

The MedTech STRATEGIST

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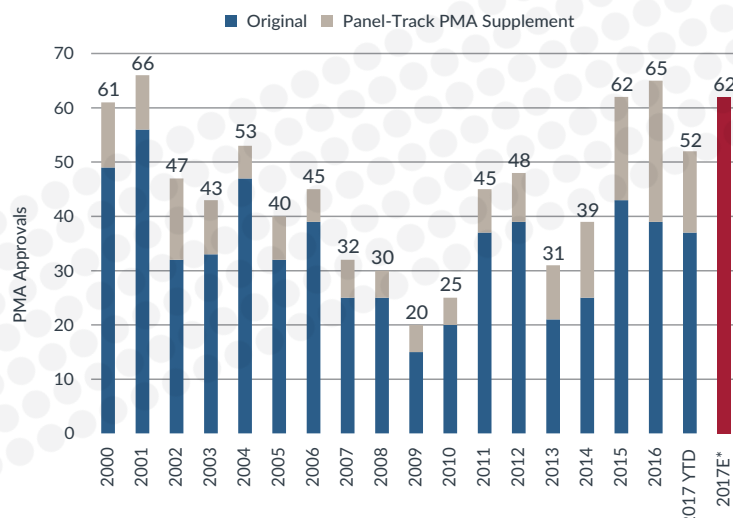
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Rethinking the Medtech Commercial Model

In the US, medtech customers are changing. Ongoing provider consolidation, increased emphasis on economic value as well as a more centralized, administrator-oriented approach to purchasing are among the elements impacting the legacy commercial models of medical device companies. In this Executive Insight, LEK Consulting offers an assessment of how medtech commercial approaches are being reshaped by changing customer preferences on several key fronts.

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Adapting commercial models to the changing US customer landscape continues to be a key priority for medtech companies. Ongoing provider consolidation, increased emphasis on economic value as well as a more centralized, administrator-oriented approach to purchasing are among the elements impacting the legacy commercial models of medtechs.

With an increasing share of sales coming from fewer accounts, it is imperative that medtechs review and, where needed, revamp existing commercial strategies to ensure sales coverage and capabilities address the changing needs of customers. The ability for medtechs to tailor their approaches to different customer segments as well as clearly demonstrate their value using specific tools and/or diagnostic approaches will go a long way towards achieving future prosperity.

In this *Executive Insight*, LEK Consulting offers an assessment of how medtech commercial approaches are being reshaped by changing customer preferences on several key fronts (see *Figure 1*). Across these dimensions is a noteworthy shift from product-centric to customer-centric commercialization efforts.

Reconsidering Customer Profitability

Customer profitability has become an increasingly important consideration in medtech commercial models. In the past, medtechs had limited need to understand differences in the profitability of selling to and servicing their customers. However, with customer price pressures on the rise as well as growing provider expectations for expanded services, medtechs increasingly need to take customer-level profitability into consideration when making sales resourcing decisions. This includes adjusting the level and type of account coverage as well as sales incentives, which historically focused on volume-driven revenue growth and were often not aligned with (and might even be at odds with) customer-level profitability.

Account Segmentation and Targeting of “Winners”

Consolidation within the provider space is expected to continue its current pace: according to LEK research, within 10 years at least three-quarters of total US healthcare spend will be controlled by a select group of approximately 200 health systems, with the top 100 systems repre-

senting more than 60% of spending. Along the way, acute-care expenditures in particular will become the domain of a smaller subset of larger health systems, and this will lead to “chunkier” account wins and losses. While this certainly presents challenges, it also underscores the opportunity for leading medtechs to benefit from vendor rationalization and product standardization initiatives. Determining which providers stand the best chance of “winning” in the years ahead will be imperative for medtechs to be successful in the US market. In addition, tailoring differential offerings (e.g., expanded solutions versus traditional product sales) to different segments of customers (i.e., those looking for deep partners versus those simply looking for low-priced products) is becoming more critical to align with customers’ needs. Similarly, more strategic segmentation along account purchasing patterns, such as the degree of centralized decision making (e.g., at the department, facility or system level) is needed to determine the appropriate targeting and resource deployment models.

Changing Call Point Focus, Capabilities and Resourcing Mix

Medtechs are also updating their commercial engagement models and sales-force capabilities to better align with the changing face and roles of customer call points. The emergence of large integrated delivery networks (IDNs) has increasingly shifted decisionmaking from clinician to administrator call points and value analysis committees (VACs). To adapt, medtech sales teams are prioritizing strategic account management roles with consultative selling targeted at senior executives at hospitals.

To support the strategic account function, Medtechs are also rolling out a deeper set of specialist roles (e.g., clinical specialists, IT implementation, HEOR [health economics and outcomes research] experts), and, in some cases, developing new roles to advance broader solution offerings (e.g., consulting and change management capabilities, “hospital solutions” groups across busi-

ness units). Overall, there is a rebalancing of many “product reps” to more “account reps” that are supported by more-specialized roles.

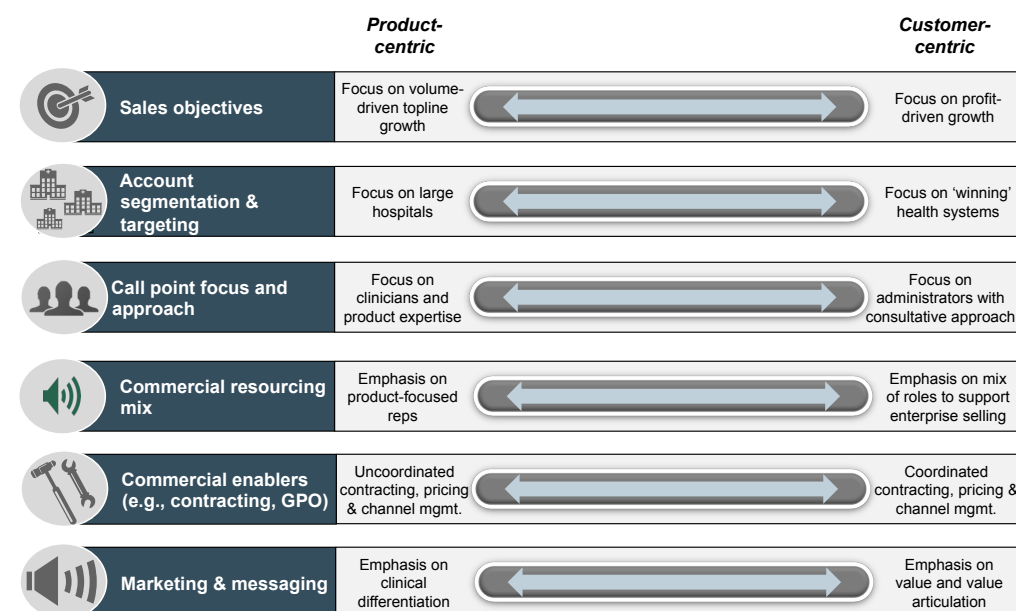
Bolstering Commercial Support Functions

Additionally, medtechs are investing in commercial enabling competencies, focusing in particular on areas such as HEOR, contracting, pricing, channel management and customer/technical service. Leading medtechs are streamlining contracting and pricing to achieve more standardized processes, quicker response times, and more coordinated approaches to larger, more complex sales deals. These efforts are also expected to aid in the development and subsequent support of potential gain-sharing models.

Channel management (e.g., strategically engaging with distributors) has also become a more prominent part of direct commercial activity. This includes ensuring consistent commercial-team support when managing IDN-based direct distribution, in addition to leveraging the channel to meet growing demand among IDNs for integrated/standardized acute and non-acute care delivery. National account teams are similarly re-considering their GPO strategies in response to decreasing value that large IDNs perceive from national GPOs.

Figure 1

Key Dimensions of Medtech Commercial Approaches



Source: LEK analysis

Adopting Value-Based Marketing and Messaging

With value-oriented stakeholders having a greater impact on the decisionmaking process, medtechs must be able to provide messaging that caters to these call points, especially at the strategic account management level. Sales teams must clearly articulate and quantify value with concrete case examples and economic tools (e.g., cost calculators) that are designed for specific accounts and/or types of accounts. Sales collateral, especially for more senior administrator call points, must increasingly be tailored to specific customers and reflect local market dynamics (e.g., hospital share position, benchmarking versus competitors).


For example, medtechs are developing or acquiring new tools and services that complement product sales to help

solve hospitals' key problems, whether that's helping to transition post-acute patients, avoiding adverse events, or managing a specific department more efficiently. This enhances sales team credibility and relevance and enables higher-level, partner-oriented discussions.

Conclusion

Providers are changing how they procure products and how they choose their suppliers. That said, different segments are emerging, each with a unique set of behavioral needs and purchasing approaches. Accordingly, medtechs must hone their commercial-facing capabilities to ensure better alignment with the needs of each segment, while focusing in particular on "winning" systems that are likely to lead the way through further M&A in the years ahead.

As medtechs make further adjustments to their commercial models, they should consider several key questions:

- How well are the relative priorities, needs and purchasing approaches of the top 100-200 accounts understood?
- Given differences across provider accounts in terms of needs and purchasing approaches, how well aligned is the commercial organization with different segments?
- Are limited commercial resources focused on the "right" accounts?
- How well is facility-level product penetration and customer-level profitability understood for each these accounts? Should changes be made?
- To what extent is the right data being gathered from customers to build insights on product usage and outcomes? 

About the authors: Leaders in the Medtech Practice of LEK Consulting, Jonas Funk (Managing Director), Stuart Jackson (Managing Director), Monish Rajpal (Managing Director) and Ilya Trakhtenberg (Senior Engagement Manager), are based in Chicago. For more information, please contact Medtech@lek.com.

The Chapter 7 Trustee of the Bankruptcy Estate of Osseous Technologies of America Inc.

The Chapter 7 Trustee of the Bankruptcy Estate of Osseous Technologies of America Inc., Case No. 8:13-bk-14500-SC is selling the Estate's interest, if any, in US Patent No. 8,353,967 ("Patent") and the 510(k) approval by the United States Food and Drug Administration of the Patent for dental applications, through an auction on December 13, 2017, at 11:00 a.m., at 411 W. Fourth Street, Santa Ana, CA 92701, Courtroom 5C. The Patent is an encapsulation product line for bone augmentation material. The products are rigid collagen vessels which retain their structure during the period that the bone graft material hardens and ossifies. Used, together, the collagen vessels and bone graft material create an osseous structure for single tooth implants as well as jaw reconstruction for multiple implants. The Patent may have applicability in several orthopedic areas, including spine, non-union bone fractures, hip revision surgery, etc. The full development of the orthopedic applications have not been completed. The stalking horse bidder has placed an initial bid with total consideration being \$45,000. Any minimum overbid must be at least \$50,000, and a deposit of \$10,000 refundable only if not the successful bidder; \$5,000 increments during the Auction. Overbids are to be received by 10:00 a.m. ("PST"), on December 12, 2017, Contact David A. Wood and Matthew W. Grimshaw at 949-333-7777 or via email at dwood@marshackhays.com or