



2015 State Of The Industry: MedTech

Executives in the MedTech industry face many critical strategic questions in 2015. To help navigate the road ahead, L.E.K. Consulting shares its views on the current state of the industry, as well as the biggest challenges and opportunities for MedTech companies.



What is the Current State of the U.S. MedTech Industry?

After several years of under-funding, the sector has seen robust investment and an ability for small and mid-sized MedTech companies to successfully raise funds and fuel new innovation that will seed the industry pipeline going forward. Standout winners will be those companies that go beyond incremental improvements to deliver meaningful innovation to drive impact on outcomes and cost reduction.

The last year has also seen some large acquisitions by players that will likely disrupt their respective markets. From Thermo-Life to Zimmer's acquisition of Biomet, Becton Dickinson's acquisition of Carefusion, and Medtronic's acquisition of Covidien — these moves strengthened the market position and relevance of these players. Additionally, this will allow these scale players to amortize the investment in expensive services and platforms that will be required to differentiate and win going forward. As the providers consolidate and seek fewer, deeper partners (to help them across the care continuum), we expect further consolidation in the industry and more challenges among smaller MedTechs.



What are the Key Challenges and Opportunities?

We see two key challenges for MedTech companies. First, cost pressures will continue across all markets, provider settings and patient populations. This will continue to put pressure on MedTech companies to demonstrate the value and impact their products/services will have on outcomes and total cost. Second, the rapid consolidation in provider networks will continue, ultimately resulting in 180-200 hospital systems that will drive 75-80% of healthcare spend in the U.S. by 2025. Integration across care settings and treatment paths will continue, as well as the evolution of the supply chain and how providers choose to engage with MedTech clients.

Against the backdrop of these challenges are three large opportunities:

- 1. Clearly articulating value and sharing risk.** MedTech companies have an opportunity to differentiate themselves as partners by better articulating value of their products — not just looking at clinical development data, but also thoughtfully measuring the impact therapies have on total cost of care for a given device solution or procedure. With confidence around the impact on critical metrics (outcomes, total costs, patient satisfaction, etc.), MedTech companies can begin to work with pilot partners on innovative risk sharing models. On the latter point, relevant infrastructure and health system investments are finally catching up with the pre-requisite need to be able to measure impact and outcomes before meaningful risk-sharing contracts can be administered.
- 2. Evolve offering.** MedTech companies should continue to look beyond their products by (a): undertaking services to help providers respond to external pressures from payers and patients, (b): extending their portfolio of products and services to build relevance in a targeted department or relevant call point, and (c): extending reach and impact of

products and services with digital linkages with devices, patient engagement and proprietary analytics pre and/or post treatment. As the emphasis on measurable outcomes (not just promises) of new solutions continues, MedTechs will also need to develop change management capabilities to support health systems that actually implement and realize the benefits of novel solutions on an on-going basis.

3. Evolve commercial model. MedTech companies can also evolve how they sell into leading health systems by better aligning with how key customers and alternative channel executives are making decisions at all levels. Clear segments are emerging in the hospital and provider space, and MedTech companies should consider re-aligning the level of service and pricing with those segment and system specific needs. For instance, some systems require a calibration of where sales and marketing resources should be re-deployed. Some large systems want a high-touch service model, whereas others are looking for low-cost models (e.g., “rep-less sales” and/or drop shipments to central distribution centers).



What Burning Issues are Senior Executives Facing?

We see a number of key issues for MedTech executives in 2015:

- How to respond to U.S. hospitals waking up to their scale and buying power
- How can small or mid-sized MedTech companies go beyond incremental improvement to deliver meaningful impact on outcomes and cost reduction?
- China is overtaking many western countries as a consumer and supplier of medical products. How can MedTech companies capitalize on this opportunity?
- How to go beyond our traditional products to add service and solution platforms to our portfolio
- How to respond to the opportunity and threat of the convergence of digital-world with physical-world products
- How to best demonstrate the value and impact our products/services will have on outcomes and total cost
- How to continue to integrate across multiple care settings and treatment paths so that providers want to engage with MedTech companies
- How to revise commercial go-to-market models to keep pace with how hospital system customers are evolving
- How to address the bifurcation of pricing and value (the need for value products for emerging and low income consumers as well as new premium offerings for affluent countries or those with generous insurance)

Our MedTech Practice

Market pressures to innovate while simultaneously keeping costs competitive create continual challenges for MedTech companies. L.E.K. Consulting provides demonstrated expertise in helping MedTech executives address their most pressing issues including identifying new growth opportunities, enhancing profitability and providing the insight to manage all phases of transactional services.

Meet Our Leaders



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