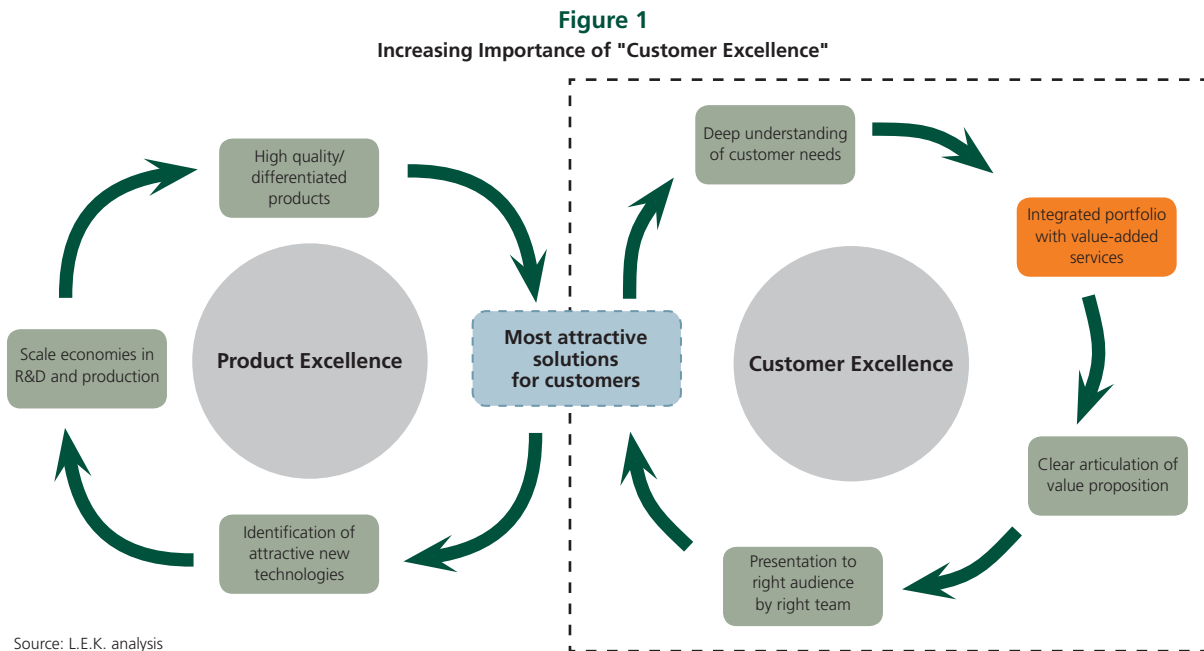


Beyond the Product: Service Expansion Opportunities for MedTechs

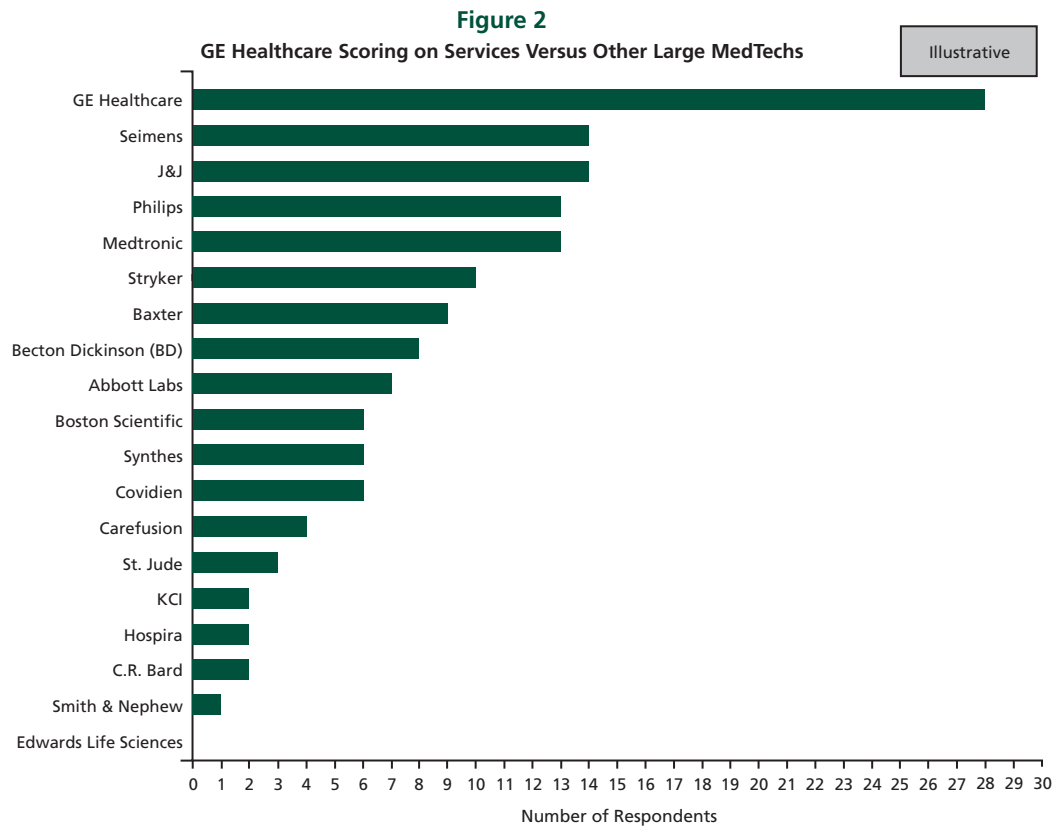
Hospital systems in the U.S. and other developed markets are increasingly looking to centralize and coordinate their supply chains. To help achieve this strategic goal, they are looking to work with fewer suppliers but to deepen their relationship with these select vendors, seeing them as trusted partners in helping them address their key challenges. These challenges include achieving improved IT systems, improved workflow efficiency, fewer hospital-acquired infections and fewer readmissions. In L.E.K.'s most recent annual hospital study, which surveys nearly 200 senior decision makers at U.S. hospitals, respondents reported that they are increasingly turning toward external suppliers to address their challenges rather than trying to hire or train internal resources to do so.

This shift presents opportunities for different types of suppliers, including GPOs, distributors, manufacturers and various other service providers, all of whom are rushing to offer broader solutions. L.E.K. believes that even in a crowded market place, MedTech manufacturers are well positioned to expand into broader services as part of an overall transition to a "customer excellence" value proposition for hospitals as opposed to MedTechs' traditional focus on "product excellence" (see Figure 1).

From a historical perspective, an evolution toward high-value services is a natural part of the maturation of hardware tech



Beyond the Product: Service Expansion Opportunities for MedTechs was written by **Jonas Funk**, Managing Director in L.E.K. Consulting's Chicago office, and **Lucas Pain**, Managing Director in L.E.K.'s Chicago office. For more information, contact medtech@lek.com.



Note: *How do these particular MedTech companies perform on the following dimensions?
 Source: L.E.K. Strategic Hospital Priorities Study

companies. Just ask IBM, which once was a computer hardware company but has successfully transformed itself into a predominantly service-orientated giant. For established MedTechs, increasing demand from customers – as well as competitive pressure from low-cost Asian device companies – will eventually force the development of ancillary service offerings around core hardware products – or even standalone services. It's the future of the industry. The question is who will arrive first and with the most compelling offerings.

The competition is already heating up. In recent years, many MedTech companies have worked to “go beyond the product” in the pursuit of broader solutions and general customer excellence. So far, GE Healthcare, which already offers broad services and solutions to support its product portfolios, has gained a reputation among industry experts as a leader in services (see summary of its services in Figure 3). In our hospital study, hospital administrators affirmed GE's leading service position, ranking it well above other MedTech companies, including above its capital-equipment peers (capital equipment naturally

has a more important service element than most disposable or implantable devices).

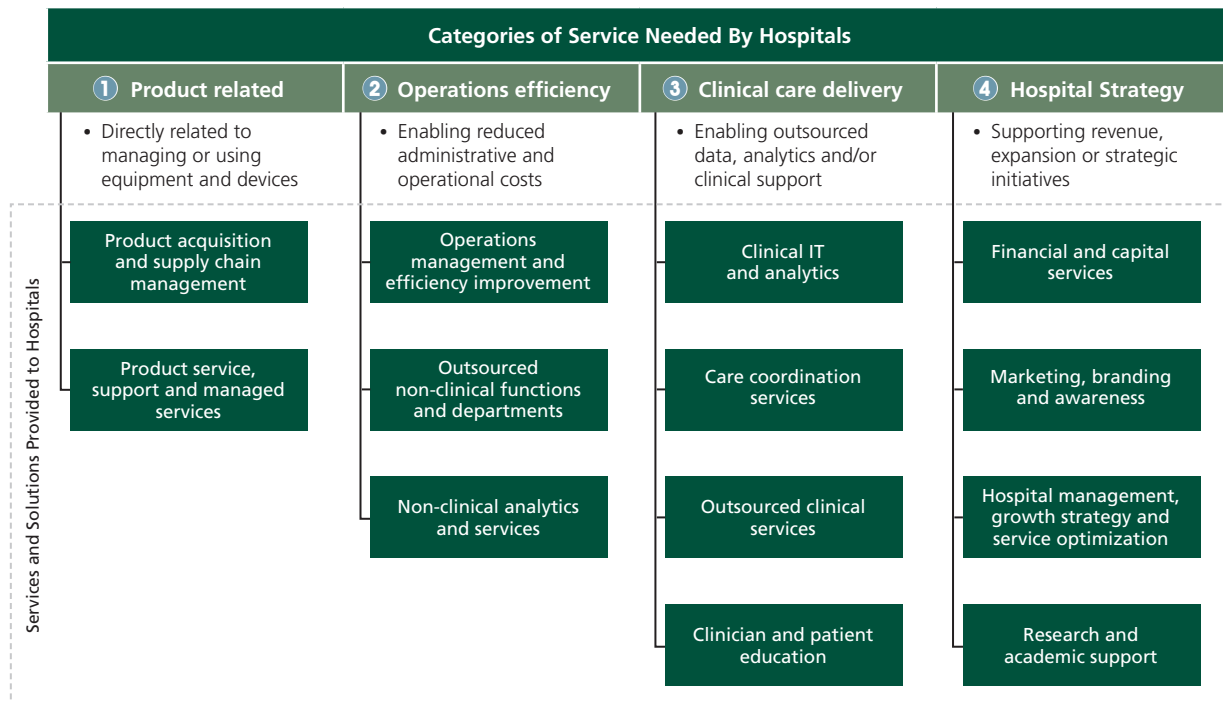
Other tech companies are rushing to catch up. In late 2013, Medtronic announced the formation of its “Hospital Solutions Business,” a unit that is managing cath labs for European hospitals. The Minnesota-based company similarly completed an acquisition of Cardiocom, a telehealth and remote monitoring firm. As described in Medtronic's press release, the acquisition reflected “Medtronic's transition toward expanding the company's medical device product offerings to broader healthcare services and solutions, providing meaningful clinical and economic value for hospitals.” In a similar vein, Medtronic is also introducing its “Rethinking Blood Conservation” service program to help hospitals reduce their blood usage and related-costs. Given that Medtronic's current CEO, Omar Ishrak, previously led GE Healthcare, this expanding service capability should not be surprising, but it should send a warning to MedTechs that have been slow to pursue this direction: Inaction may lead to obsolescence.

Figure 3
Example Service Offerings from GE Healthcare

Examples of GE's Service Offerings	
<p>CompreCare™ Simplifying service. Controlling costs. Driving productivity.</p> <p>Performance Solutions</p> <p>Centricity</p> <p>PRODUCT EDUCATION</p> <p>Omnyx Integrated Digital Pathology</p> <p>GE Capital Healthcare Financial Services</p> <p>Leadership Systems</p>	<p>Product-related services</p> <ul style="list-style-type: none"> • Comprehensive Services Solutions/CompreCare manages equipment maintenance and contracting • Performance Solutions provides capacity management to improve operational and clinical performance • Clinical Product Education course offers e-learning courses and user training sessions to clinicians using GE products
	<p>Operations efficiency services</p> <ul style="list-style-type: none"> • The Centricity RCM (revenue cycle management) solution offers an advanced billing system that automates patients access, billing, collections, and business reporting
	<p>Clinical care delivery services</p> <ul style="list-style-type: none"> • GE's EMR system is designed to interface with multiple practice management systems (e.g., Centricity Cardio Enterprise) • The Anesthesia Information Management System (AIMS) streamlines anesthesia documentation • Omnyx is a fully integrated and scalable digital pathology solution
	<p>Hospital strategy services</p> <ul style="list-style-type: none"> • GE offers financing programs for corporate (e.g., purchasing a business), real estate (e.g., senior housing, nursing facilities), and life science (e.g., pharma companies) • Leadership Systems help healthcare organizations develop talent, including recruitment-specific content • GE also looks externally to bolster its credentials, as shown by last year's acquisition of the consulting firm Finnamore

Source: L.E.K. analysis

Figure 4
Framework for Hospital Services



Source: L.E.K. Consulting

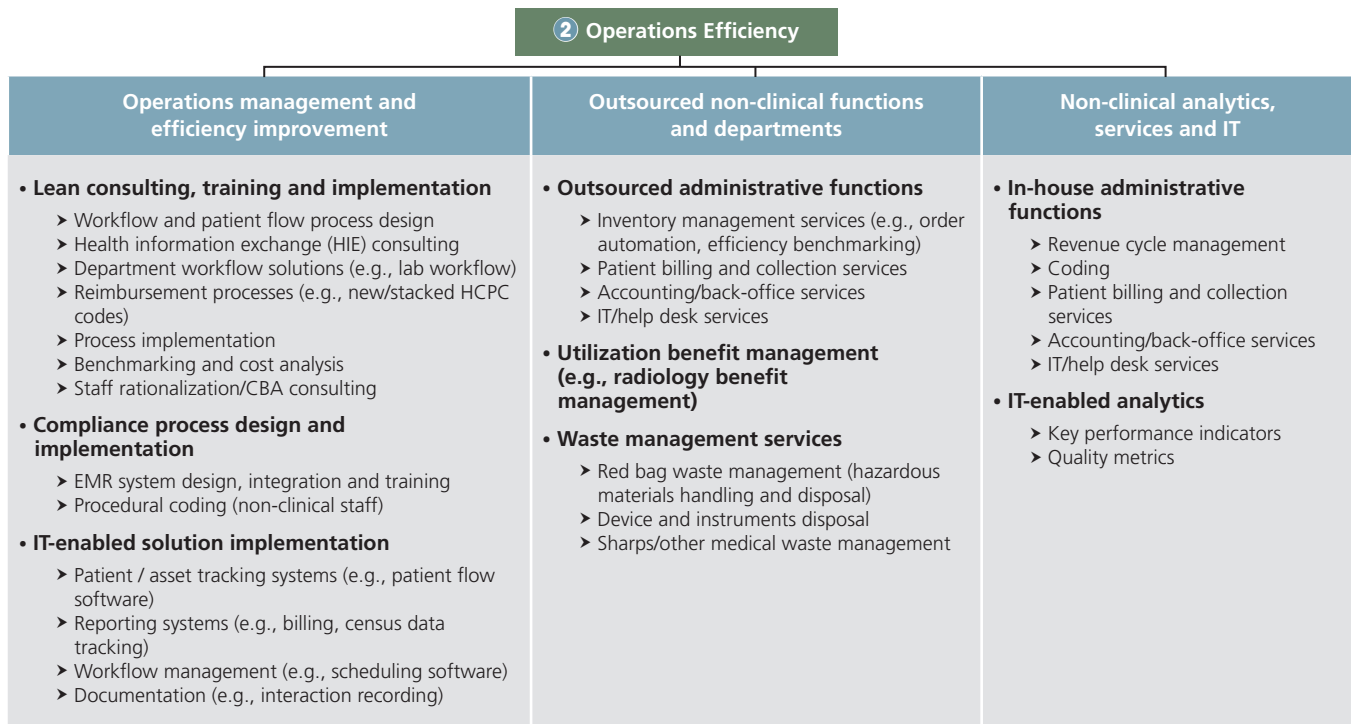
As another prominent example, Michigan-based Stryker has been beefing up its service line up. Its acquisitions of Ascent, a leading device reprocessor, and Marshall Steele, a hospital performance improvement consulting firm, complement what it calls its “Stryker Solutions” business.

However, despite these examples, most MedTechs are struggling when it comes to introducing services alongside their products, particularly with respect to how to monetize new offerings. The traditional MedTech focus on product excellence historically meant that any service offering (for example, product training or assistance during surgical procedures) was given away for free as a way to support product pull-through, rather than being seen as a stand-alone, profitable business line. As a result, many MedTech companies are only recently thinking about ancillary service opportunities and how to incorporate them into broad offerings that expand the top line as well as the bottom line. An obvious, key ingredient to enabling monetization of a service is to provide clear evidence of the incremental economic value that the service actually provides; many MedTechs have not thought to do this or have failed to do so in a compelling way or with compelling evidence.

L.E.K. has developed a framework to define the relevant universe of service areas that are applicable to hospitals and into which MedTechs could expand. We have also mapped service companies within this framework that could be targeted for potential partnerships and/or acquisition. The framework includes 13 segments with four broader categories of potential services:

- **Product related:** Directly related to managing or using equipment and/or devices
- **Operations efficiency:** Enabling reduced administrative and operational costs
- **Clinical care delivery:** Enabling outsourced data, analytics and/or clinical support
- **Hospital strategy:** Supporting revenue expansion or strategic initiatives

Figure 5
Example Services to Hospitals within Operations Efficiency



Source: L.E.K. research and analysis

Figure 6
Example Services to Hospitals within Clinical Care Delivery



Source: L.E.K. research and analysis

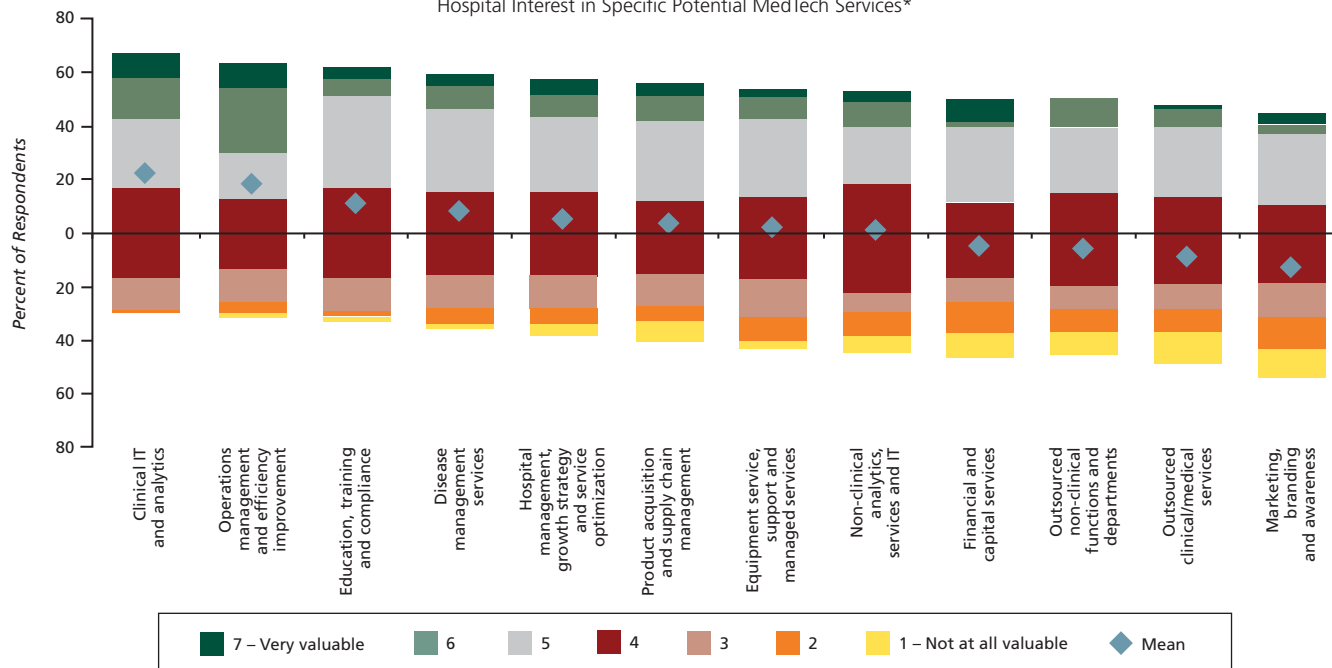
Within each of these segments, an additional hierarchy of sub-segments exists. For example, within clinical care delivery, we have identified several more specific service areas in which outsourced service providers currently exist (or could exist).

When asked whether hospitals would be interested in additional services from MedTech companies, 60% of c-suite respondents answered affirmatively. As Figure 7 shows, interest varies by the type of service offered, with high interest levels in clinical IT and analytics and operations management/efficiency improvement, and lower interest in outsourced clinical/medical services and marketing/branding services. Importantly, service expansion does not necessarily require MedTechs to develop or acquire capabilities in all instances; instead, innovative partnerships with service companies can offer a more cost-effective and lower-risk path. For example, in order to help hospitals with physician or patient-training programs such as the use of new products or disease-management programs, MedTech suppliers could form partnerships with start-up companies like Syandus, an intelligent simulation learning technology focused on health-care applications. Particularly with respect to IT integration,

connectivity and “big data,” MedTech suppliers likely would be better served to find good partners than trying to learn entirely new competencies.

As large MedTechs such as GE, Medtronic and Stryker continue to migrate toward a broader portfolio and solutions with more services, it will become more difficult for smaller MedTechs with fewer resources and scale to keep up. Similar to the consolidation that we are seeing with the hospital landscape itself, consolidation among MedTech suppliers will almost certainly happen. Survivorship in this new era will largely be determined by innovative services and solutions. The landscape after the dust of this new competition has settled will likely include a smaller number of suppliers who have earned deeper trust and partnerships with senior hospital administrators through the sale of a broader arsenal of relevant and valued products – and services.

Figure 7
Prioritized Services Desired by Hospital Administrators
 Hospital Interest in Specific Potential MedTech Services*



Note: *How valuable are each of the following services that MedTech companies could provide in addition to their products?
 Source: L.E.K. study

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