going forward, although with some improvement from today (see Figure 3).

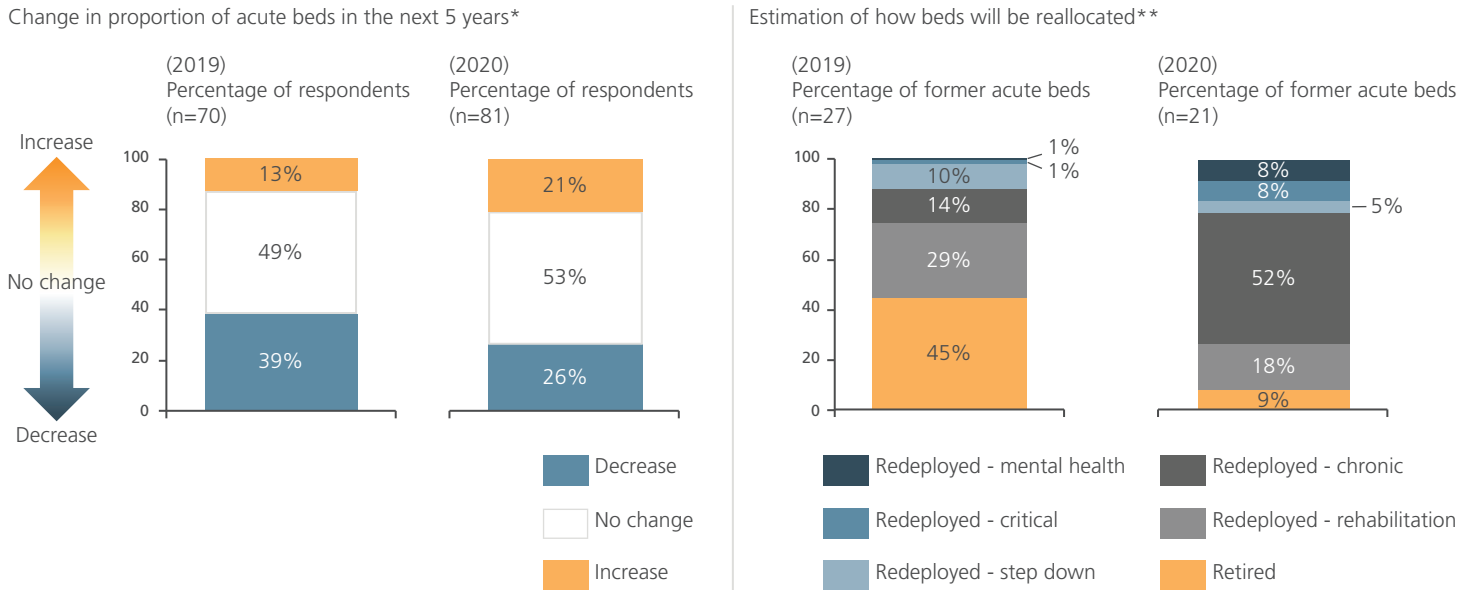
As a result, the top strategic priorities of both public and private hospitals for the next three years are focused on recovering from the pandemic. For private hospitals, reducing the cost of medical supplies is also an important strategic priority (see Figure 4).

Hospitals are also preserving acute beds due to COVID-19, with ~50% fewer hospitals planning cuts in 2020 versus 2019 (see Figure 5).

While there has been a slowdown in acute bed redeployment as a result of COVID-19, longer-term financial pressures and government policy targets suggest reduction of acute bed capacity will continue. Strategic maintenance of acute capacity may persist, however, especially as emergency preparedness remains an important strategic priority for ~65% of survey respondents.

COVID-19 has hit many hospitals' finances and is causing a significant shift in priorities. These will impact hospitals' purchasing needs and behaviors going forward.

Figure 5  
Hospital bed reduction and redeployment

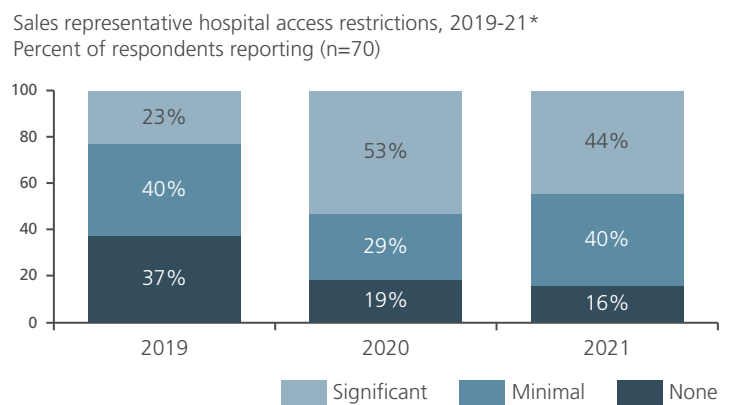


Note: \*Question: Please estimate the percentage point change in your estimated proportion of acute beds in your hospital in the next 5 years \*\*Question: Please estimate the allocation of how these beds would be retired or redeployed (only for respondents who believe hospitals will decrease in bed count for acute patients)  
Source: L.E.K. 2019, 2020 APAC Hospital Insights Survey

## Access restrictions at hospitals are driving a shift to digital and alternative engagement models

Even prior to the COVID-19 pandemic, many institutions in Japan had begun to limit access to healthcare professionals as they saw decreased value in these interactions, especially for more basic activities such as providing product information and samples for well-established products. L.E.K. research indicates that pre-pandemic, ~60% of institutions in Japan had implemented some form of sales rep restrictions, although only ~20% had significant restrictions, with the majority of restrictions considered minimal (see Figure 6).

Figure 6  
Sales representatives' restrictions on hospital access



Note: \*Question: Please select which of the following best describes your hospital's approach to managing supplier's (e.g., pharma, medtech) sales/marketing representative access in your facilities: no restriction on sales rep access to clinicians and/or facilities, minimal restrictions on access of sales reps to clinicians and/or facilities, significant restrictions on access of sales reps to clinicians and/or facilities  
Source: L.E.K. 2019, 2020 APAC Hospital Insights Survey



As a result of COVID-19, restrictions on access have increased to greater than 80% of hospitals across all regions of Japan except Hokkaido/Hokuriku/Tohoku, which was less impacted by the pandemic relative to other regions. More than 50% of hospitals had significant restrictions in place, while an additional ~30% had some restrictions in place.

Urban areas around Tokyo and Kansai saw the highest proportion of significant restrictions, correlating with the areas most impacted by COVID-19. Public/government hospitals saw more significant restrictions than private and university hospitals, due to their greater role in treating COVID-19 patients.

While respondents expect access restrictions to ease later in 2021, with significant restrictions dropping from ~55% to ~45% (see Figure 7) ~80% of hospitals still expect to maintain some degree of restriction — a figure that remains significantly higher than the ~60% pre-pandemic. Compared with other hospital segments, public/government hospitals anticipate further increases in access restrictions going forward, with 94% of respondents indicating they expect access restrictions at their institution, versus ~80% of university hospitals.

Figure 7  
Sales representative hospital access restrictions in November 2020 and 2021\*  
Percentage of respondents reporting

By region (n=55)

Restriction level	Significant		Minimal		None	
Region	Nov - 20	Nov - 21	Nov - 20	Nov - 21	Nov - 20	Nov - 21
Tokyo	45%	36%	36%	45%	18%	18%
Other Kanto/Chubu area	91%	64%	0%	27%	9%	9%
Hokkaido/Hokuriku/Tohoku	36%	18%	27%	55%	36%	27%
Chugoku/Shikoku/Kyushu	44%	33%	33%	44%	22%	22%
Kansai	62%	54%	23%	31%	15%	15%
Overall	56%	42%	24%	40%	20%	18%

By hospital segment (n=70)

Restriction level	Significant		Minimal		None	
Hospital type	Nov - 20	Nov - 21	Nov - 20	Nov - 21	Nov - 20	Nov - 21
University	47%	40%	33%	40%	21%	21%
Private	40%	40%	40%	50%	20%	10%
Public/government	76%	59%	12%	35%	12%	6%
Overall	53%	44%	29%	40%	19%	16%

Note: \*Question: Please select which of the following best describes your hospital's approach to managing supplier's (e.g., pharma, Medtech) sales/marketing representative access in your facilities: no restriction on sales rep access to clinicians and/or facilities, minimal restrictions on access of sales reps to clinicians and/or facilities, significant restrictions on access of sales reps to clinicians and/or facilities

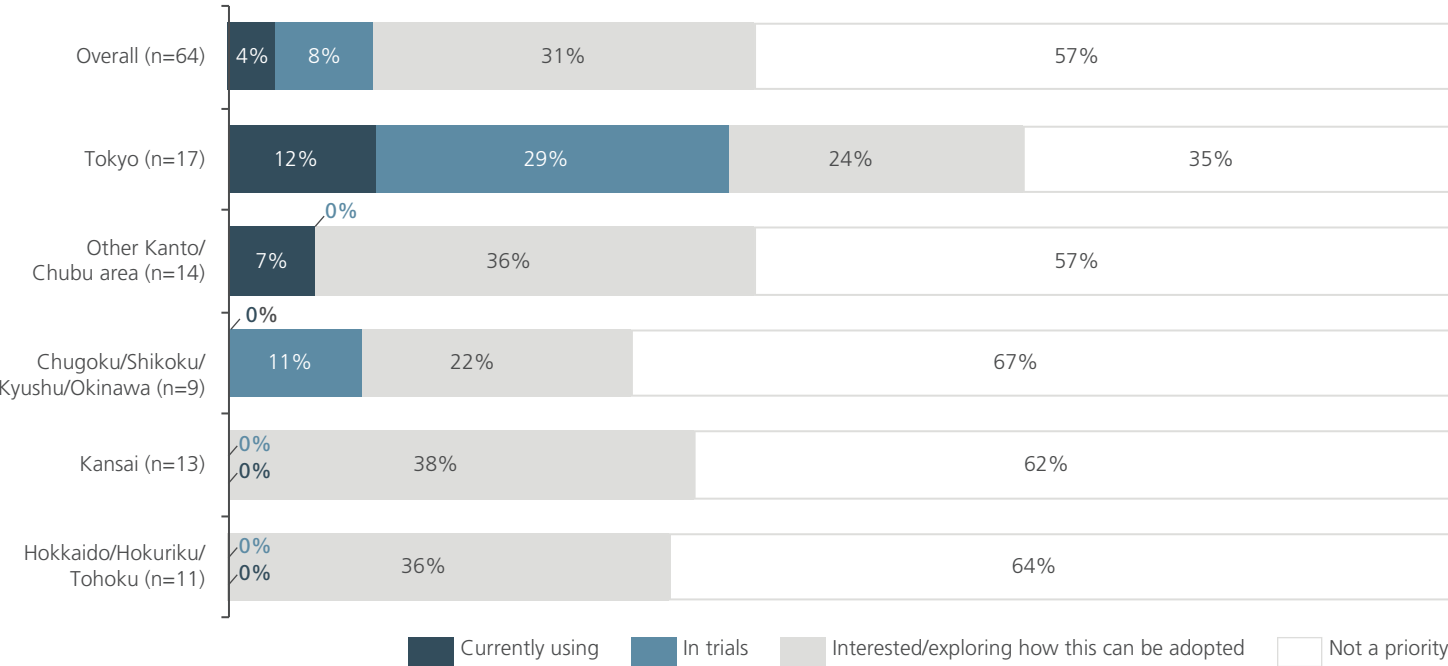
Source: L.E.K. 2020 APAC Hospital Priority Survey

A minority of hospitals have adopted digital platforms and now provide telehealth services as patients avoid hospitals during the COVID-19 pandemic and as sales rep visits are restricted. Current

use of digital solutions is highest in Tokyo; however, strong interest in exploring digital tools exists in other major metro areas in Kanto and Chubu (see Figure 8).

Figure 8  
Adoption of digital tools to engage with medtech across regions

Hospital adoption of digital tools to interact with medtech companies by region\*  
Percentage of respondents (n=64)



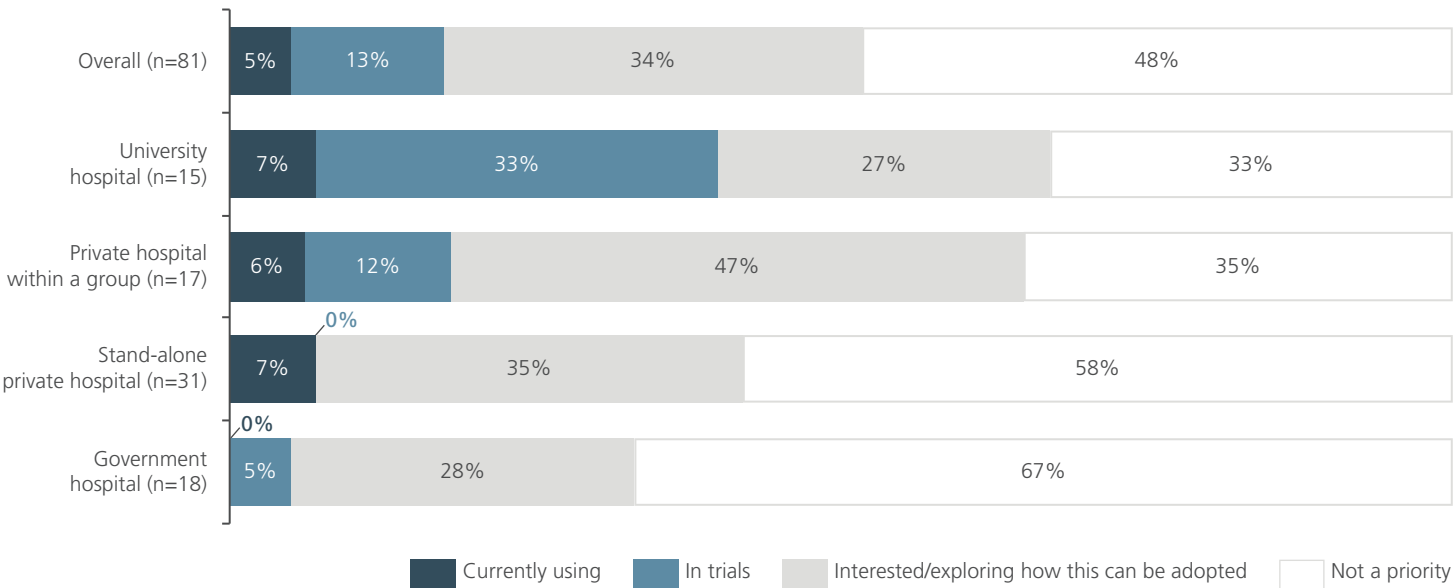
Note: \*Question: Digitization of hospitals is gaining traction in many countries. What digital health solutions have you adopted/would you like to adopt?  
Source: L.E.K. 2020 APAC Hospital Priority Survey



University hospitals show levels of adoption of digital tools much higher than other hospital segments, likely due to (1) greater willingness of academics/key opinion leaders to try new technology, (2) strong need for technical support on cutting-edge products, (3) resourced and experienced IT support teams, and (4) locations in urban areas hard-hit by COVID-19 (see Figure 9).

Figure 9  
Adoption of digital tools to engage with medtech across hospital segments

Hospital adoption of digital tools to interact with medtech companies by hospital segment\*  
Percentage of respondents (n=81)



Note: \*Question: Digitization of hospitals is gaining traction in many countries. What digital health solutions have you adopted/would you like to adopt?  
Source: L.E.K. 2020 APAC Hospital Priority Survey

Urban/metro areas show levels of digital tool adoption that are much higher than in other regional areas, with 12% of respondent private hospitals in the urban/metro areas of Tokyo, other Kanto area, Chubu and Kansai currently using digital tools, as compared with less than 1% in regional areas (see Figure 10).

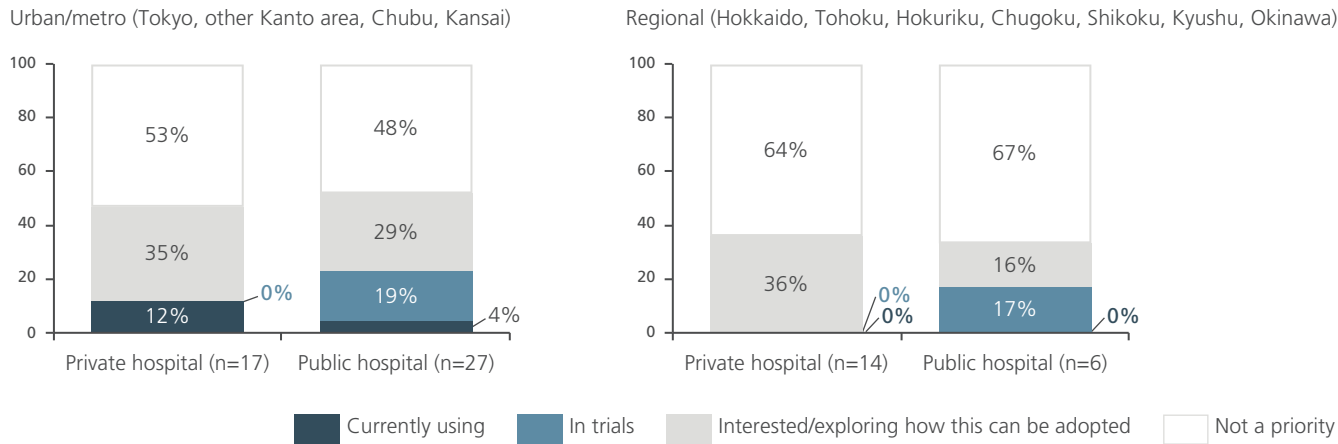
In terms of digital tools to interact with medtech and other healthcare companies, ~21% of public and university hospitals are currently using or have digital tools in trial — significantly more than private hospitals (~10%), though 40% of private hospitals indicate an interest in exploring how digital tools can be adopted.

However, barriers to digital communication remain because most hospitals are not focused on developing digital platforms required for communication with healthcare companies or are unclear on the path forward. Approximately 50% of respondents indicated that digital tools are not a priority for their institution.

While COVID-19 has further decreased sales rep access and generated some increased use of digital tools, some effort is still required to support hospitals in developing their digital tools. Interest exists, and hospital executives view increased staff efficiency and capacity as the key value propositions of digital solutions, suggesting potential growth in this area going forward.

Figure 10  
Adoption of digital tools to engage with medtech: urban/metro, private vs. public

Hospital adoption of digital tools to interact with medtech companies, by hospital segment with urban/regional location\*  
Percentage of respondents



Note: \*Question: Digitization of hospitals is gaining traction in many countries. What digital health solutions have you adopted/would you like to adopt?  
Source: L.E.K. 2020 APAC Hospital Priority Survey

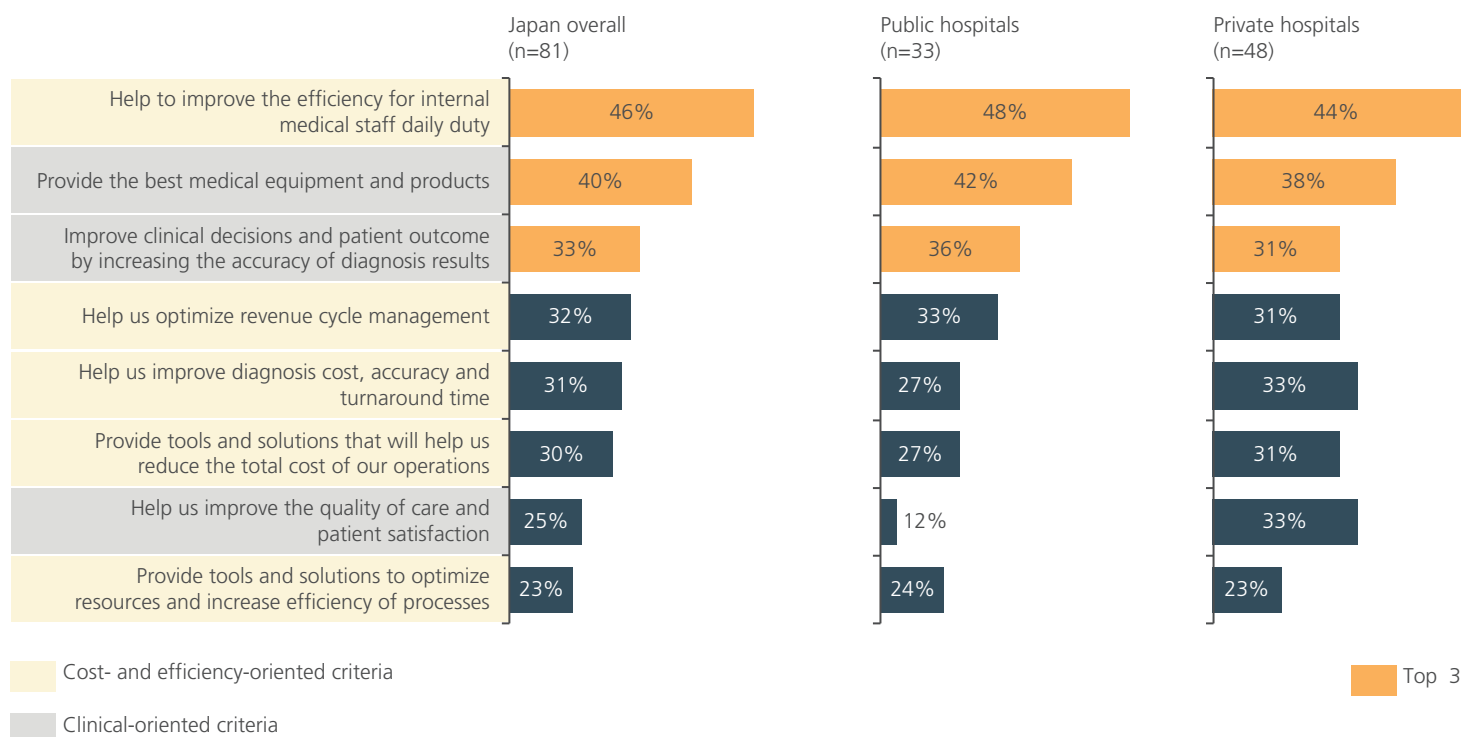
## Hospital providers continue to dominate amid a continued shift toward transactional purchasing

In Japan, care is still provided largely in hospitals, despite some experimentation with different settings; a major shift in policy and incentives will likely be required to drive meaningful change. Thus, hospitals will remain key customers for medtech companies over the near-to-medium term.

Hospitals continue to view medtech companies as product providers; therefore, improving medical staff efficiency and providing the best medical equipment continue to be the most important criteria when hospitals purchase from medtech (see Figure 11).

Figure 11  
Hospitals' key purchasing criteria going forward

Top 3 most important criteria when purchasing from a medtech company\*  
Percentage of respondents



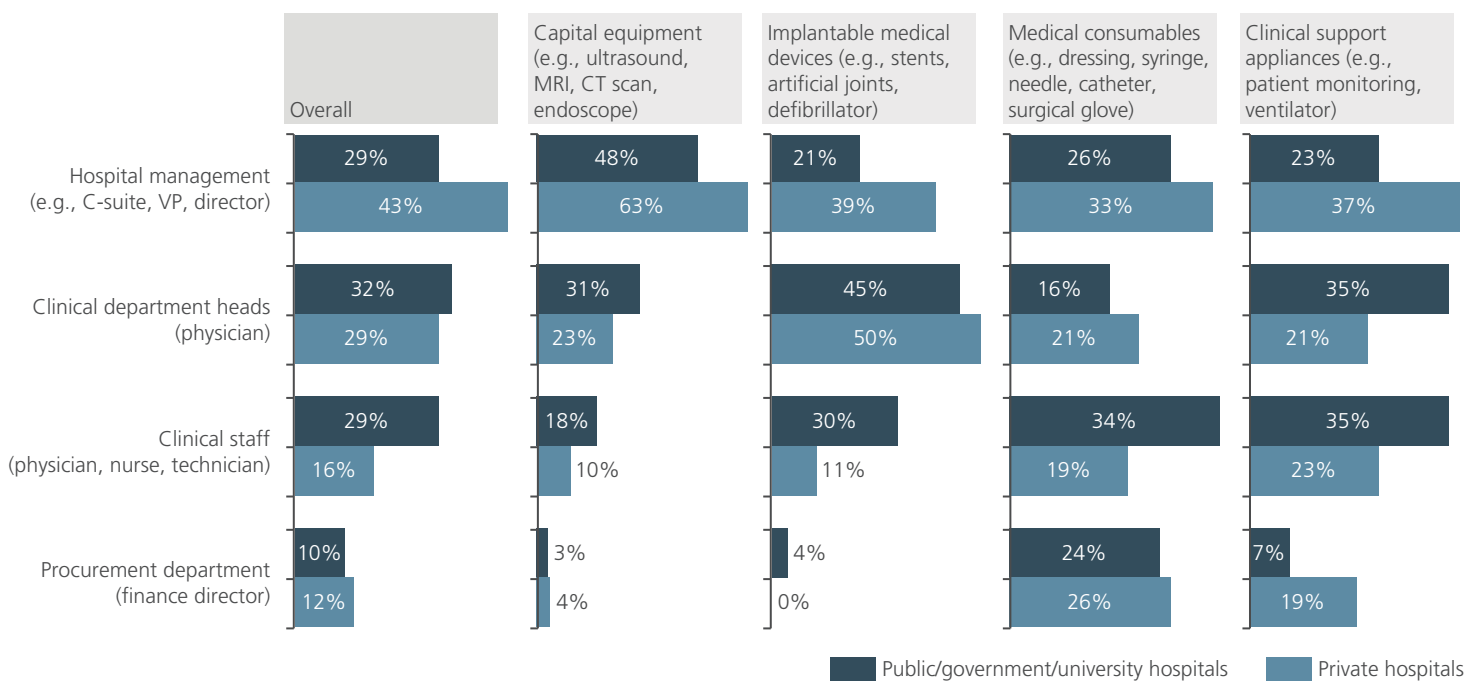
Note: \*Question: Please rank the top 3 most important criteria for procuring from a medical equipment supplier  
Source: L.E.K. 2020 APAC Hospital Priority Survey

Greater economic stakeholder influence over purchasing decisions continues across device types. In the past, hospital administrators were decidedly junior in decision-making for anything except commoditized devices. Now we are seeing administrators becoming highly influential in some institutions across many

device categories, except for the most innovative implantable devices (highly novel valve repair and replacement devices, cellular therapies, etc.), where clinician primacy generally still prevails. In private hospitals, however, even this category is seeing greater influence from hospital management (see Figure 12).

Figure 12  
Hospitals' key decision-makers for medtech purchases

Most influential position for medical device purchasing decisions between public and private hospitals\*  
Percentage of respondents selected "1-Most influential" (n=79)



Note: \*Question: Who has the most influence in purchasing decisions for the following medical products today? Responses with "I do not know" have been excluded  
Source: L.E.K. 2020 APAC Hospital Priority Survey

Hospitals continue to increase use of intermediaries to build scale in purchasing, resulting in pricing pressure on manufacturers. In Japan, 40% of institutions participate in formal group purchasing organizations (GPOs), with aggregation of purchasing volume a key contract feature. The most common way to purchase medical supplies in Japan is by several community network hospitals becoming a member of a GPO to purchase medical supplies together, in order to achieve volume-related discounts (see Figure 13).

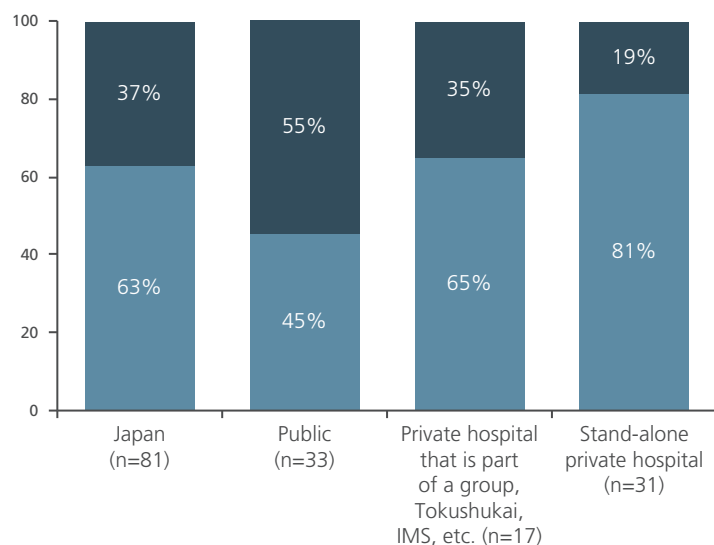
Hospitals are also looking to standardize purchasing across product segments — and particularly consumables, with 55% of public hospital respondents and 67% of private hospital respondents

indicating they are exploring standardization for these products. A key focus is either reducing the number of suppliers per product category or selecting a preferred provider for a given procedure or product.

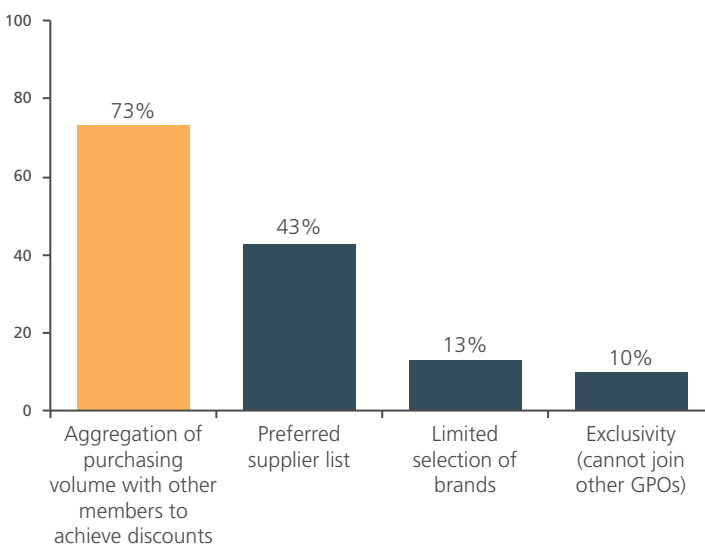
We are seeing an increasing prominence of economic decision-makers in many hospitals, as well as a growing emphasis on economic imperatives versus clinical considerations, when it comes to overall strategic priorities and how purchases are being made. These factors require a customized approach to customer interactions.

Figure 13  
Group Purchasing Organization (GPO) participation and contract arrangements

Number of GPOs that hospitals belong to\*  
Percentage of respondents



Key features of GPO contracts\*\*  
Percentage of respondents (n=30)



Legend: None (light blue), 1 or more (dark blue)

Note: \*Question: Aside from centralized purchasing, how many GPOs (not part of the hospital) does your hospital belong to?

\*\*Question: What are the key features of the GPO contract(s)?

Source: L.E.K. 2020 APAC Hospital Priority Survey

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## Recommendations

New commercial models will be required in order to serve changing stakeholders (e.g., hospital management) and their purchasing priorities, needs and behaviors. These findings have great importance for medical device manufacturers.

A new commercial approach that better aligns with the realities of the market is necessary. This begins with a detailed understanding of customer purchase behaviors: Who are the relevant stakeholders? How do they make purchase decisions? What are their needs and engagement preferences as they move through this process? This understanding should inform behavior-driven segmentation. In turn, this segmentation should inform how companies address each segment: the channel or channels they use to engage (including digital), the content they communicate, how they transact, how they fulfill orders and the value proposition they deliver overall.

Specific to the Japanese market, in order to evolve their commercial models in Japan, medtech companies will need to:

- Deepen their understanding of customers in order to identify who they are, how they purchase, what they need and where they are present.
- Engage with a broader set of stakeholders beyond the traditional clinical call point — that is, with who matters today, not who mattered in the past.
- Tailor value propositions for products and services to address the needs of customers.
- Create new service plans and engagement models for different service activities to reach customers, both in spite of limitations

on in-person contact and to reflect shifting engagement preferences. Practically speaking, some service activities (such as providing basic product information or clinical data) are better suited to a remote detailing model whereas others (such as attending to cases and follow-up checks) require in-person support.

- Revamp their capabilities, such as salesforce effectiveness tools/practices and sales rep training, to enable new engagement models.
- Create content that is appropriate for each engagement model, tailored to the desired objectives of the interaction, and relevant and engaging for physicians.
- Redesign salesforce organizations and territories to enable new engagement models and realize efficiencies, and develop KPIs to track and adjust effort.

Both the nature and the degree of change in Japan present a task that is by no means easy, especially in large, complex and often highly siloed device companies. Nevertheless, standing still can mean companies risk becoming increasingly irrelevant to the stakeholders that drive purchasing in a large proportion of customer accounts, and becoming increasingly exposed to disruption from more forward-thinking competitors — those who are thinking strategically about market change and are bold enough to lead the market in commercial model change.

For further information on this survey and its findings, please contact [lifesciences@lek.com](mailto:lifesciences@lek.com).

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## About the L.E.K. APAC Life Sciences Centre of Excellence

The APAC Life Sciences Centre of Excellence is an initiative developed by L.E.K. and supported by Singapore's Economic Development Board to drive thought leadership and innovation to elevate the APAC life sciences ecosystem. The Centre is an important part of L.E.K.'s broader Healthcare Insights Center and is dedicated to advancing insights and cutting-edge thinking on topics of greatest relevance to life sciences leaders in the APAC region. The Centre leverages L.E.K.'s deep industry knowledge and proprietary tools, as well as Singapore's strong research ecosystem, to produce materials on a broad range of life sciences and healthcare topics. These range from the future of drug discovery and development to healthcare transformation and digitization. For more information, visit [www.lek.com/apaccocoe](http://www.lek.com/apaccocoe).



