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Vol. 5, No. 9

MedTech STRATEGIST

FROM THE COMMUNITY BLOG

Notes from PCR Innovators Day

Stephen Levin, 6

EXECUTIVE INTERVIEW

Charting Baxter's Rebound: An Interview with CEO Joe Almeida

David Cassak, 8

ORTHOBIOLOGICS

Orthopedics Grapples with Evidence-Based Use of Stem-Cell Therapies

Wendy Diller, 20

HOSPITAL PARTNERSHIPS

Good News, Bad News: Hospitals Want to Partner

Jonas Funk, Monish Rajpal, and Ilya Trakhtenberg, LEK Consulting, 26

OUTSIDE OPINION

Driving Medical Device Sales and Profit Growth by Creating Mega-5's

John Larson, John Larson & Co., 28

START-UPS TO WATCH

Post-Operative Management

Output Medical: Predicting Acute Kidney Injury Right on Time

Colin Miller, 34

Augmented Reality in Cardiology

SentiAR: Intraprocedural, Real-Time Augmented Reality Enhances Catheter Ablation

Mary Stuart, 36

Good News, Bad News: HOSPITALS WANT TO PARTNER

Hospitals and health systems are expanding their use of external partnerships, and while medtech companies don't lead the list of preferred partners, a recent survey from LEK Consulting indicates that relationships with medtechs are becoming a high priority, particularly for progressive health systems.

by
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LEK Consulting's 9th annual survey of hospitals and health systems has recently completed and, as in the past, the survey results offer a range of insights into the changing customer landscape for medtech companies.

One interesting finding is the increasing comfort with, and even appetite for external partnerships that hospitals and health systems are indicating as they struggle with continued cost and competitive pressures. On a scale of 1-7 (1 being not at all likely and 7 being very likely), around half of all respondents rated the likelihood of turning to outside partnerships either 6 or 7. More importantly, when we divide respondents into "progressive" and "non-progressive" segments (based on a separate LEK Consulting hospital segmentation framework in which progressive systems are more proactively embracing forms of value-based care and evolving their own infrastructure and practices to align with VBC), the progressive segment is significantly more prone to external partnerships with ~65% scoring either 6 or 7 (non-progressives had only around 35% providing those scores) The greater use of external partners suggests both challenges and opportunities for medtech companies.

Challenges are represented in two ways. First, there are several types of ecosystem players that are seen as more likely partners for increased engagement above medtechs (e.g., GPOs, HCIT companies), suggesting increasing competition for share of mind and a more crowded competitive landscape for services to providers (*see Figure 1*). Second, GPOs lead the list of external partners, particularly among non-progressives who continue to rely on GPOs to help drive initiatives around standardization and cost reduction of supplies and equipment. That said, based on other findings from our study, large, progressive systems are increasingly more likely to bypass GPOs in favor of direct purchasing from medtechs, reflecting key differences in attitudes to GPOs across hospital segments.

The opportunities: first, providers' interest in working with external partners (including medtechs) has nearly doubled in recent years, from 26% showing high interest in 2016 to 54% showing high interest in 2018. Second, most hospitals surveyed indicate that external partnerships with medtech companies are of high priority, suggesting willingness to engage more deeply with their suppliers to address their broader needs, whether by leveraging analytics and digital technologies, providing additional service offerings, or collaborating on standardization/utilization reduction programs.

Figure 2 provides a more granular view of how hospitals and health systems are thinking about partnership opportunities. The needs ranked highest in importance and most likely to be considered for external partnerships tend to be related to incorporating the use of new technologies into quality of care delivery. For example, predictive analytics, telehealth capabilities, access to new technologies, and digital tools for patient engagement were all at the top right of the chart. These are areas in which most providers have weaker in-house capabilities, so they indicate interest in seeking external expertise. This validates the opportunity for medtechs to continue incorporating software and digital/mobile health components into their offerings (e.g., patient-facing apps for post-op support, predictive analytic functionality of capital equipment).

Reducing readmissions was another notable need with high importance (driven by CMS readmission penalties) and openness for external partner support. Many medtechs have sought to align themselves with impacting readmissions and this seems to continue to be an area of interest.

Notably, providers appear only moderately interested in external partner support for driving product standardization and improving processes, which is likely a reflection of the intense internal efforts that most are undertaking in these areas. However, providers appear more keen on partnering to drive down spend on equipment and supplies. While this often manifests itself in expectations of price concessions (i.e., not "partnership"), we have also observed partnership opportunities where medtechs successfully link price reductions to higher volume commitments enabled by standardization to their products across facilities.

Net-net, we expect that the sustained, growing interest of hospitals and health systems to engage with external parties across a range of needs will continue to provide exciting opportunities for medtechs to create, capture, and retain greater value going forward.

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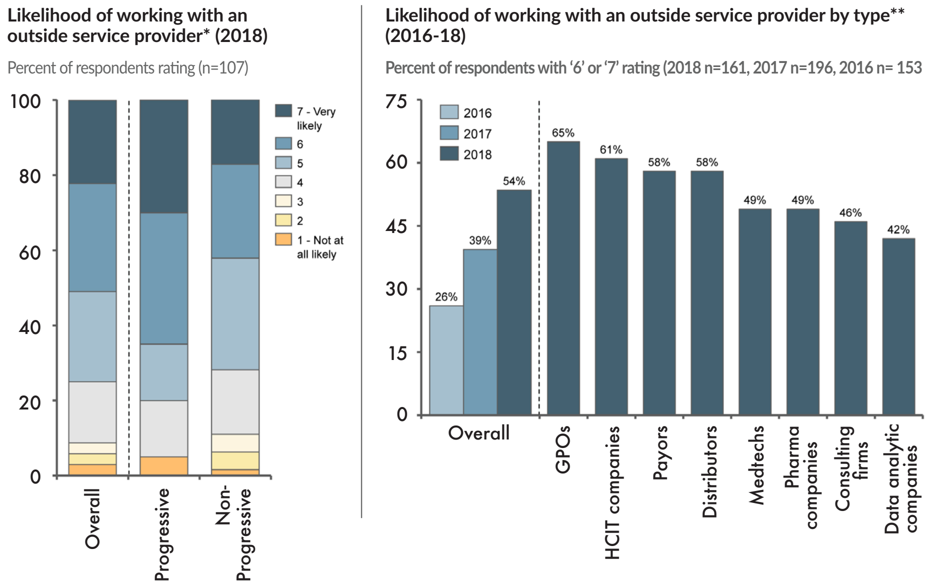
Figure 1

Likelihood of Working with External Partners

In addition to pursuing standardization, providers are also becoming more sophisticated in their use of outside partners to leverage external expertise



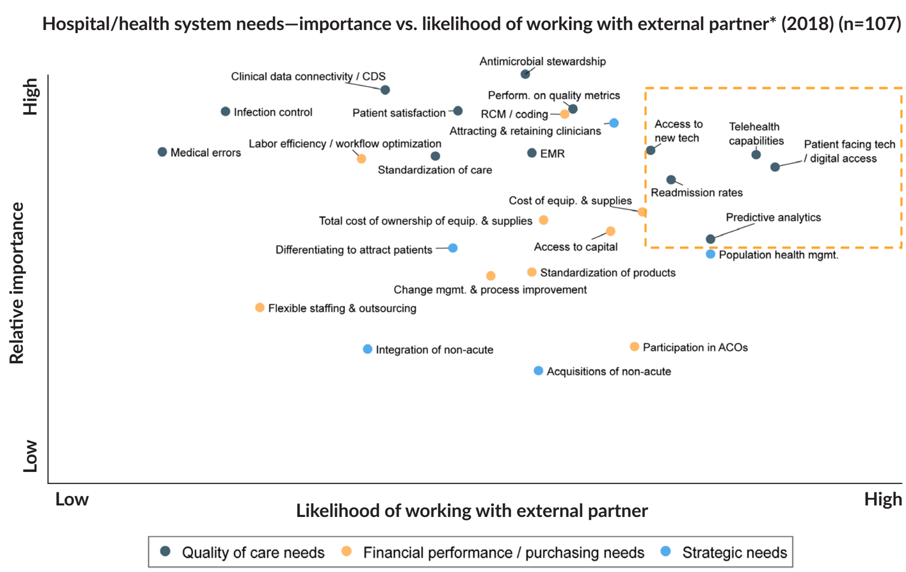
Notes: * Question: In general, how likely is your [hospital/health system] to work with outside service providers/partners to help address your key needs?
** Question: In general, how likely is your [hospital/health system] to work with each of the following outside service providers/partners? Please rate on a scale of 1 to 7 in which '1' means "not at all likely" and '7' means "very likely."

Source: LEK 2018 Hospital Study Survey

Figure 2

Value of External Partners

External partners are particularly valued where hospital expertise is lower in areas such as digital patient engagement, analytics, and telehealth



Note: *Questions: How important are each of the following strategic priorities for your [hospital/health system] today? With respect to addressing your [hospital/health system]'s top urgent needs, how likely are you to work with outside service providers/partners?

Source: LEK research and analysis