



## Customer Excellence: Business Model Innovation for MedTechs

If cost was not an issue, would you select the newest product with the latest advances, or continue to use a lower-cost alternative with slightly lower performance? Historically, U.S. hospital-based doctors generally insisted on the latest and greatest medical products, despite their higher costs, thereby helping fuel major medical technology advancements. For example, the basic hospital beds of the past have been replaced by beds that can weigh and monitor patients and minimize patient risks such as ventilator-associated pneumonia, pressure ulcers or falls. The expanded features and benefits of today's highly sophisticated beds would likely amaze the ICU physician of the past, but the \$10,000 price tag may be even more shocking, raising questions about what is a "must have" versus a "nice to have."

Importantly, the landscape is changing dramatically as hospitals and other healthcare providers face growing pressures to simultaneously control costs and improve outcomes. To help achieve these needs, hospitals are looking beyond incremental product improvements and are seeking medical device and medical technology partners that can help solve their challenges in broader and more holistic ways.

L.E.K. Consulting believes that this reflects a significant change in how MedTech companies should position themselves and focus their innovation efforts. MedTechs' traditional focus on product innovation, combined with a traditional commercialization approach (i.e., armies of product-oriented sales), needs to evolve to a new type of "Customer Excellence" that more directly addresses hospitals' requirements to increase opera-

tional efficiency and enhance integrated care. L.E.K. refers to MedTech's ability to address hospitals' needs through a strategic portfolio of valued products and services as "Customer Excellence" and believes that this will play an equally important role in the future as "Product Excellence."

### An Inflection Point in Hospital Priorities, with Big Implications for MedTechs

Low existing hospital margins, combined with an increasing mix of less-profitable patients (e.g., those covered by government payers) and growing provider competition are forcing efforts to contain costs and improve efficiencies. Our annual *L.E.K. Strategic Hospital Priorities Study* reveals that healthcare executives are responding in a number of ways, including:

- Continuing aggressive supplier negotiations to manage costs
- Increasing usage of Group Purchasing Organizations (GPOs)
- Shifting purchasing decision-making from individual clinicians to hospital administrators focused on economic cost/benefits
- Rationalizing suppliers to drive standardization and volume discounts

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- Continuing to invest in healthcare IT systems
- Increasing spending on outsourced services (e.g., vendor management, outsourced pharmacies, device reprocessing) to improve operational efficiencies
- Increasing willingness to pay premiums on labor-saving products (e.g., ready to use drugs) and/or products with demonstrated ability to save larger, downstream costs (e.g., HAls, lengthy hospital stays, re-admissions)

Providers, pressured to also improve outcomes, are simultaneously attempting to integrate care – both within individual institutions as well as broader networks. They are doing so by increasing collaboration across departments and stakeholders, and investing in information technology (IT) systems and third-party data providers that enable improved understanding of optimal treatment protocols. But, as access to information technologies expands, many hospitals find themselves in growing mountains of data and without partners to help make sense of the data.

## Opportunities for MedTechs to Offer “Customer Excellence”

To address these challenges, hospitals are looking for MedTech partners that can offer full solutions to address broad problem areas (e.g., labor inefficiencies, hospital acquired infections, medication error management) or provide more comprehensive solutions for specific disease areas (e.g., diabetes, heart disease). For example, U.S. hospitals spend about \$1 trillion in labor costs each year (about 10 times the spending on medical devices and supplies) and are highly receptive to MedTechs' solutions that can help reduce labor costs. These solutions should include broad and relevant product portfolios as well as associated value-added services that can expand the value of the products themselves (e.g., clear cost-benefit analysis, best practice consulting, flexible pricing/financing models, performance guarantees/risk sharing).

MedTechs should not only strive to offer full solutions, but increasingly will need to effectively communicate them to the appropriate audiences. This requires MedTech companies to

tailor their messages to different hospital segments, articulate value propositions more effectively and revamp sales efforts to reduce focus on individual clinicians to target the right decision makers. Our most recent *2013 Strategic Hospital Priorities Study* found that “Product Excellence” is still critical (and often is just table stakes for consideration), but that metrics related to “Customer Excellence” are growing in importance far more rapidly. Purchase decision-making criteria are shifting towards factors such as “ability to share risk,” “help engaging patients,” and “offering full solutions” (see Figure 1). These are new areas and, indeed, new opportunities for forward-thinking MedTechs. Conversely, hospitals are expecting to place relatively less emphasis on “product quality” alone or sales-rep relationships in the future.

Pursuing customer excellence as we are describing represents a major departure from traditional MedTech practices. Most MedTechs are only beginning to recognize the need for big changes and few have actually implemented such changes. Not surprisingly, hospital executives indicate that MedTechs usually do not currently offer full solutions. Among the exceptions, GE Healthcare is often highlighted as a customer-centric company that understands that selling products is just a small part of meeting customers' needs. Fresenius in dialysis, Alcon in ophthalmology and Novo Nordisk in diabetes are also often viewed as best in class by wrapping broad product and service solutions around targeted disease areas.

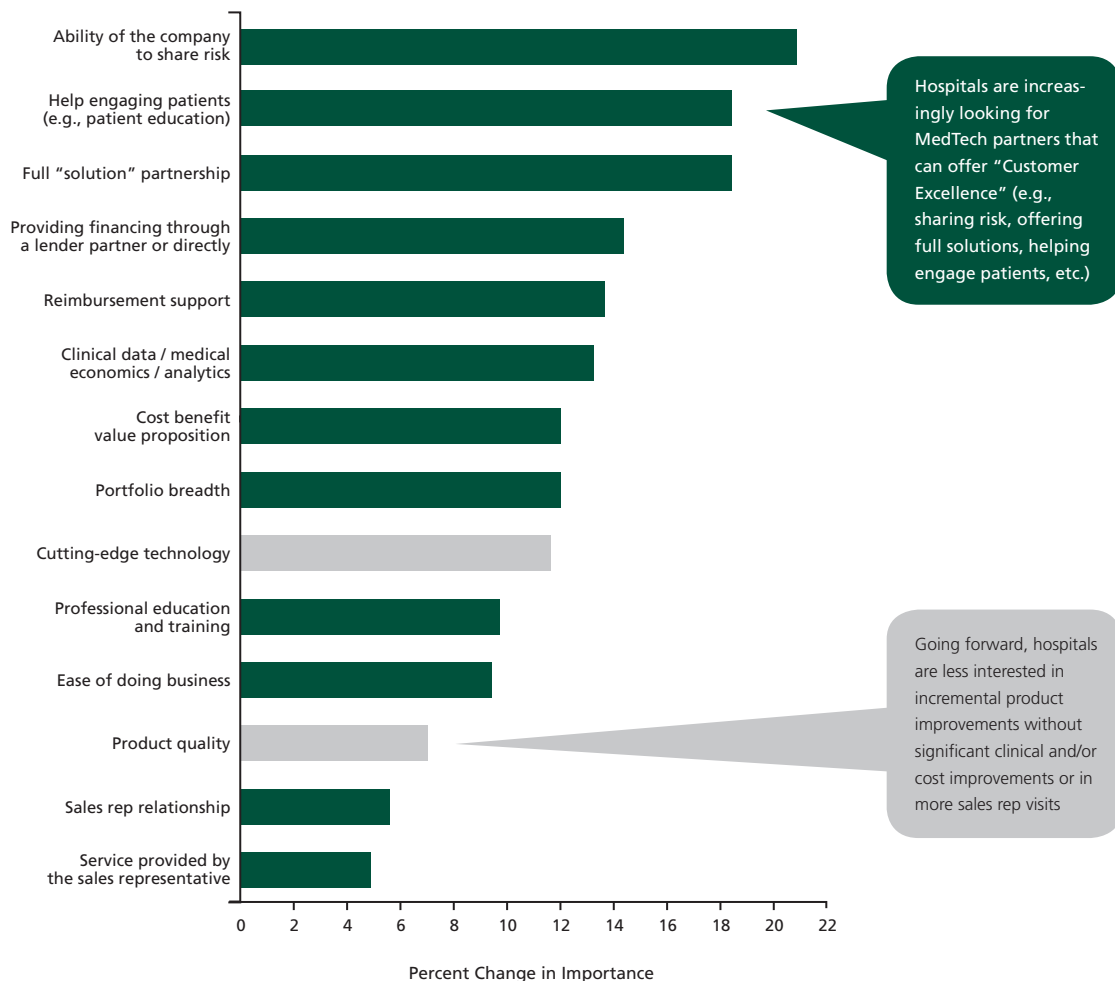
## Four Fundamentals of Customer Excellence

What does a customer-centric MedTech organization look like? L.E.K. believes this approach should be centered on the following principles:

- 1. Develop a deep understanding of hospital needs** and their challenges that your company can help solve, as well as how these needs vary across hospital segments. MedTechs should strive to be more like consumer products companies in understanding customer segmentation and needs.
- 2. Develop integrated portfolios with value-added services** that map to real-life problems facing hospitals. As part of this, MedTechs may need to look themselves in the mirror to

Figure 1

## Hospital Priorities Shift Toward More “Customer Excellence” Metrics



Source: 2013 L.E.K. Strategic Hospital Priorities Study

determine what they can and can't do on their own; strategic partnerships to fill capability gaps (e.g., IT, outsourced services, disease management) may be required to develop broader solutions.

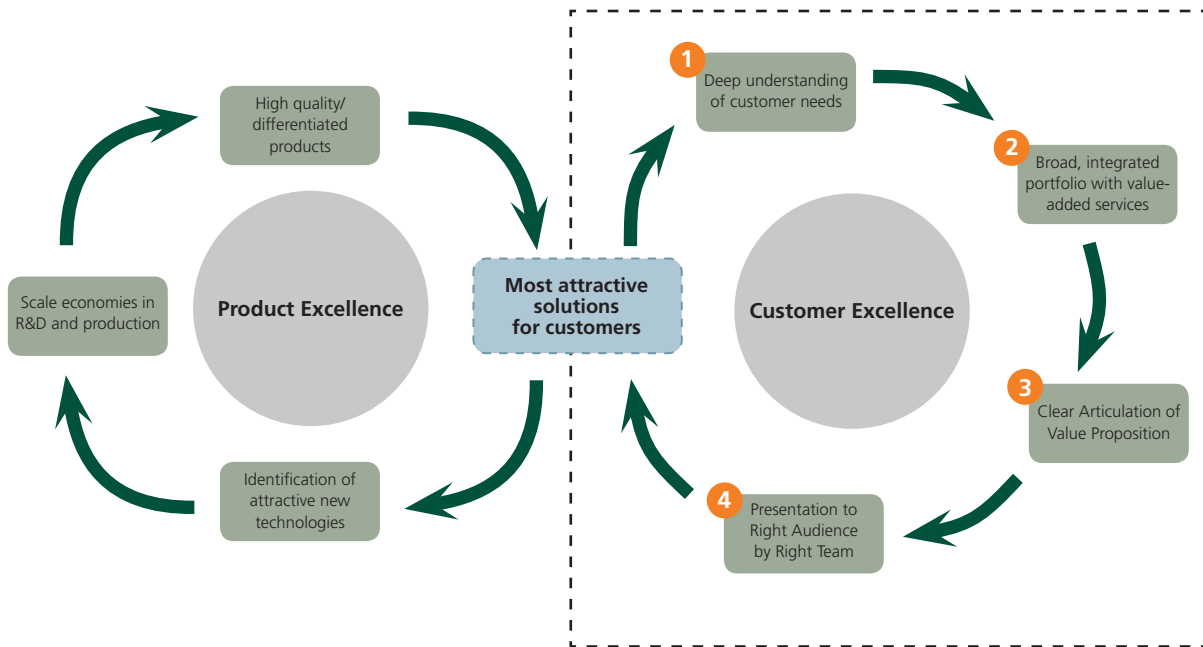
**3. Clearly articulate your value proposition**, including the quantification of the total costs /benefits of your solutions. Hospitals will have a hard time doing this properly on their own, so MedTechs need to be more proactive in doing so.

**4. Ensure that your value proposition is presented to the right audience by the right team.** For many MedTechs, this may mean reorienting selling models to leverage a single account manager for a hospital supported by a team of targeted spe-

cialists (product specialist, health economics specialist, clinical specialist).

These four key steps enable “Customer Excellence” (see Figure 2). When paired with “Product Excellence” (identifying technologies and transforming them into high-quality and differentiated products), MedTechs are able to offer truly attractive solutions to their customers that help solve hospitals’ challenges. To be clear, customer excellence is not a substitute for product excellence, but rather is increasingly required to fully activate it. The MedTechs that can successfully innovate around product excellence AND customer excellence will be those that offer the most attractive solutions, and therefore win in the future.

**Figure 2**  
The Evolution from Product to Customer Excellence



Source: L.E.K. analysis

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