



2016 Strategic Hospital Priorities Study

The 2016 Strategic Hospital Priorities Study examines the current direction of the industry and, in particular, how Medtech companies can capitalize on the many needs of hospital administrators.



2016 Strategic Hospital Priorities Study was conducted by **Jonas Funk** and **Lucas Pain**, Managing Directors in L.E.K. Consulting's Medtech practice. Jonas and Lucas are based in Chicago.

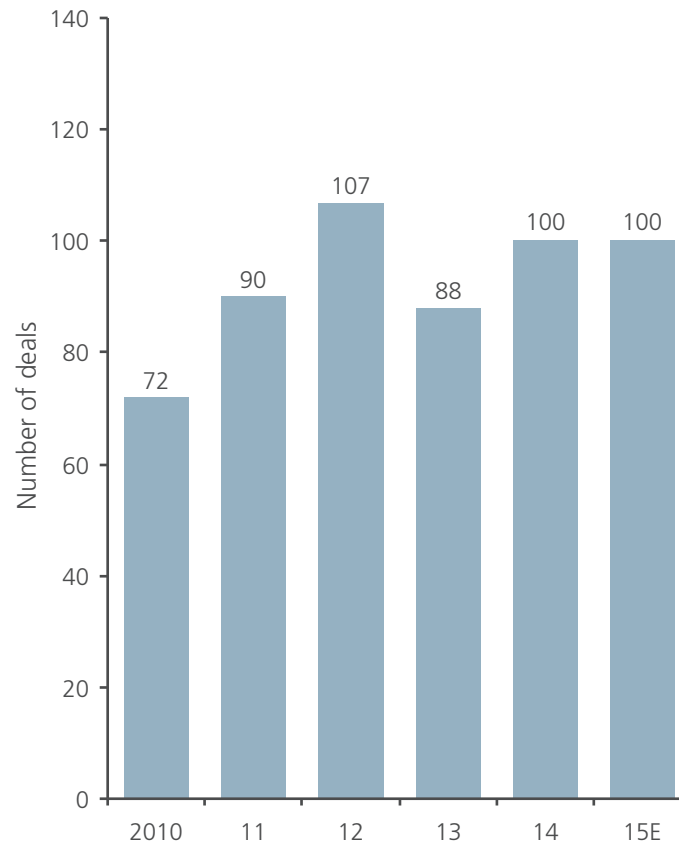
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US hospital industry in 2016: Capitalizing on current trends

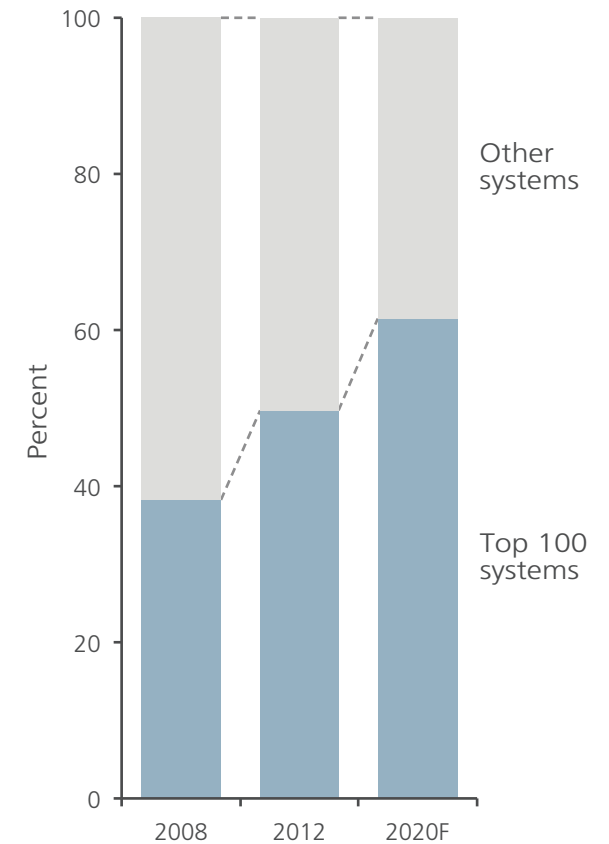
While the healthcare market has steadily evolved since L.E.K. Consulting issued its first hospital study in 2010, many of the same trends remain in place, among them consolidation, non-acute care integration, accountability, technology enhancements and novel pricing schemes.

Hospital consolidation continued its steady pace over the past year, fueled by sustained competition, pressure on reimbursements, as well as the ongoing need to achieve scale. Roughly 100 deals took place during 2015, in line with 2014 M&A activity.

Hospital mergers and acquisitions
(2010-15E)



Total hospital spend by top 100 systems vs. other systems
(2008-20F)



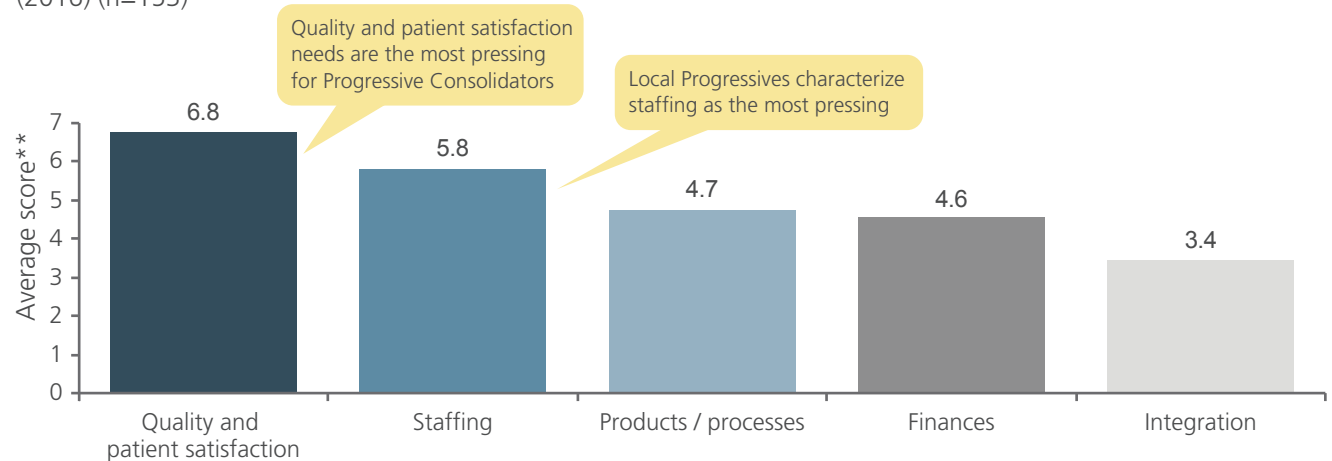
Source: AHA, CMS National Health Expenditure Projections, Irving Levin and Associates, L.E.K. interviews and analysis

What are administrators' chief priorities? ►

Assessing hospitals' most pressing needs

When asked which areas are likely to warrant the most attention through the end of the decade, for the second consecutive year, patient satisfaction topped hospital administrators' priorities list, with the likes of clinician recruitment/retention, improved infection-control measures, as well as strategies for reducing the incidence of medical errors also taking precedence.

Most pressing categories of need facing hospitals*
 (2016) (n=153)



Specific needs included in categorization

Decreasing score ↓	Quality and patient satisfaction	Staffing	Products / processes	Finances	Integration
	Improved patient satisfaction	Attraction and retention of clinicians	Enhanced clinical data connectivity / decision support	Reduced acquisition costs of equipment and supplies	Participation in ACOs
	Improved infection control	Flexible staffing and outsourcing options	Improved labor efficiency / workflow	Reduced total cost of ownership of equipment and supplies	Integration of other sites of care
	Reduced medical errors		Access to new technologies	Access to capital	Acquisitions of physician groups and other sites of care
	Improved performance on quality metrics		Change management and implementation of process improvement		Population health mgmt. beyond acute care
	Reduced readmission rates		Standardization of products and protocols across hospitals		Increased differentiation of hospital to attract patients

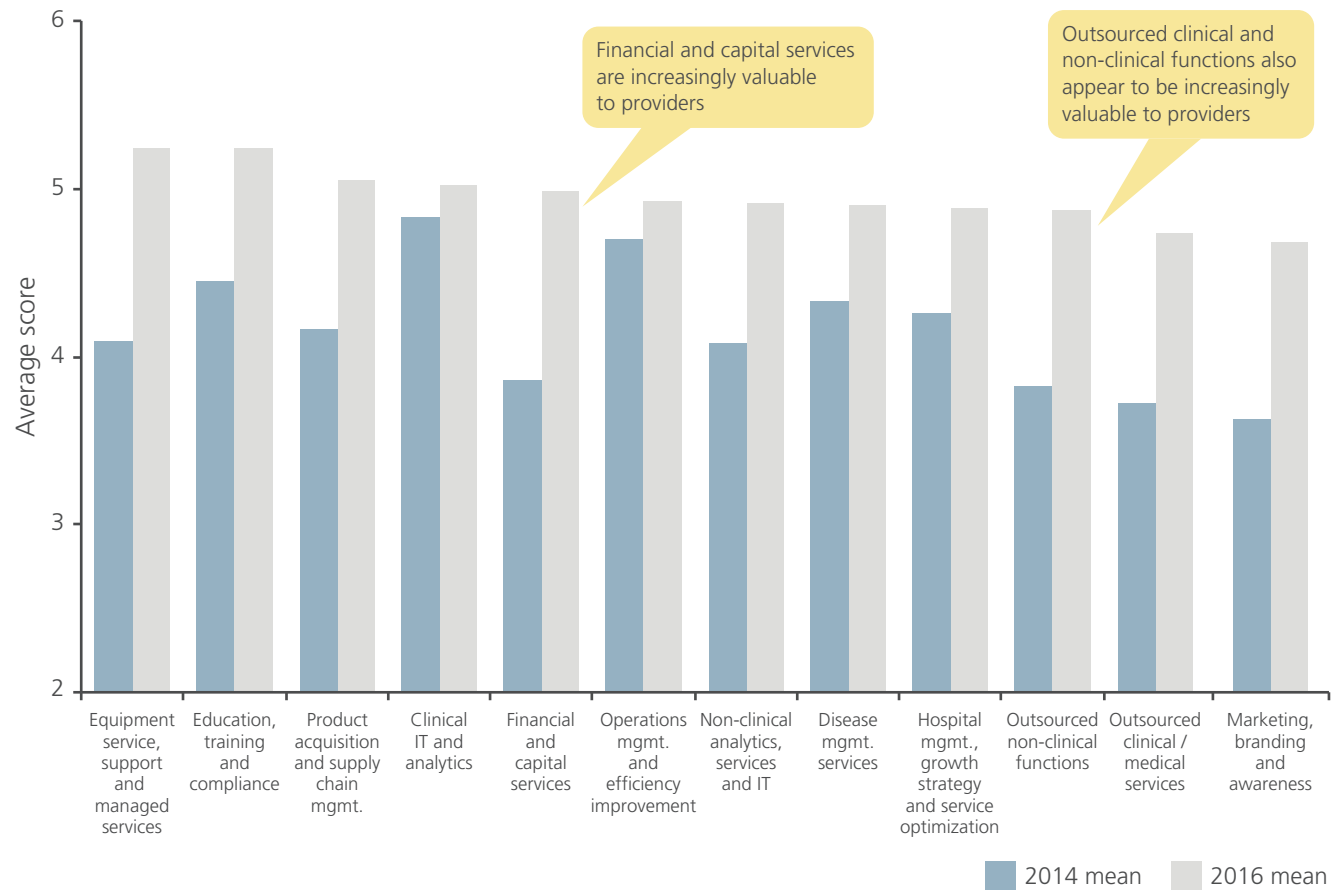
Note: *What are the most urgent needs in your hospital now? Please indicate your hospital's degree of focus by allocating 100 points across urgent needs, where more points indicate a higher level of focus. **The average score of each category is calculated by averaging the scores of needs in that particular category
 Source: L.E.K. survey and analysis

Which medtech services are deemed most valuable? ►

Finding value in medtech services

Over the past several years, hospital administrators have been increasingly interested in an expanded range of services that medtech firms provide. Among the offerings that continue to gain traction are equipment service/support, education/training and financial/capital services, as well as product acquisition and supply chain management.

Hospital perceived value of potential medtech services*



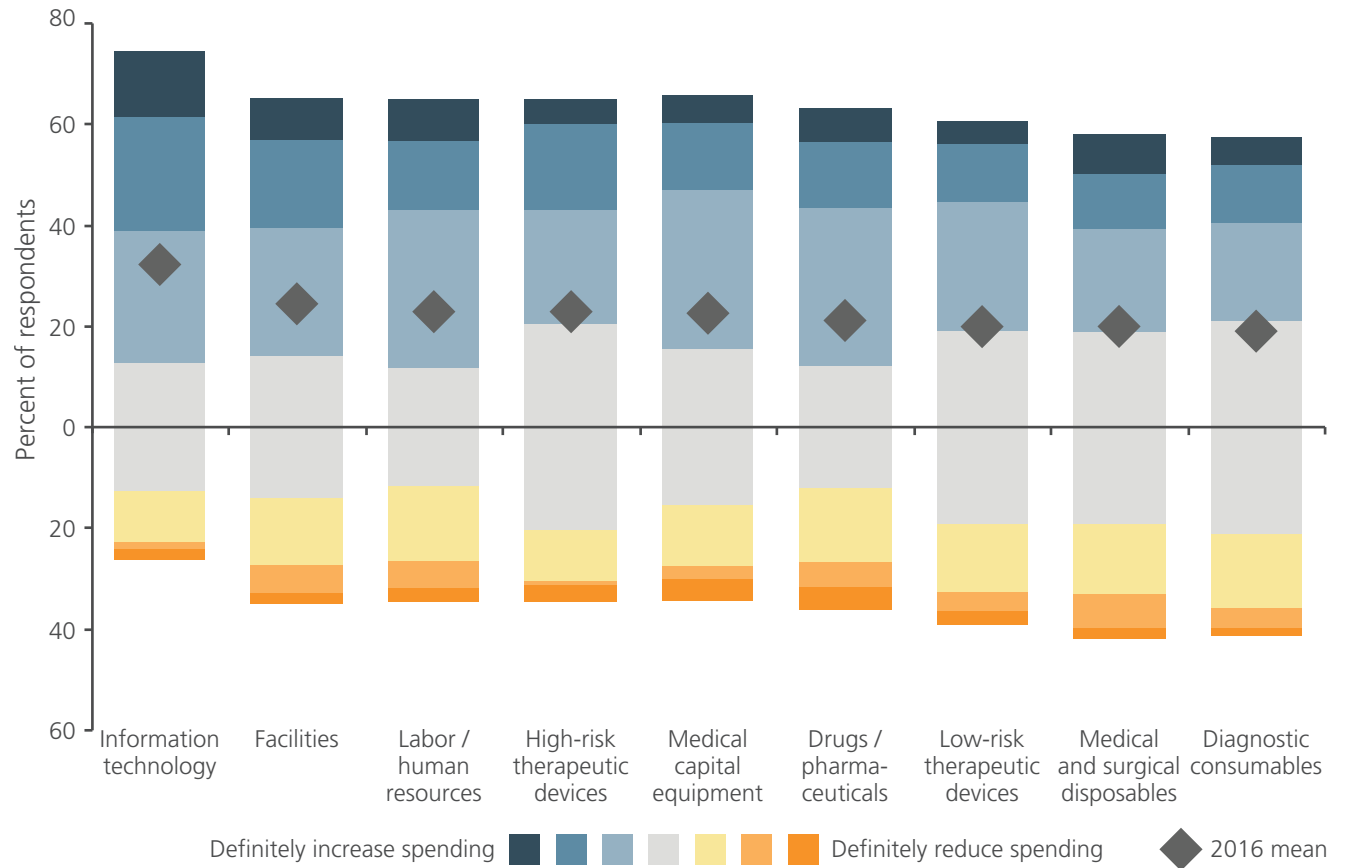
Is IT still in? ►

Note: *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." **Respondents who selected "Don't know" were excluded. 2014: n=146; 2016: n=153.
 Source: L.E.K. survey

Continuous focus on IT spend

Hospital administrators continue to view IT as an investment priority, emphasizing in particular the need for efficient data collection/transfer in order to improve both clinical and non-clinical decision-making. Spending on facilities and labor/human resources has also been robust, and has increased across other categories as well relative to past years.

Spending priorities
 (2016)*

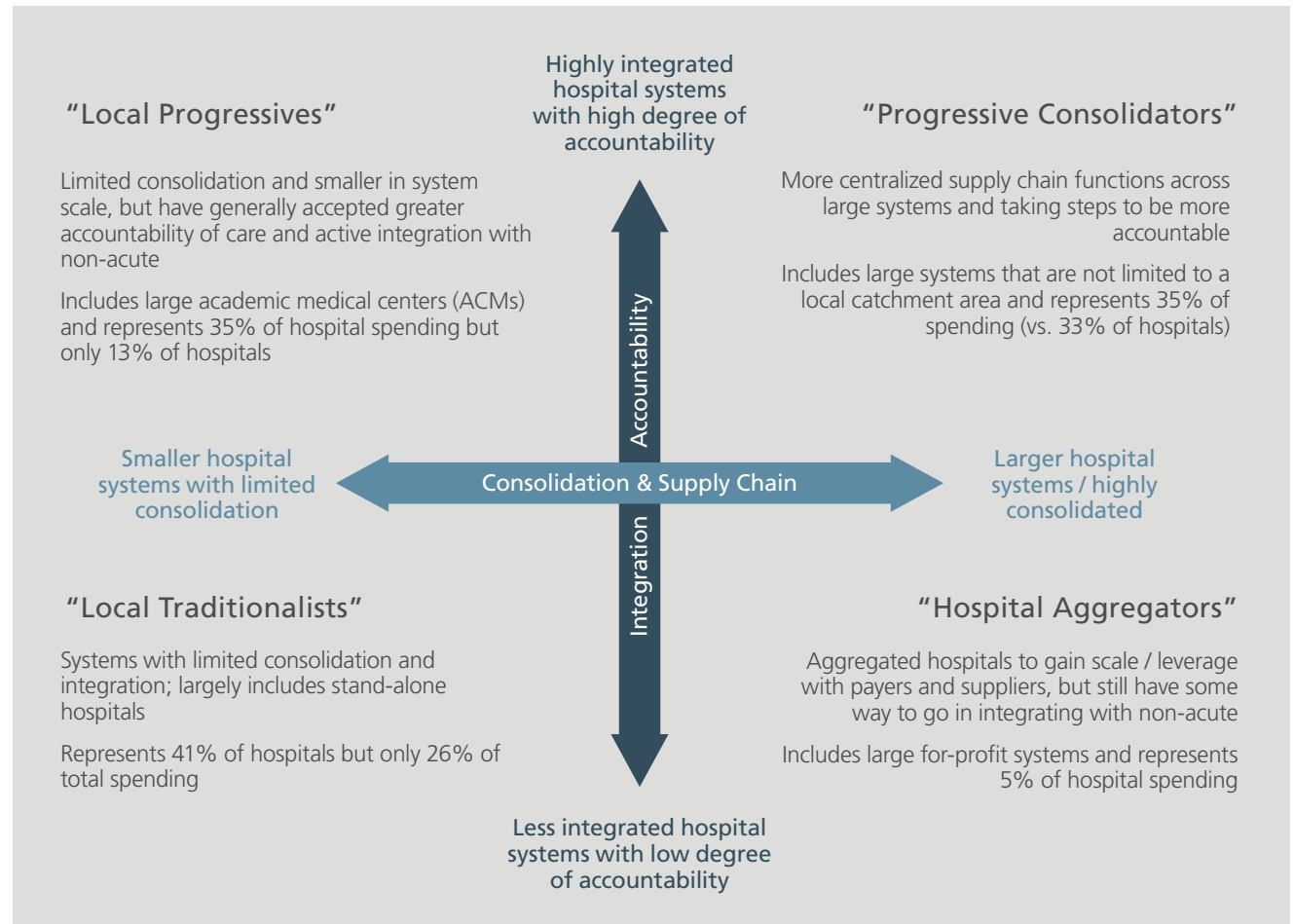


Note: *Please discuss your hospital's spending priorities in the following categories. We would like to hear your views on 2016. Please rate the priority of each of the following areas on a scale from 1 to 7 in which "1" means "will definitely reduce total spending," "4" means "will keep spending unchanged" and "7" means "will definitely increase total spending." Respondents who answered "Do not know" were excluded from the analysis. n=13
 Source: L.E.K. interviews, survey and analysis

Which hospital systems are taking the lead? ►

Gauging hospital system growth: Progressives leading the way...

To help gauge the viability of hospital system participants, L.E.K. uses a segmentation scheme consisting of four main groups — “local progressives,” “progressive consolidators,” “local traditionalists” and “hospital aggregators” — taking into account factors such as level of integration, accountability and M&A activity, as well as degree of consolidation and benefits of scale.

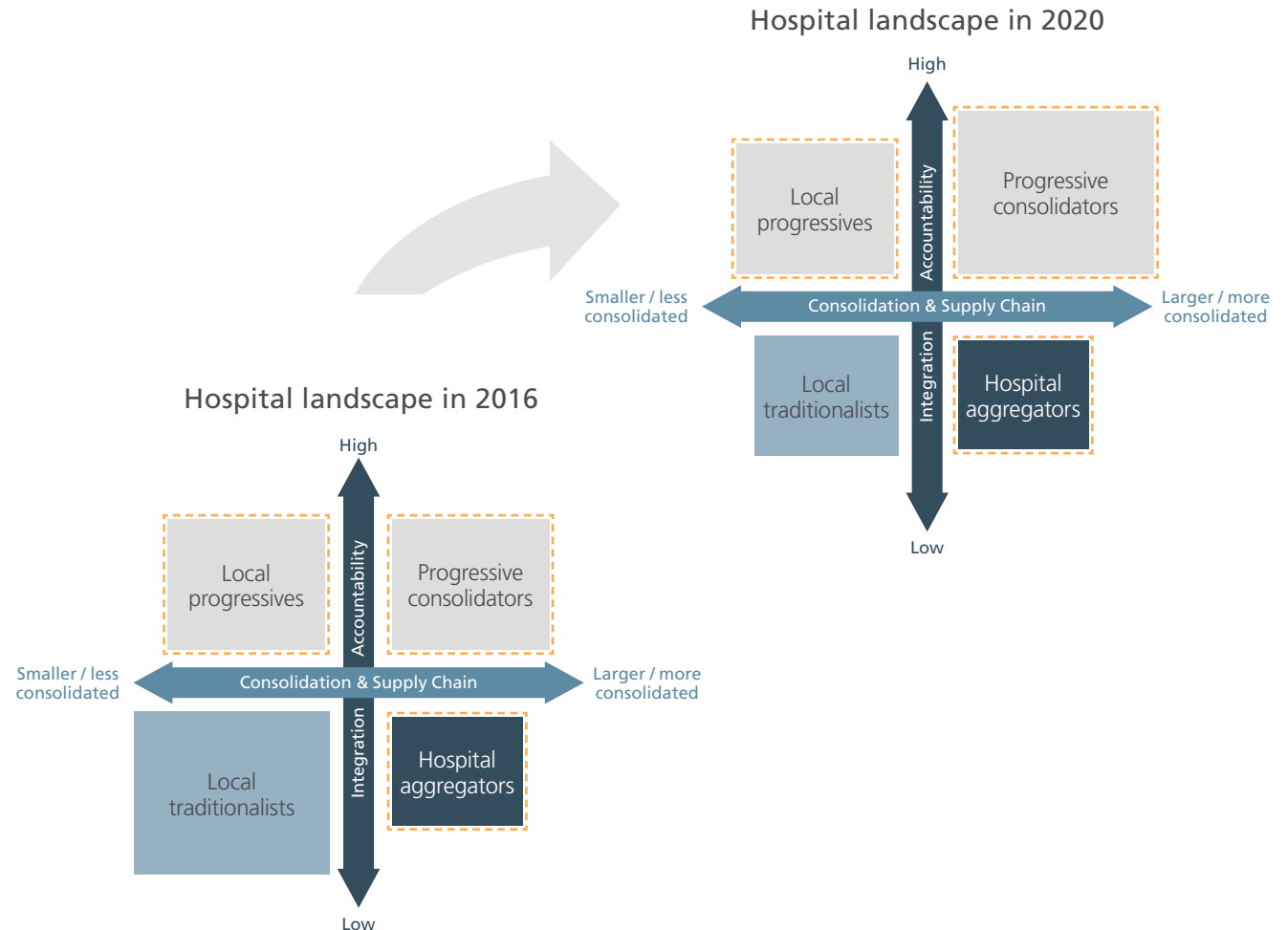


Source: L.E.K. research and analysis

How is consolidation impacting non-progressives? ►

...and are gaining overall share

We see progressives maintaining their strong growth trajectory in the years ahead, with progressive consolidators making this shift and benefiting from advanced market-share gains through 2020. Some hospital aggregators will begin taking on more accountability and integration and look more like progressive consolidators in the process; meanwhile, many local traditionalists will continue to be targeted for acquisition, particularly by progressive consolidators.



Source: L.E.K. interviews and analysis

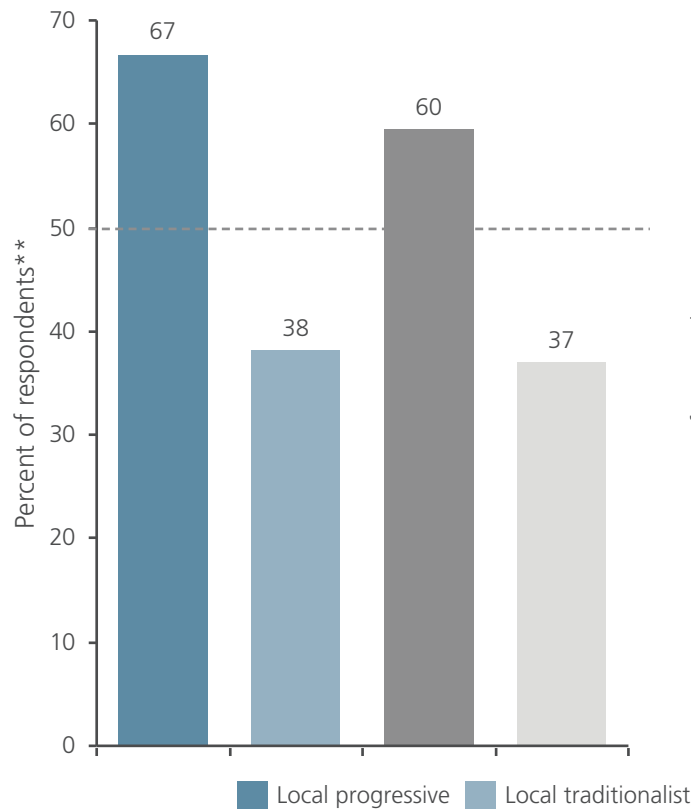
Which are increasing in revenue and spending? ►

Progressive revenues on the rise

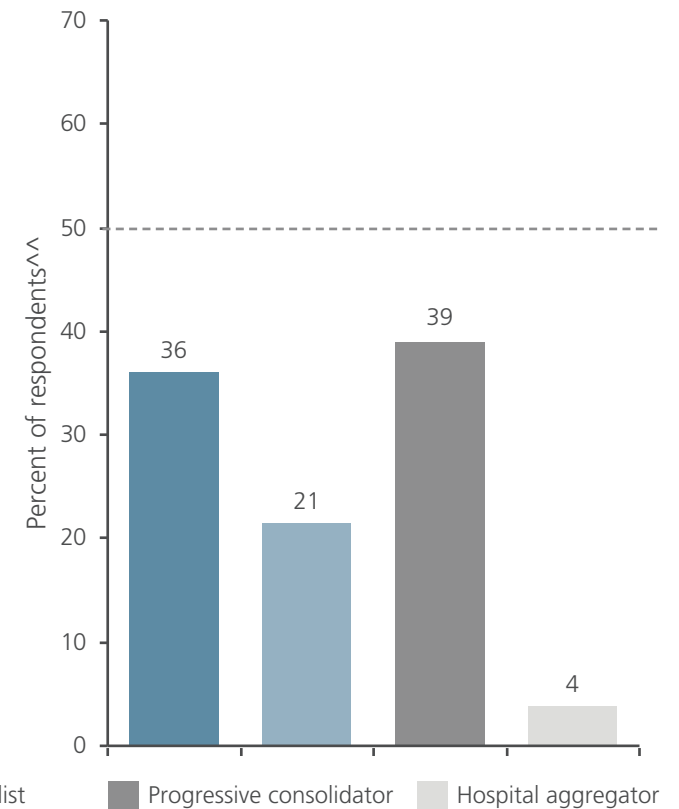
Additionally, this year's study found that more than two-thirds of local progressives, as well as some 60% of progressive consolidators, reported strong year-over-year revenue gains; by comparison, less than 40% of local traditionalists and hospital aggregators registered significant revenue growth during the past 12 months.

Progressives are seeing faster revenue growth. However, spending among progressives is also increasing at a disproportionately higher rate than their non-progressive counterparts.

Hospitals with significant revenue increases over past year* (2016)



Hospitals with significant spending increases over past year^ (2016)



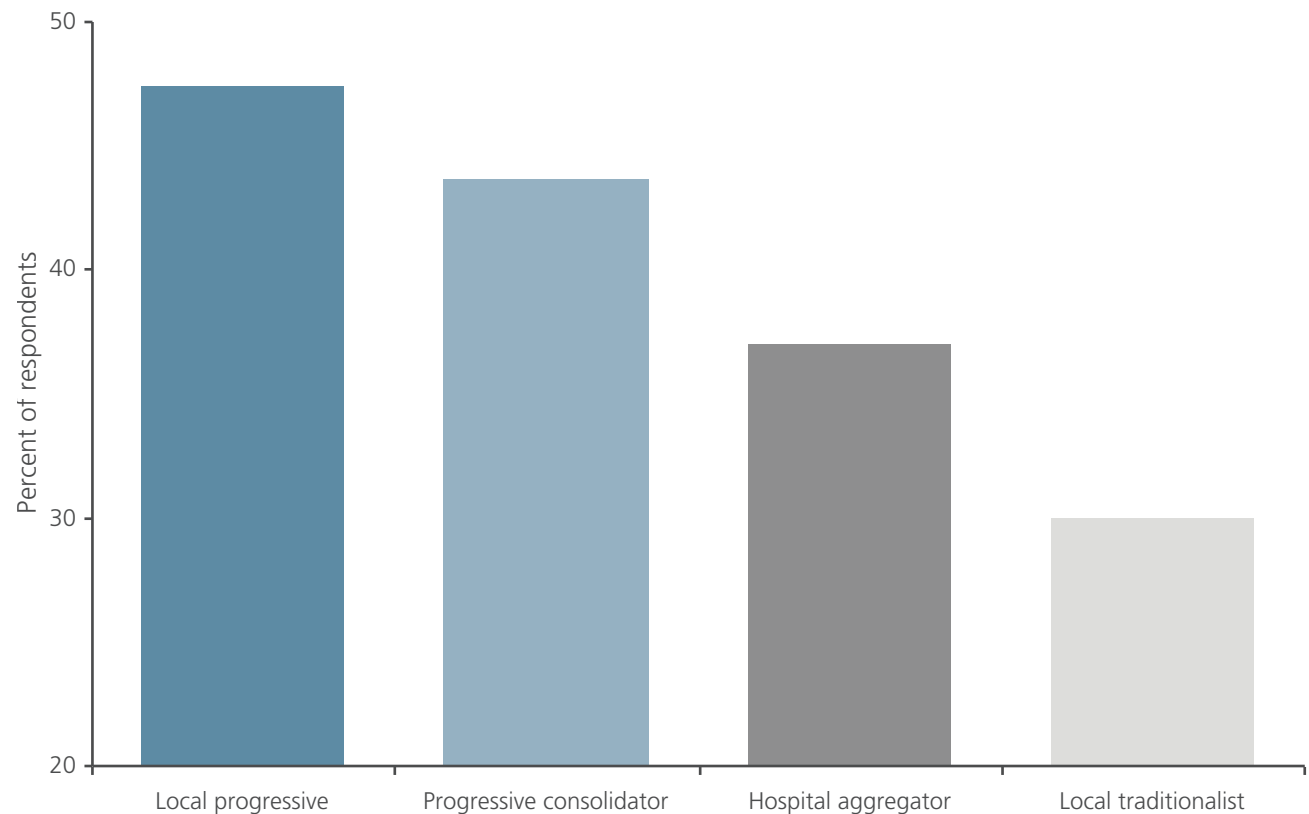
Note:*How did your hospital's total revenue in FY2015 compare with FY2014? **Includes participants who indicated their revenues experienced significant or moderate increases in the past year. ^How did your total spending (operational and capital expenditures) in 2015 compare with the prior year?; n=153. ^^Includes participants who indicated their revenues experienced significant or moderate increases in the past year. n=153
Source: L.E.K. survey and analysis

Why are progressives more likely to outsource? ►

Forging progressive partnerships

Given the increased focus on integration and accountability, it's perhaps no surprise that a growing number of progressive health systems appear willing to take advantage of third-party services in order to help address their most pressing needs. This is particularly relevant for medtechs looking to broaden their base of business, as it allows them to properly identify players that are more likely to become longer-term partners (as opposed to those more focused on transactional relationships and relative pricing).

Likelihood of working with outside service providers to address hospital needs* (2016)



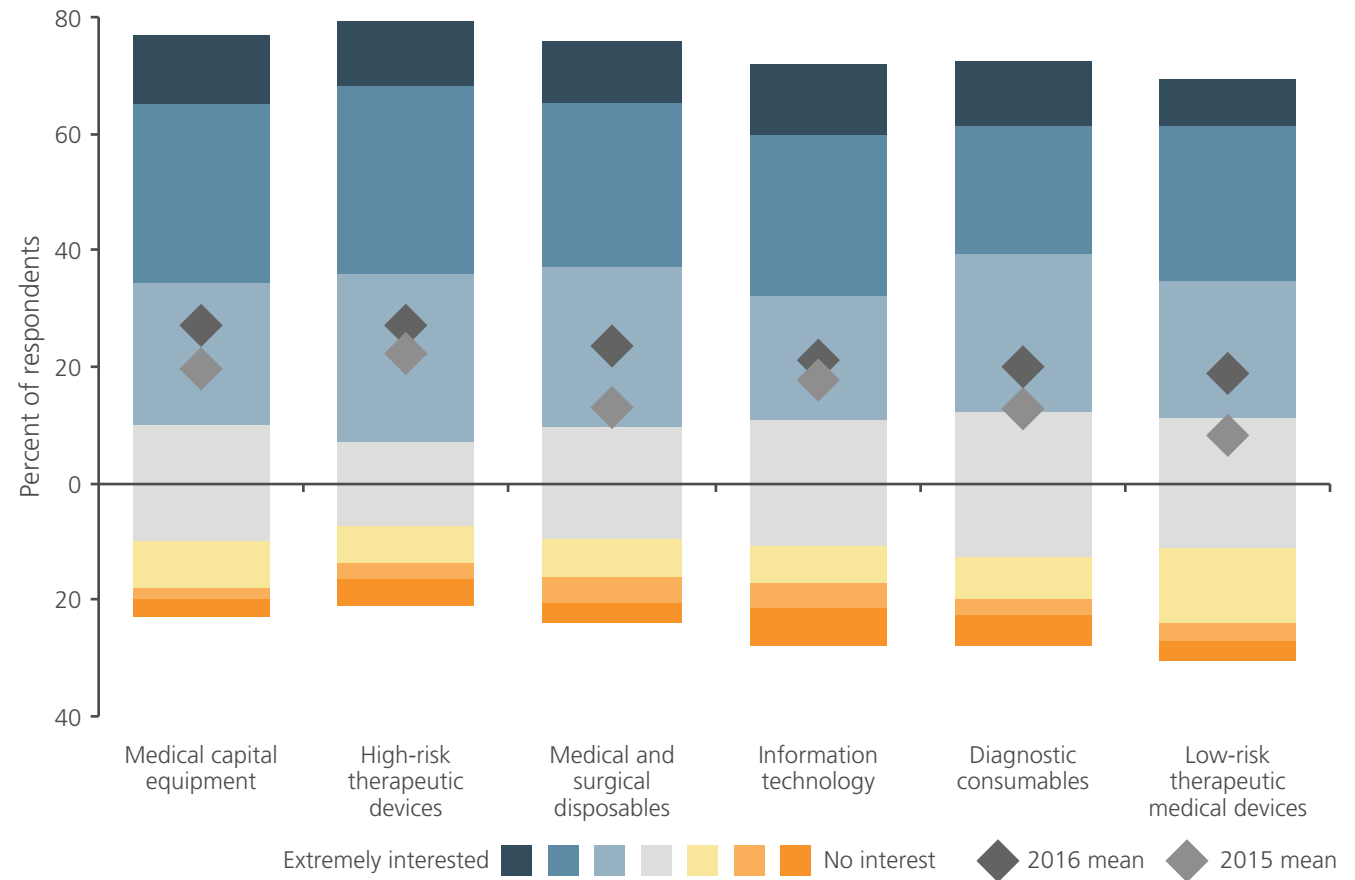
Note: *How are you addressing the most pressing needs that you identified for your hospital? Respondents who selected "Do not know" or "No change needed" were excluded from the analysis. n=153.
Source: L.E.K. survey and analysis

Is outcome-based pricing taking off? ►

Alternative pricing continues to gain interest

Increased awareness of/interest in novel pricing models among hospital administrators represents yet another emerging trend. Our 2016 study noted growing interest in outcome-based pricing across most of the medtech product spectrum, and in particular around higher-cost items such as medical capital equipment, high-risk therapeutic apparatus as well as medical/surgical disposables. That said, many medtechs have indicated that hospitals cannot always accommodate or accept these models when they are offered.

Desired outcome-based pricing in hospitals*



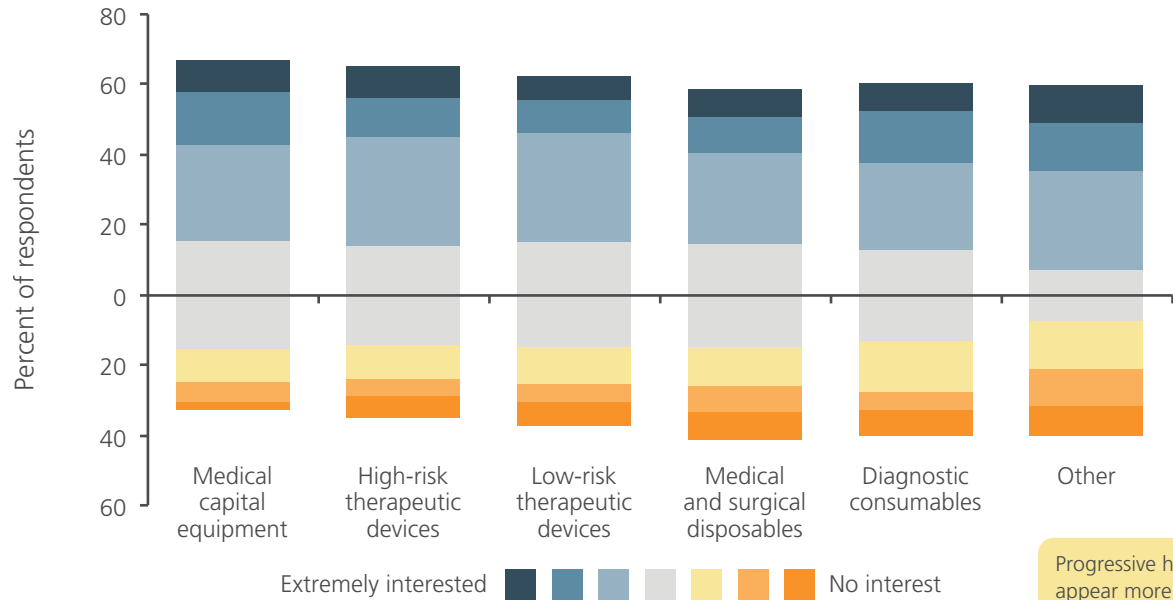
Note: *To what extent do you desire outcome-based pricing models with suppliers for the following medtech product categories? What are the key barriers to more outcome-based pricing models that medtech suppliers can impact? Respondents who answered "Do not know" or "Do not desire outcome-based pricing" were excluded from the analysis. 2015: n=153; 2016: n=153. Source: L.E.K. survey and analysis.

Which players are purchasing direct? ►

Hospital purchasing: The direct effect

Additionally, the L.E.K. survey revealed a growing number of hospital administrators continuing to embrace the idea of purchasing direct from manufacturers, rather than going through traditional GPO channels. Once again progressives are taking the lead, with the largest progressive systems engaging in the highest level of direct activity, using novel pricing models beyond traditional GPOs.

Receptivity to bypassing GPO and purchasing directly from manufacturers*
(2016)
(n=153)**



Progressive hospital systems appear more receptive to bypassing GPOs

	Percent of respondents highly receptive to bypassing GPO^					
Non-Progressive	16%	10%	8%	10%	16%	12%
Progressive	32%	25%	23%	24%	25%	32%

Note: *For any individual product category in which you currently use GPOs, how receptive would your organization be to bypassing GPOs in favor of working directly with a manufacturer to secure competitive pricing? **Respondents who do not purchase products from GPOs or do not know are excluded from the analysis. ^Includes participants who rated receptivity as 6 or 7. n=153.
Source: L.E.K. survey and analysis

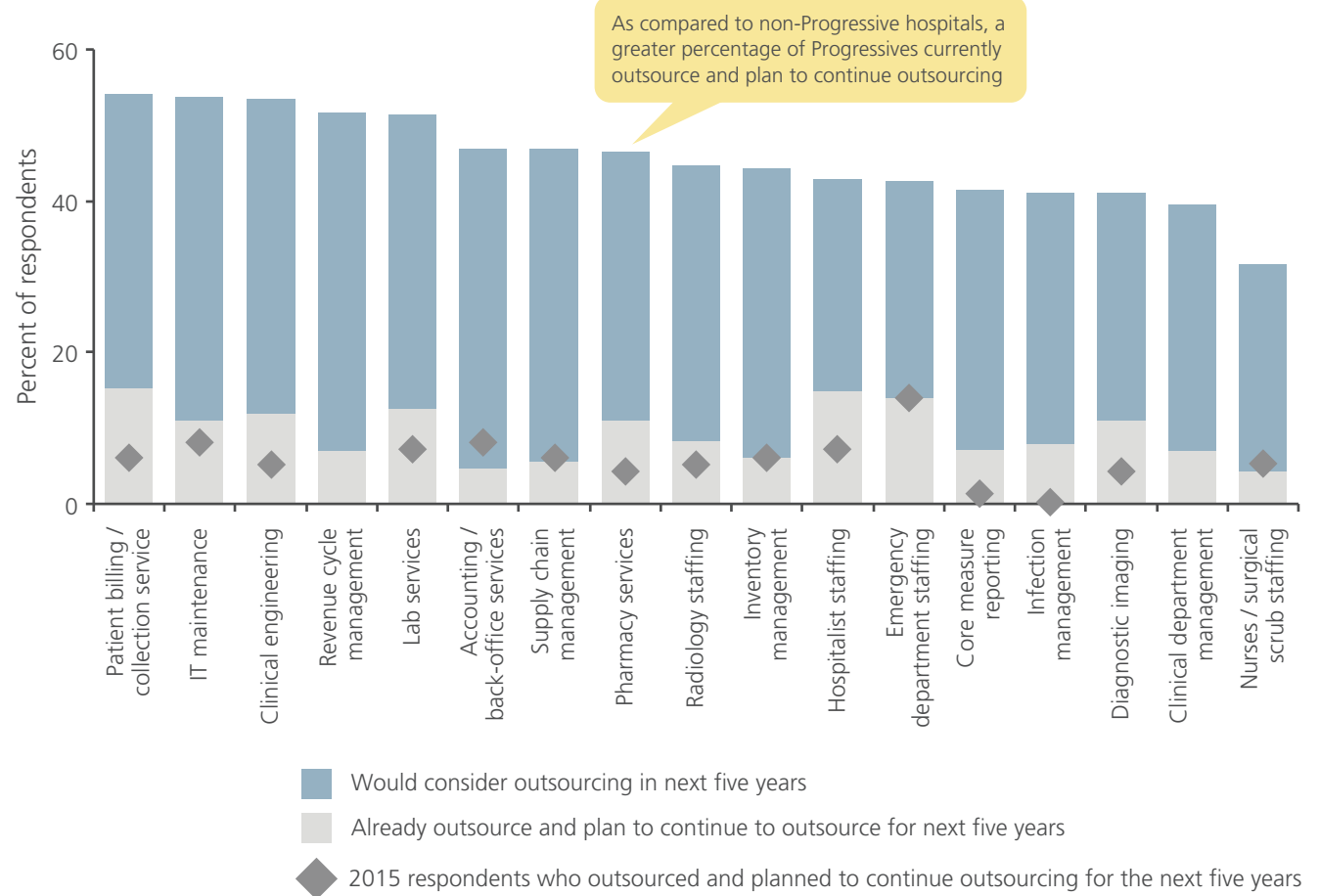
What's the outlook for outsourcing? ►

Outsourcing on the increase

Rounding out the top-trend list is the rise in outsourcing activity during the period 2015-16, covering the vast majority of hospital functions (and including longer-term outsourcing of non-core activities).

This mirrors the points above about a growing percentage of hospital administrators who are more receptive to working with external partners. Significantly, a number of those already using external partners indicated possibly increasing outsourced workflows by some five to six times current levels in the years ahead.

Outsourcing status and expectations*



Next steps for medtechs? ►

Note: *For the following services, please indicate what your current status for outsourcing is and how you expect this to change or stay the same in the next five years; Respondents who answered "Do not know" were excluded from the analysis. 2015: n=153; 2016: n=153.
 Source: L.E.K. survey and analysis

For medtechs, continued change is required

We see substantial outsourced opportunity ahead for independent providers of data, technology and other value-add hospital services. This bodes well for medtech firms, many of which have begun to expand their breadth of services in order to provide key players with a broader base of connected solutions.

To capitalize on these prospects, medtech leaders should consider a number of focal points, including ways to target emerging customer segments, and gain insight into the various provider segments (with special emphasis on the needs of larger, progressive health systems), while also considering M&A to access potentially high-growth areas, among other strategies.

Medtech company focus areas

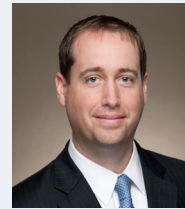
Provider landscape evolution	Customer segmentation and needs	Optimized commercial models
How is provider evolution (e.g., consolidating, integrating, taking on accountability, supply chain centralization) impacting medtechs?	What customer segments are emerging and which will "win" in the future? What are their needs and which can be addressed by medtechs?	How should Medtechs transform commercial models? Increase participation in alternate sites? Engage with distributors and GPOs? What capabilities and resources are needed to align with the changes in decision-making?
Value articulation and outcome-based pricing	Service / solution expansion opportunities	M&A opportunities
How can Medtechs define / quantify the value that they bring to customers? What tools can be used to communicate the benefits? How to develop, offer, manage and track gain-sharing programs	How to transform from "products" to solutions that better address customers' needs? Where / how can data connectivity increase the value of devices? How to define and monetize new services and solutions?	In which areas should Medtechs expand via acquisition? What portfolio additions provide the best fit for providing meaningful solutions? Which specific targets offer the best fit and promise for profitable growth?

About the authors ►

About the Authors



Jonas Funk is a Managing Director and Partner in L.E.K. Consulting's Chicago office. He has more than 17 years of experience at L.E.K. and has directed hundreds of consulting engagements, primarily focused on growth strategy and mergers and acquisitions support in the medtech and life sciences industries.



Lucas Pain is a Managing Director and Partner in L.E.K. Consulting's Chicago office. He has more than 16 years of experience directing consulting engagements focused on growth strategy across a broad range of industries, including energy & environment, medtech, building and construction, healthcare services, and private equity.

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