



EXECUTIVE INSIGHTS

Looking Ahead for Medtech: Key Trends Impacting the Industry

Industry leaders in medtech experienced significant market transformation during 2021, precipitated by events related to ongoing structural changes within healthcare, the evolution and juxtaposition of various technological innovations, and, of course, the impact of the COVID-19 pandemic. L.E.K. Consulting has identified four major shifts that are likely to have lasting implications for the entire industry:

1. Accelerated development of digital innovation for external offerings and internal efficiency
2. An increased focus on non-acute and less-acute settings
3. New demand for commercial excellence, including omnichannel engagement
4. Evolving healthcare supply chains and the need for effective provider supply chain strategies

These are just a few of the areas where transformation is already underway and will continue to shape medtech priorities throughout the industry. This *Executive Insights* does not cover notable technology trends such as the rapid growth of robotic surgery and related advanced surgical technologies (e.g., augmented reality), the continued shift toward interventional and minimally invasive procedures and therapies, the growing reach of neurostimulation and neuromodulation, and others (which are covered in a separate thought leadership piece by L.E.K. Consulting).

1. Accelerated development of digital innovation for external offerings and internal efficiency

Every industry is in different stages of its "digital revolution," but medtech specifically is witnessing a material point of inflection in this regard as digitalization impacts

operations (commercial, supply chain, manufacturing, etc.) while also raising expectations from customers in terms of product connectivity and intelligence, as well as overall provider and patient engagement.

The shift to value-based care models has been an underlying driver of expanded digital healthcare for the past several years, as the healthcare system pivots to better manage patients across the care journey and continuum. In addition, greater availability of more sophisticated digital technologies (e.g., remote patient monitoring, home-based digital diagnostics and coaching, more robust artificial intelligence in clinical decision support tools, viable virtual case support platforms, and greater data integration across connected medical devices) has led healthcare providers to expect increased use of these technologies in their day-to-day practice, as well as during interactions with medtech suppliers. These drivers have only been accelerated by COVID-19, given the need to reduce in-person interactions, and the resulting changes in the reimbursement and regulatory frameworks.

Digital evolution for medtech companies impacts their internal operations and processes and their external offerings (see Figure 1). Within their organizations, medtech companies have been focusing on the following:

- **Supply chain and manufacturing technologies** to improve supply chain efficiency, reduce costs and increase production speed
- Digital tools to transform fundamental **company infrastructure** (e.g., artificial intelligence, or AI, technologies for R&D purposes) and **company culture** (e.g., remote working)
- **Commercial transformation** to ensure that sales and marketing capabilities are fortified to be able to leverage digital innovation and inform how they serve customers

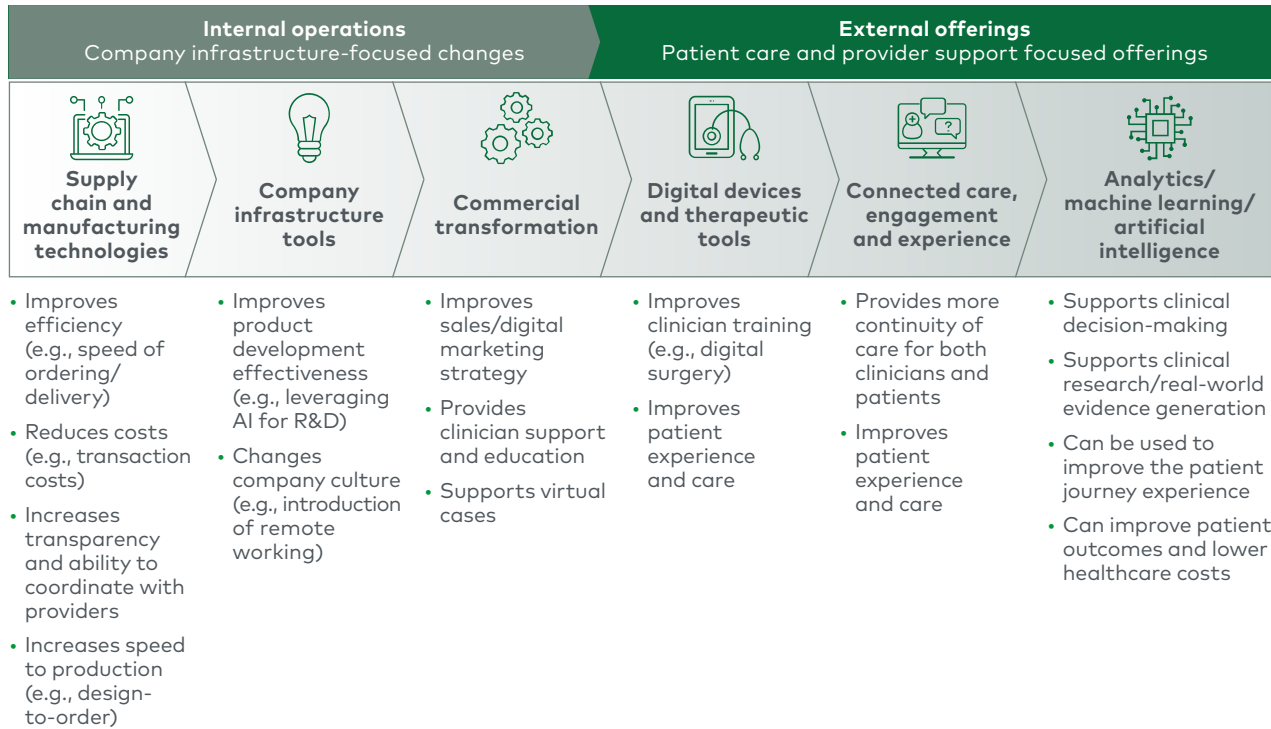
Externally, medtech companies have been focused on the following:

- "Smartifying" existing and pipeline product offerings to create **digital devices and therapeutic tools** that can generate data and produce new insights
- Investing in solutions that use digital to tie together existing product offerings, enabling **remote and connected care** across hospital departments and care settings (e.g., Philips' acquisition of BioTelemetry,¹ Stryker's acquisition of Vocera²)
- Leveraging **analytics, machine learning (ML) and AI** to aid in areas such as clinical decision support (e.g., AI algorithms for clinical decision-making in radiology³)

In the future, we expect more acquisitions and/or partnerships between medtech companies and software providers, highlighting the important transition medtechs are making toward digital transformation.

Figure 1
Key aspects of medtech digital evolution

NOT EXHAUSTIVE



Note: AI=artificial intelligence
Source: L.E.K. experience, research and analysis

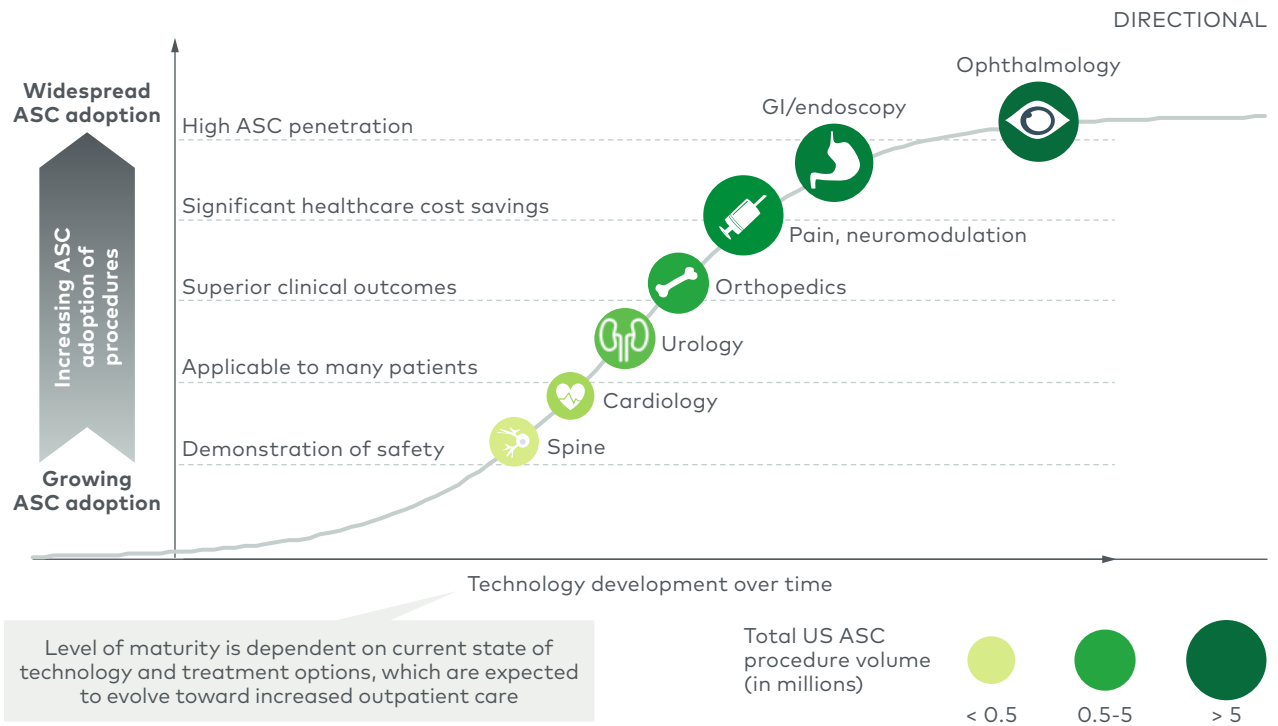
2. An increased focus on non-acute and less-acute settings

While not a new trend, the shift of care to non-acute settings has markedly accelerated. Health systems and their operating capacities have been placed under significant stress over the past two years, as COVID-19 temporarily halted elective procedures, increased hospital expenses and increased the length of patient stays. Furthermore, telehealth and other technological and logistical advancements have made alternate care settings much more of a reality than ever before. Patients are becoming increasingly comfortable with virtual doctor’s appointments, mail-order diagnostics and other digital interactions with care teams. Hence, while the shift to lower-cost care settings has been “in process” for years, the pandemic has amplified the existing shift toward alternative care settings. Ambulatory surgical centers (ASCs), office-based labs (OBLs), home care and telehealth are becoming important care settings for medtechs to focus on.

The shift toward OBLs in treatment areas such as peripheral vascular has already impacted medtech companies in those segments and has been the impetus for more focused strategies of some, such as Philips’ Symphony Suite.⁴ The (broader) shift toward ASCs has rapidly become

a priority for a larger cross-section of medtechs of late, and we anticipate this trend will accelerate further (see Figure 2). Standing up more robust ASC commercial capabilities, investing in customer segmentation, pursuing tailored portfolios (and refining overall portfolios across settings), and expanding ASC-specific services are all expected to be areas of medtech experimentation and strategic refinement. In some segments, an additional level of complexity to consider is the likely dynamics involved with interactions between ASCs and OBLs (e.g., in cardiovascular/peripheral vascular segments), whereas in other segments, dynamics between OBLs and office settings (e.g., office-based cataract surgery) have already begun to emerge as a consideration.

Figure 2
Maturity of specialties transitioning to ASCs



Source: L.E.K. research and analysis

Medtech companies' approach to home healthcare is less mature and is a key issue with which many will grapple. Historically, few medtechs have been successful in creating home care channels, such as Inogen in portable oxygen⁵ and ResMed in sleep apnea,⁶ for example. Today, many more are increasingly reevaluating their approach and participation in the home care setting. Home care has been especially relevant in areas such as patient monitoring and diagnostics, where the use of rapid, at-home COVID-19 tests has become common practice and may spur other home diagnostics to follow suit. Moreover, the acceleration of alternate delivery models, such as Hospital at Home (HaH) and telehealth, has spurred new channels for

medtech companies to consider. The right approach and level of investment to ensure long-term success in these non-acute settings will be a key strategic imperative for medtechs.

3. New demand for commercial excellence, including omnichannel engagement

Given these shifts in the industry, medtechs must meet the challenge of evolving their commercial strategies in several ways, including:

- Creating more sophisticated customer segmentation, targeting and account management
- Changing how they engage with customers to be more omnichannel-focused and integrated
- Increasing focus on new care settings (e.g., ASCs)
- Incorporating digital offerings and ecosystems
- Creating patient identification strategies

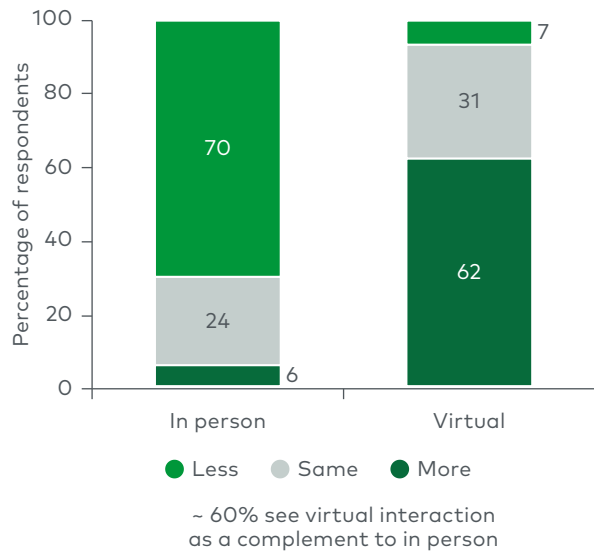
Fundamental shifts in the United States' provider landscape are requiring medtechs to develop more sophisticated customer segmentation, targeting and account management strategies. Hospital system consolidation is continuing, causing hospital spend to become increasingly concentrated in large, multiregional systems that are proactively integrating with non-acute sites, increasing their supply chain sophistication to negotiate leverage, and seeking partnership-oriented relationships with their suppliers. Medtechs thus need to adapt their commercial strategies to better segment their customers by behavior, scale, performance and level of integration within non-acute sites. Investing in data-driven customer insights is one way to accomplish this, by leveraging large volumes of data generated and captured via digital customer interactions.

Medtechs are also going to increasingly need to deploy omnichannel customer engagement. The COVID-19 pandemic has dramatically shifted the way customers engage, and want to engage, going forward. In-person selling and support are still critical, but in a currently small but likely to grow proportion of market segments, they are no longer sufficient. Administrator and clinician stakeholders alike are seeking a more seamless experience conducted through multiple channels, including virtual and online (see Figure 3). Medtech companies have historically been behind the curve on omnichannel adoption compared to other healthcare sectors (e.g., pharma, payers), but have recently been accelerating their development of alternate channels for engaging with stakeholders, including video calls, website visits/chatbot interactions, digital trainings/education, virtual conferences, digital applications and virtual case support.

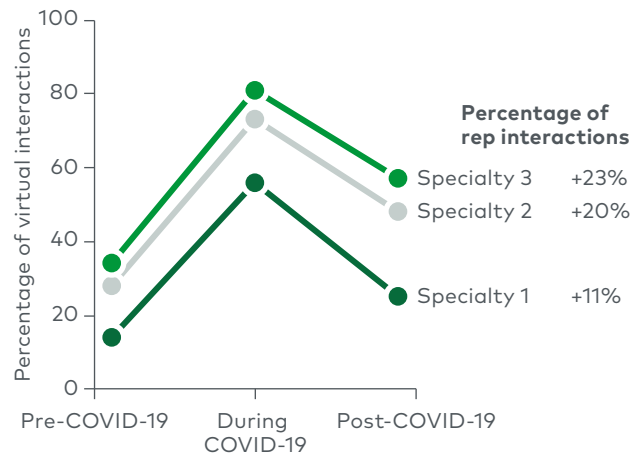
Figure 3

Hospital administrator and clinician preferred engagement with medtech companies (pre- and post-COVID-19)

Hospital administrators' preferred engagement post-COVID-19 vs. pre-COVID-19



Preferred engagement with medical product reps by example clinical specialty



Examples of high-value virtual interactions:

- Online training
- Virtual speaker events
- Virtual learning platform

Source: L.E.K. survey

As medtechs weigh their investments and approaches to omnichannel engagement, they should focus on several areas:

- Investments in digital interaction tools including those for education and training
- Expansion of the talent base versed in digital interactions/omnichannel engagement
- Adjustments to organizational design for an integrated, coherent omnichannel approach
- Potential modifications to traditional commercial resourcing

Perhaps most importantly, the strategy, messaging and customer experience must be unified across each of these channels for omnichannel marketing to be successful. This provides medtechs a meaningful opportunity to differentiate or a meaningful risk of falling behind.

Additionally, the shift in care settings to ASCs, OBLs and other outpatient settings has important implications for commercial strategies. These care settings are more fragmented and have fewer cases, resulting in a different cost to serve for medtechs when compared to traditional hospital customers. As such, medtechs will need to tailor their sales tactics and marketing approaches accordingly, incorporating digital and remote interactions in these settings as well.

Along with digital engagement, medtechs are faced with a need to shift their go-to-market strategy to incorporate more digital offerings and ecosystems into their portfolios. They will need to bring digital features and analytics into their products, create new digital devices and therapeutics, and evolve customer and patient experiences by introducing digital tools into the care ecosystem.

As patients become more dispersed across different care settings, we also expect to see medtech companies increase their focus on patient identification, similar to efforts being made in the biopharma industry. These efforts help improve the inflow of addressable patients for medtechs but require a change in the broader go-to-market strategy. Medtechs will need to consider leveraging data and analytics that help identify patient profiles, as well as investing in digital technologies to meet patients where they are.

The trend toward non-acute care settings and the medtech digital evolution has broader commercial implications. Redefining commercial excellence strategies will be a key consideration for medtechs these next few years.

4. Evolving healthcare supply chains and the need for effective provider supply chain strategies

Health systems are continuing to become larger, more sophisticated and keener to have greater control over their supply chains. Healthcare system consolidation over the past decade has provided opportunities for systems to reevaluate supply chain strategies. In addition, supply shortages intensified by the COVID-19 pandemic forced health systems to become more flexible and diversified with their supply chains.

As a result, health systems are increasingly exploring supplier diversification, self-distribution and direct sourcing. In an L.E.K. survey of healthcare executives, diversifying supply chains was cited as one of the highest priorities for health systems, nearly on par with reducing supply chain costs (a major shift from historical precedent). Additionally, while health systems have traditionally relied on distributors and outsourced inventory management, a greater proportion is moving toward some form of self-distribution. Health systems are also considering more data-driven, supply chain decision-making. They are leveraging data to improve their visibility into spend and inventory and using real-world evidence to guide better product selection. Further, health systems are increasingly interested in creating broader, more strategic partnerships with a narrower set of medtech companies. Health system supply chain leaders are aiming to identify mutually beneficial opportunities across product categories to drive more savings and standardization, and this will continue to be a key priority. Medtech companies can drive meaningful success (and build long-term goodwill) by focusing on the

higher-level priorities of their health system customers (especially senior-level supply chain stakeholders).

Conclusion

The next few years are expected to bring remarkable change to the medtech world. From increased engagement with digital technologies, a substantially increased focus on non-acute care settings, and reshaping of commercial strategies, to a sharper focus on the stature and importance of the healthcare supply chain, there are significant shifts that medtechs must respond to as they look ahead and develop their strategic plans.

For more information, please contact lifesciences@lek.com.

Endnotes

¹Philips. "Philips completes the acquisition of BioTelemetry, Inc." <https://www.philips.com/a-w/about/news/archive/standard/news/>

²Stryker. "Stryker completes acquisition of Vocera Communications." <https://investors.stryker.com/press-releases/news-details/2022/Stryker-completes-acquisition-of-Vocera-Communications/default.aspx>

³American College of Radiology. "Exploring FDA-Cleared Algorithms." <https://www.acr.org/Practice-Management-Quality-Informatics/ACR-Bulletin/Articles/June-2021/Exploring-FDA-Cleared-Algorithms>

⁴Philips. <https://www.usa.philips.com/healthcare/clinical-solutions/office-based-lab-solutions>

⁵Inogen. <https://www.inogen.com/>

⁶ResMed. <https://www.resmed.com/en-us/>

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