
EXECUTIVE INSIGHTS

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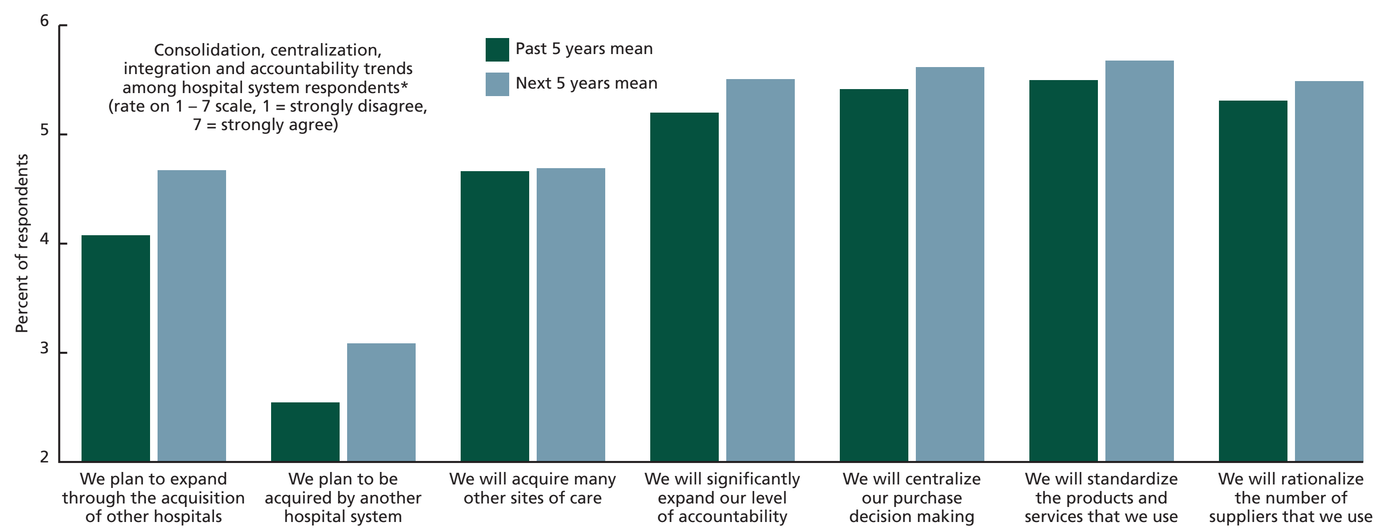
# 2015 L.E.K. Strategic Hospital Priorities Study: Hitting an Inflection Point for Hospital Suppliers and MedTechs

L.E.K.'s 2015 U.S. hospital study confirms a continuation of several of previous years' themes and trends including: hospital consolidation, greater accountability and integration (i.e., beyond the acute care setting), standardizing their supply chains and centralizing purchase decision making (see Figure 1). In addition, hospitals continue to increase their focus on patient satisfaction and exhibit increasing openness and desire for shared risk/savings from their suppliers.

Importantly, though, it appears that many of these trends impacting hospital suppliers are actually accelerating and that the implications for suppliers are becoming particularly pronounced. The heightened importance of these trends to suppliers is reflected by notable strategic activity and consolidation over the last year. For example, 2014 witnessed record-setting levels of supplier consolidation (e.g., Medtronic-Covidien, BD-Carefusion), and L.E.K's MedTech clients have increased their focus on broader solutions and

**Figure 1**
**Accelerating Hospital Trends**




Note: *Please rate the extent to which you agree or disagree with the following statements regarding your hospital's planned activities over the past 5 years and next 5 years; N=107; respondents who answered "Do not know" were removed
Source: L.E.K. 2015 Strategic Hospital Priorities Study

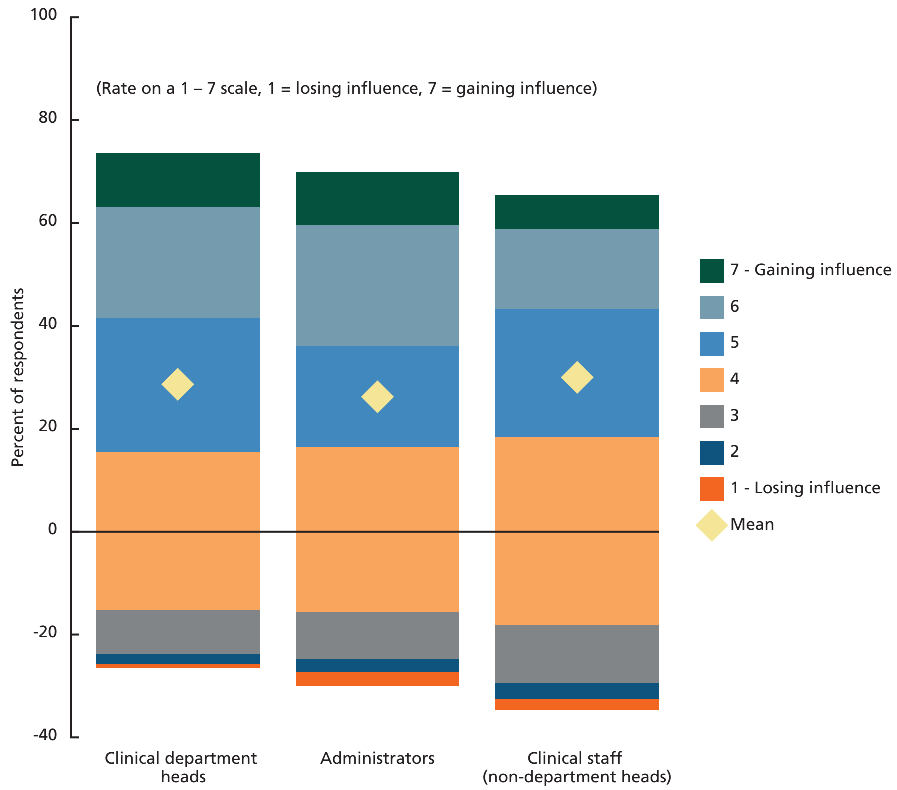
*2015 L.E.K. Strategic Hospital Priorities Study: Hitting an Inflection Point for Hospital Suppliers and MedTechs* was written by **Jonas Funk**, **Bob Lavoie**, **Lucas Pain** and **Monish Rajpal**, managing directors in L.E.K. Consulting's MedTech practice. Jonas and Lucas are based in Chicago and Bob and Monish are based in New York. For more information, please contact MedTech@lek.com.

new commercial models in order to win among the increasingly important, large integrated health networks (IDNs).

L.E.K. believes that the MedTech industry has hit an inflection point and continued industry shake-out will mirror the shake-out occurring among its customers (i.e., hospital systems). MedTech executives should take heed of these changes and take steps to stay ahead of the curve, or risk falling too far behind.

With increasing emphasis on standardization and centralization of decision making, hospitals are also continuing to shift decision making to "economic buyers," like administrators and department heads who place greater importance on economic benefits in purchasing decisions (see Figure 2).

**Figure 2**
**Expected Change in Influence of Hospital Administration on MedTech Purchases***




Note: *To what degree is the influence of administrators, clinical department heads and clinical staff (non-department heads) changing with regards to purchasing decisions for medical technologies and services? N=153
Source: 2013 L.E.K. interviews and the L.E.K. 2015 Strategic Hospital Priorities Study

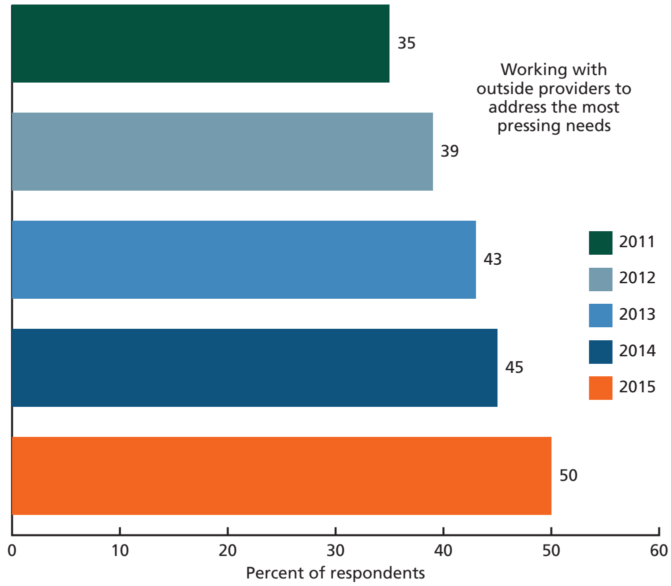
## Segmentation of Health Systems

Based on four important dimensions of changes impacting providers, L.E.K. has developed a hospital segmentation framework to frame key differences. Systems that are proactively integrating across the care continuum and taking on more accountability are considered "progressives." The segmentation includes the following groups:

- **Local progressives** are intrinsically local and unlikely to go beyond their local catchment areas (e.g., most academic medical centers)
- **Progressive consolidators** are expanding across states and regions (e.g., Cleveland Clinic, Mayo)
- **Local traditionalists** are likely to be standalone hospitals that are integrating less aggressively than progressive health systems
- **Hospital aggregators** are consolidating but integrating less aggressively than progressive health systems (e.g., HCA)

L.E.K. believes that "progressive consolidators" are growing the fastest while "local traditionalists" are shrinking (i.e., as they are being acquired by hospital aggregators or progressive consolidators). All else equal, MedTechs should target growing segments and be careful to not over-index in local traditionalists. With this group, MedTechs may find themselves at risk as these hospitals are subsumed into other systems that will eventually dictate what products and suppliers they use. Progressives are also more likely to integrate with alternate site facilities (e.g., physician offices, specialty clinics and ASCs than non-progressives).

**Figure 3**
**Key Activities Aimed at Addressing Hospital Needs***




Note: *How are you addressing the most pressing needs that you identified for your hospital? (2011: n=196; 2012: n=197; 2013: n=187; 2014: n=151; 2015: n=153)
Source: The L.E.K. 2015 Strategic Hospital Priorities Study

## Increasing Interest in Broader Services and Solutions from MedTechs

Although many hospitals from earlier L.E.K. hospital studies have indicated interest in working with outside partners to help address their core needs, 2015 marks an important milestone. This year, a majority of hospital administrators say they are looking to use external partners more so than internal resources.

It's important to note that "progressives" are particularly likely to look for new and broader relationships with their key suppliers/partners. Their focus is less on individual product features and benefits (or even prices) and more on broader solutions to the many challenges of increased accountability and integration.

One of the key findings from this year's hospital study is the clear increase in administrators' interest across the gamut of services and solutions that they would like from suppliers (see Figure 4). In addition to the "basics" around categories of services like education/training and equipment services, and support/managed services, administrators highly value clinical IT and analytics, and operations management and efficiency improvement services.

Also noteworthy is how "progressive" hospital systems (which have more new challenges around taking on greater integration and accountability) demonstrate higher interest in these services as well, reflecting their inclination toward deeper relationships/partnerships with MedTech suppliers.

## How Leading MedTechs Are Responding

Given the changes that are occurring with providers, MedTechs are responding with new areas of strategic focus. Based on L.E.K.'s experience with leading MedTechs, we have defined six main areas of strategic focus to drive success going forward and critical questions that relate to them.

1. **Provider evolution.** How are hospital consolidation, integration, increased accountability and supply chain centralization affecting different segments of the MedTech market?

2. **Customer segmentation.** What customer segments are emerging and which specific customers/hospital systems will win? What are the needs of these systems and which can be addressed by MedTechs?

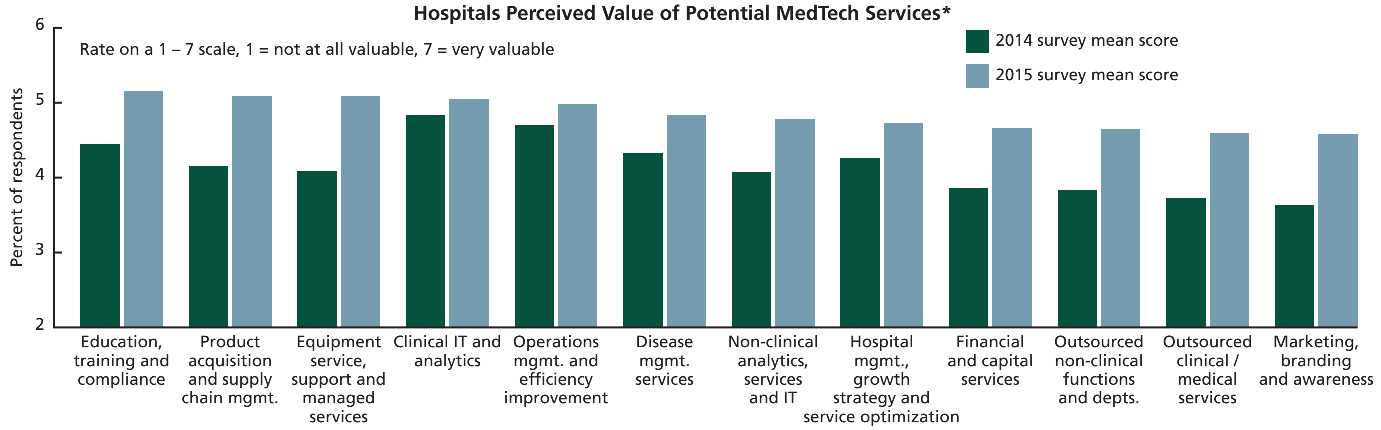
3. **Service/solution expansion.** How can suppliers transform from products to solutions, which better address customers' needs? What new services are needed? Where and how can data connectivity increase the value of devices? How to delineate "basic" services from new services and how to monetize new services and solutions?

4. **Optimizing commercial models**. What capabilities, resources and organization structures are needed to better align with the changes in hospital decision making?

5. **Value articulation.** How can MedTechs define and quantify the value their solutions bring to customers? What tools can be used to communicate this?

**Figure 4**

**Hospitals Perceived Value of Potential MedTech Services***




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" 2014: n=146; 2015: n=153
Source: The L.E.K.2015 Strategic Hospital Priorities Study

6. **M&A and partnerships.** In which areas should MedTechs expand via acquisition and partnerships to fill capability gaps (e.g., new services, IT connectivity and change management)? Which specific targets/partners offer the best fit and promise for profitable growth?

L.E.K. can help small and large MedTechs answer these and other key questions as the industry hits an inflection point and evolves towards a new paradigm of success factors.

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