In its recent research, L.E.K. Consulting found that hospital systems are increasingly open to a broader range of services and affiliated solutions in an effort to streamline patient care and improve outcomes and target and treat illnesses more effectively.

This is potentially great news for medtechs, creating opportunities for new revenue growth, particularly as administrators are more likely to turn to medtechs and their vast expertise to address administrators’ needs. But many medtechs struggle to make the leap from a product company to a service company mindset. They are used to providing clinical, training and other support services to underpin product sales, but they feel uncomfortable charging for services in their own right.

Medtech companies that can make the leap have the potential to build high-margin new growth, often without having to leave their competitive stronghold if competition is weak or nonexistent. In this Executive Insights, we offer a guide to helping medtechs define, demystify and tailor optimal services solutions, including how to develop or acquire the necessary components to ensure those solutions succeed.

Identifying and evaluating new service opportunities

Identifying new service opportunities starts with understanding how medtech products are used, including the range of associated hospital costs and patient outcomes. It is not uncommon to find wide variations in costs and outcomes, which are dependent less on particular product features and more on how the product is used. A useful framework can be found in the book *Edge Strategy: A New Mindset for Profitable Growth* (Alan Lewis and Dan McKone, Harvard Business Review Press, 2016).

When evaluating potential new service offerings that could be provided to integrated delivery networks (IDNs) and other healthcare providers, medtechs should consider the following criteria.

**Taking the long view.** Product sales may be robust at present, but can companies keep up the momentum? With hospitals requiring solutions for addressing larger concerns (such as containing costs associated with readmissions), products that can only treat the “symptoms” could eventually take a back seat to those seeking a more complete fix. Thus, today’s strong product revenues shouldn’t deter medtechs from weighing expanded-service prospects, in particular those with strong growth and margin potential.

**Mind share and market share.** In some instances, adding new service offerings can fundamentally change the relationship between the medtech and the healthcare provider, creating a much deeper partnership that naturally leads to increased product sales. This can create huge value, particularly for manufacturers of premium medical devices. (Case in point: When operating its outsourced Cath Labs in global markets, Medtronic has been able to more than double product sales.)

*Solving the Services Puzzle: Key Success Factors for Medtechs* was written by Jonas Funk, Stuart Jackson and Lucas Pain, Managing Directors in L.E.K. Consulting’s MedTech practice. Jonas, Stuart and Lucas are based in Chicago. For more information, please contact MedTech@lek.com.
Accent on efficiency. While products that are intended to be single-use or otherwise disposable may help maintain manufacturing revenues, they could ultimately run afoul of customers seeking more efficient/sustainable solutions. By contrast, when using an outcome-oriented approach, manufacturers can work with providers to achieve the right balance of product and support services, resulting in reduced waste and better results.

Utilizing accessible resources. Companies that can draw from a wealth of readily available resources (relationships with clinical experts, outcomes data, performance benchmarks, clinical studies, international best practices, complementary products) may be particularly well-poised to bring about positive change.

The five keys to success
In its annual hospital study, L.E.K. found that administrators are more likely to consider expanded solutions provided by medtechs than those offered through group purchasing organizations (GPOs), consulting firms or other third-party vendors (this demand is particularly salient among faster-growing “progressive” hospital systems). According to the survey, medtech services deemed most valuable include outsourced clinical and nonclinical functions, financial and capital services, equipment service/support and managed services, product acquisition, and supply chain management, as well as education, training and compliance skills (see Figure 1). In the past five years alone, demand for these and other outsourced services has increased some 15%, from just 35% of hospitals queried in 2011 to fully half in the current year.

Despite the increased clarity around hospital need, most medtechs still have a way to go before they can seriously vie for these newer, more expansive opportunities. Part of the problem is that many firms are only capable of offering a limited number of products as “solutions,” rather than a broader range of products with affiliated services that can effectively tackle hospitals’ most pressing concerns.

While a number of medtechs have deployed pilot programs aimed at providing more robust services and/or focusing on integrated solutions, such efforts alone cannot deliver the kind of all-encompassing services that providers will require.

To help medtechs in their quest to provide truly effective, wide-ranging solutions, L.E.K. has compiled a list of five key “success factors” (see Figure 2).

License to play in targeted area. From the outset, companies should build their capabilities to provide solutions to the targeted need. Obtaining this “license to play” often hinges on

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*“How valuable are each of the following services that medtech companies could provide in addition to their products?” Please rate each service on a scale of 1 to 7, in which 1 means “not at all valuable” and 7 means “very valuable.”

2015: n=153; 2016: n=153. Respondents who selected “Don’t know” were excluded.

Source: L.E.K. survey.
Executive Insights

a medtech’s ability to understand the desired services and — most importantly — have all of the requisite products to appropriately service the designated population. For instance, companies offering solutions to fight bloodstream infections will require a portfolio that includes the likes of antimicrobial catheters, sanitizers and disinfectants, in addition to diagnostics, antimicrobial stewardship and surveillance software, and relevant tracking systems.

**Sufficient breadth and impact of solution.** Medtechs must ensure that services/solutions platforms have adequate scale and are properly focused on the problem at hand. A company’s credibility can be easily compromised when the company attempts to use solutions that are too broad or vague and therefore is unable to deliver on its promise. For instance, when implementing solutions for the prevention of infections, it is critical that companies be able to distinguish one type of infection from another (e.g., ventilator-associated pneumonia, bloodstream infections, surgical site infections, urinary tract infections).

**Clear delineation between existing and new services.** As certain customers may not be ready to adopt or fund a new services solution, medtechs must clearly differentiate the new services from product offerings, and resist the temptation to give away new services for free. Marketing reps who mix and match offerings, services and terminology run the risk of confusing customers and subsequently compromising the solution’s value proposition.

**Change management capabilities.** Even when medtechs are successful at selling an idea, ensuring that solutions will be properly implemented may require a whole new set of organizational capabilities and resources, including support mechanisms such as change management and performance metric tracking (using the infection-prevention example above, this could include implementing new protocols for hand-washing, as well as training nurses to use new products). Those that lack these capabilities will need to obtain them or, alternatively, partner with a viable third party.

**Tangible value metrics.** Above all, the ability to clearly quantify the value proposition to be derived from the proposed solutions/services, using tools, diagnostics and other key metrics, is paramount in order for medtechs to prosper. (For instance, firms should be able to quantify the number of bloodstream infections to be reduced within the targeted hospital system, the direct and indirect cost savings achieved from this effort, etc.). Given that value creation and financial performance are inextricably linked, offering this kind of visibility will go a long way toward helping medtechs as well as their hospital clients find success in the long run.

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Figure 2
Key success factors for expanded services and solutions

<table>
<thead>
<tr>
<th>License to play in targeted area</th>
<th>Sufficient breadth and impact of solution</th>
<th>Clear delineation between existing and new services</th>
<th>Change management capabilities</th>
<th>Tangible value metrics</th>
</tr>
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<tbody>
<tr>
<td>✓ Some solutions may be good ideas, though not necessarily when offered by a specific medtech</td>
<td>✓ Service and solution expansion opportunities need to have adequate scale and breadth to excite senior hospital executives, often a prerequisite for success</td>
<td>✓ Customers will become confused by what is already given (e.g., product training) vs. what is incremental</td>
<td>✓ Senior hospital execs might like an idea, but adoption requires significant change management assistance to ensure a solution “sticks” and delivers promised results</td>
<td>✓ Medtechs need to be able to clearly articulate the value of new services/solutions</td>
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<tr>
<td>✓ Having customers’ “permission” and a “license to play” in a targeted area can impact which companies will succeed or fail in offering the same type of solution</td>
<td>✓ Linking new services and solutions to broader hospital priorities (e.g., patient satisfaction, lower HAIs, lower readmission rates) helps drive senior stakeholder interest</td>
<td>✓ A clear delineation between services for which there is a charge and “free” services is critical</td>
<td>✓ Linking new services and solutions to broader hospital priorities (e.g., patient satisfaction, lower HAIs, lower readmission rates) helps drive senior stakeholder interest</td>
<td>✓ Capabilities to provide diagnostics and tools to estimate expected impacts are critical</td>
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<td>✓ License to play is at least partially impacted by the breadth and relevancy of a medtech’s product portfolio; key gaps could impair the ability to provide a meaningful solution</td>
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<td>✓ Many medtechs currently lack these capabilities and need to acquire/partner to obtain them</td>
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Source: L.E.K. analysis
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