

Reinventing medtech business models: going beyond the product

How medtech suppliers can drive
growth in the current market
environment

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The sustainable business model is evolving

The medtech industry is in constant flux since the pandemic hit. Despite COVID-19 coming out of the blue, many medtech companies were able to adapt their commercial engagement models – helping them come out stronger and increase their business’s resiliency. It has undergone several challenges, with companies realizing the need for change.

It is crucial for medtech suppliers to understand where they stand today and where they need to move in the years ahead. The **high inflation is now the next big thing to master**. And while it seems to be reaching a peak, we are observing a clear trend in what medtech suppliers need to do to overcome this challenge.

To learn which steps the industry is taking to ensure business continuity and identify commercial priorities for successful business transformation, Simon-Kucher launched a survey in May 2022 with 60 medtech suppliers. We invite you to take a deep dive and learn more about how medtech suppliers can continue reinventing their business model by driving targeted commercial initiatives. Join us on the different pathways which can be taken to achieve this transformation, all highlighted in the course of this report.



1

Medtech's next big challenge

By adapting to the new Covid-19 environment, processes and business models have been put to the test. Medtech companies that became more commercially resilient and flexible during the pandemic were the ones that understood the market dynamics best and responded appropriately. Previously, traditional engagement models depended primarily on in-person relationships and interactions between sales and healthcare professionals. However, they were **forced to switch to a digital engagement model when in-person engagement became impossible**. Additionally, the global lockdown resulted in a strained supply chain with sourcing challenges for key components and logistic difficulties for medtech products. **Fast forward to 2023, and we are facing a new challenge to overcome — rising costs due to inflation.**

The growing global volatility leads to price pressures which businesses are unprepared to handle. Further the recent geopolitical crisis in Europe and subsequent supply chain disruptions have only worsened. A recent IMF report indicated that global inflation is set to **rise to 8.8 percent by the end of 2022**. As of October 2022, the **inflation rate in Europe is 10.6 percent**, and in the United States of America, **the inflation rate is 7.7 percent**. Another report by the Pew Research Center indicated that out of 44 surveyed advanced economies, the **average inflation rate was at least two times higher** in Q1 2022 compared to Q1 2020.

But how prepared does the industry feel?

Surveying around 60 medtech suppliers, we are able to give an outlook on the industry's business expectations.

“Fast forward to 2023, and we are facing a new challenge to overcome — rising costs due to inflation.”

The future is bright – but preparation is the key

Despite the above-mentioned challenges, our survey indicates that 69 percent of medtech companies expect a better business environment in the short term (See Figure 1). Among others, these were the main reasons cited:

- **Recovery of demand:** Procedures that were put on hold re-started – bringing the demand for required medtech products back and beyond pre-COVID levels.
- **Return of elective procedures:** As COVID-related activities decreased, healthcare institutions re-started elective procedures that were initially put on hold.
- **Release of frozen budgets:** Healthcare provider budgets that were frozen due to being diverted to COVID-related efforts were released for further investment.
- **New product launches:** New or postponed product launches due to the pandemic now have a chance to shine and capture the market.

Medtech supplier: Business expectations 2023

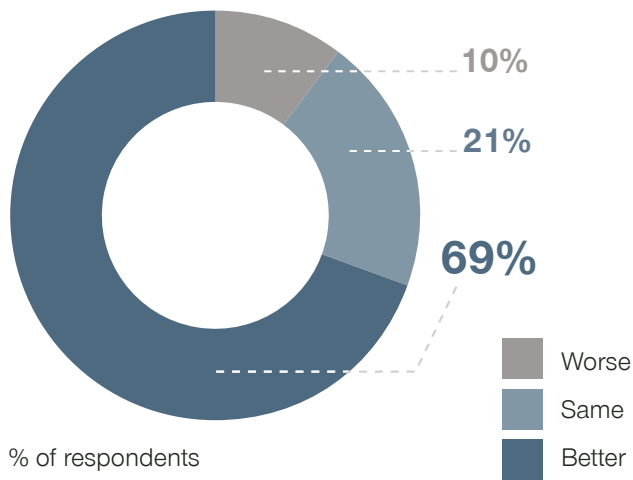
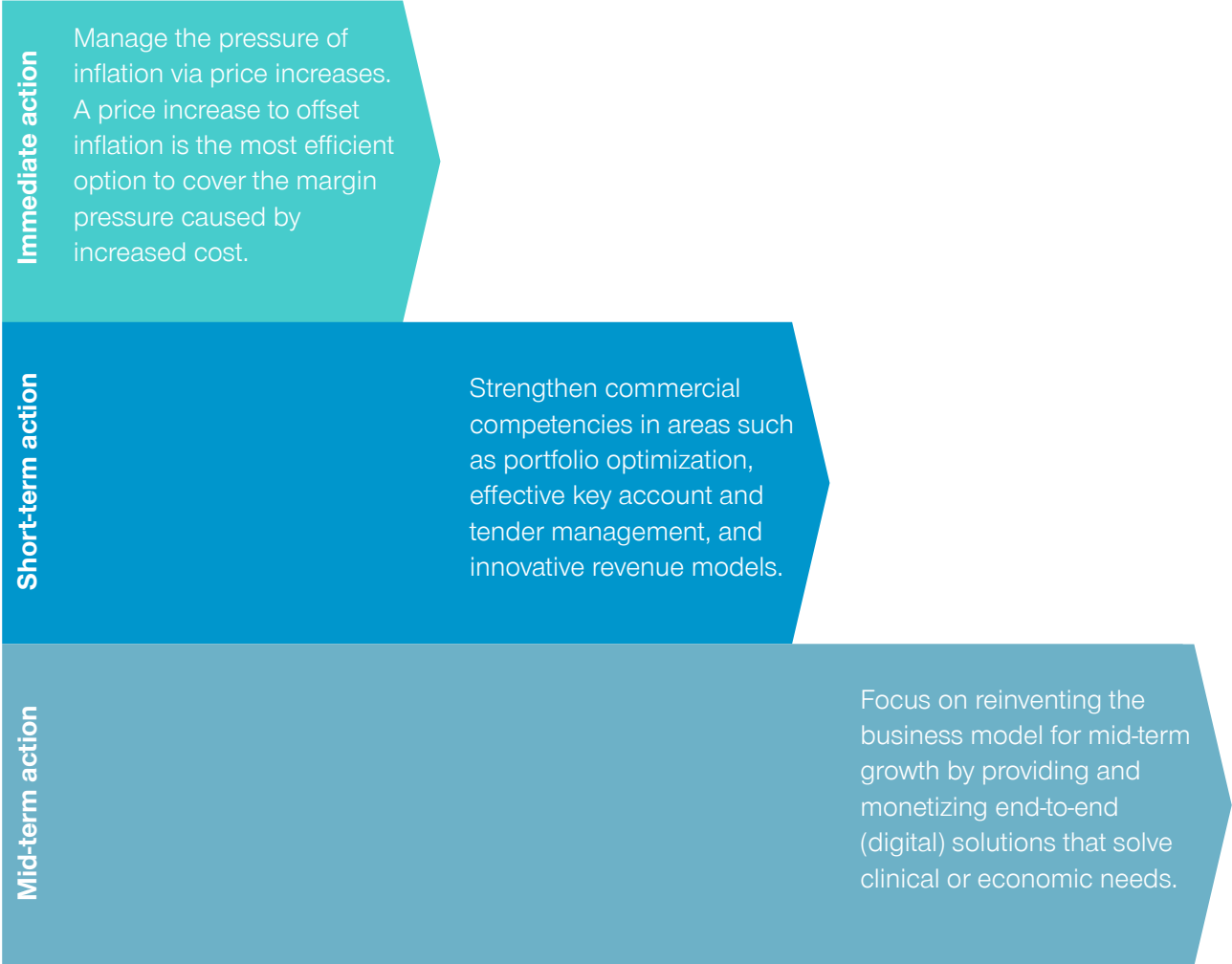


Figure 1

To master the challenges posed by inflation and continue to thrive in the current business environment, our survey identifies three groups of actions companies should take to address the challenges of the current economy.





2

**Battling inflation
while reinventing
business models**

With inflation rates and increasing costs putting margins under pressure, medtech companies are ready to increase prices, realign commercial activities, and implement flexible business models while embracing digitalization. Let's deep dive in what professionals answered and how they can manage these challenges.

2.1 Solving the margin pressure for temporary relief

According to our survey, almost 90 percent of respondents aim to increase their key products' prices (See Figure 2). As our experience shows, many medtech suppliers have implemented immediate precautionary measures by managing costs effectively. However, this approach has limits as inflation rises, and there is only so much that can be done on the cost side.

Medtech companies are planning to increase their prices for key products

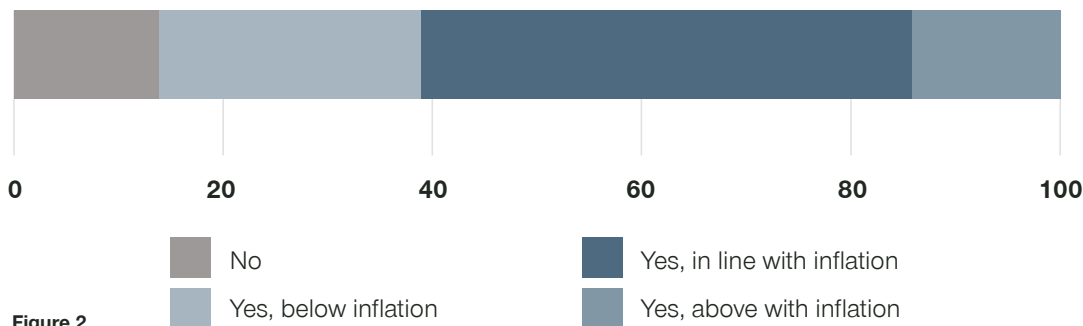


Figure 2

A significant share of companies is still waiting on the sidelines, hoping to ride out the storm. However, inflation has not reached its peak yet, and a survey by [Reuters](#) indicates that some believe that inflation will remain elevated for at least a year before we notice any relief.

Therefore medtech suppliers must prepare themselves to implement multiple price increases to ensure their business continues to thrive and they can serve their customers well. Our survey uncovered that:



Nevertheless, implementing price increases is not an easy ride: medtech suppliers are facing several issues to do so. Concerns about the potential loss of business or the lack of experience, capabilities and structured approach are often cited. Specifically, a key concern mentioned is the inability to build a powerful narrative around it and use the right context for negotiations.

Fortunately, the healthcare market is already primed for such increases, with a recent survey indicating that 80 percent of healthcare providers expect a price increase from their suppliers in the next six months.

Put into practice:

A leading medtech supplier successfully negotiated contracts with PASA (UK NHS purchasing and supply agency). As PASA could not find an alternative supplier offering a similar price point, they returned and negotiated a 10 percent price increase only if the contract duration was reduced from 3 years to 1 year. A win-win situation for both parties.



Simon-Kucher experts have recently outlined the challenge of raising prices and developed a framework for this purpose. [Read more about the systematic 9-step approach to ensure you implement a context-backed, sustainable, and pragmatic price increase, given the current market environment.](#)

2.2 Re-prioritizing commercial activities to strengthen the business

Medtech suppliers must also focus on professionalizing the business as COVID-19 and inflation postponed many commercial activities. We recognized differences among medtech suppliers; each prioritize a broad set of activities (See Figure 3).

Top 3 commercial priorities for the next year

Multiple answers possible



Figure 3

Let's deep dive into the three activities that stand out the most:

Portfolio optimization

Traditionally, medtech companies have used product variants to cater to different market segments. This is of course great to secure different price points and respond to specific segment needs. However, it comes at the cost of portfolio complexity and reduced efficiency.

In times of rising costs, increasing regulatory requirements and strained supply chains, an optimized and streamlined portfolio becomes more important than ever for continued success. Companies recognize this, and 47 percent of respondents in our study confirmed that they are focusing their short-term efforts on portfolio optimization.

To face these issues, suppliers have to prioritize products that have a clear and differentiated value proposition within their own portfolio and against the competition. The service portfolio and commercial terms can then be used to further distinguish the offering and catering to different customer segments. This allows to secure different price points while keeping the number of SKUs to a minimum and thereby increasing economies of scale, and optimizing the supply chain.

"In times of rising costs, increasing regulatory requirements and strained supply chains, an optimized and streamlined portfolio becomes more important than ever for continued success."

Effective tender and key account management (KAM)

The medtech industry is adapting its sales process and moving towards a hybrid sales approach. This change will enable sales professionals to maintain business continuity by reaching out to specific customers using remote-selling tools at different stages of the customer journey.

39 percent of our respondents are prioritizing improvement in key account and tender management processes to grow their revenue. Medtech suppliers therefore need to account for several things, among others:

- Get the right balance between digital and in-person customer engagement
- Set up a robust key account or tender management process using a holistic approach
- Ensure to have an appropriate pre- and post-sales process in place

To achieve this, customer's needs must take priority while ensuring it is backed by a holistic clinical and economic strategy. This is especially true for centralized procurement or buying committees where the economic aspects of the deal become important.

Ultimately to succeed here, medtech suppliers need to improve sales capabilities and up their investments in training their sales teams. This means going beyond product knowledge and market expertise and taking the time to build your salesforce's confidence in dealing with key accounts and tender authorities.

“Ultimately to succeed here, medtech suppliers need to improve sales capabilities and up their investments in training their sales teams.”

Innovative revenue models

Apart from these two approaches, 37 percent of respondents plan to implement more innovative revenue models to spearhead their business operations. Budgetary constraints and customer hesitancy to invest will increase during inflation, so medtech suppliers must get creative when it comes to finding a suitable revenue model and stay flexible with their offers.

But how to offer an innovative revenue model? We have a few proven examples:

- **Capex-to-opex model:** Healthcare providers can free up and reduce their internal costs and introduce predictability into their expenses. Instead, they have the option to pay for what they need – and only when they need it. A few examples include pay-per-use, leasing, pay-per-procedure, subscriptions, and more.
- **Risk sharing or outcome based model:** Healthcare providers and medtech suppliers share the risk based on mutually agreed upon terms. Suppliers can offer a refund when specific targets are not hit or a reduced price point in exchange for a financial upside when providers achieve a successful outcome using their product.

Put into practice:

Clinical outcomes guarantees: Tying price to the number of infections prevented through the use of the pacemaker or defibrillator envelope.

Subscription pricing: Monetization through a monthly fee for hospitals' hemodynamic monitoring needs.

Procedural pricing: Flat fee per patient regardless of specific type of product in hernia meshes or number of stents in a PCI (percutaneous coronary intervention).



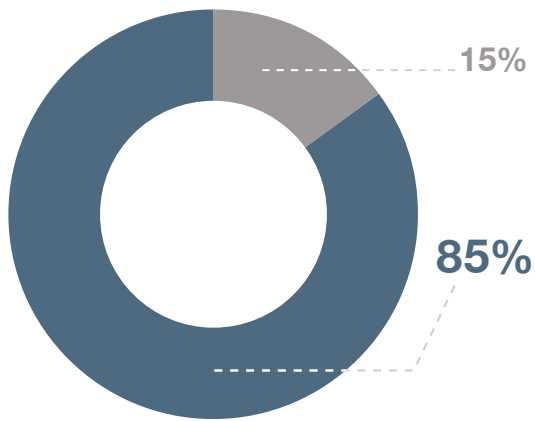
Some of the above-mentioned commercial priorities require the business to strengthen the core capabilities; others impose the need for the business to revolutionize. To learn more about how medtech companies could cope with this need to transform, read our article: [Commercial agenda 2022 and beyond: It is time to evolve and revolutionize.](#)

2.3 Innovation via newer and flexible business models

Mastering the short-term challenges is a necessary task. But where do companies want to be in two years from now? Medtech suppliers realized that resiliency and flexibility go hand in hand – requiring them to transform their business model.

Our survey found that 85 percent of these suppliers already have experience experimenting with new business models (See Figure 4). In addition, 80 percent of respondents consider changes to their business essential to achieve their mid- or long-term objectives (See Figure 5). As buyer-side budgets are tightening due to internal or regulatory pressure, medtech suppliers have to justify the cost in terms of direct economic savings and/ or clinical value.

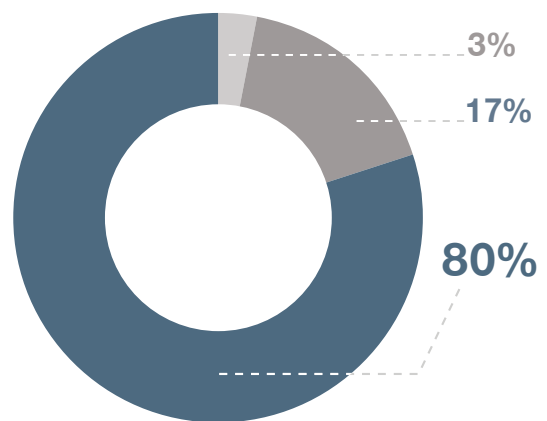
Experience with implementing new business/monetization models



■ We have experience % of respondents
■ We don't have experience

Figure 4

Importance to change business model to achieve mid/long-term business objectives



■ Not important % of respondents
■ Neutral
■ Important

Figure 5

That means: Exploring the possibility of offering end-to-end (digital) solutions instead of products and services limited to a narrow scope. It helps suppliers become their customers' preferred vendor and allows them to share the risk or split costs across several years – making it a more manageable solution for both parties. However, it is not easy to convince hospitals to adopt these solutions as they might not have the necessary internal processes or the required stakeholder buy-in.

63 percent of surveyed medtech suppliers indicated they would implement a (digital) solution selling business model within the next years. To truly transform their business and to become full solution providers, innovations have to be driven across two dimensions simultaneously: Monetization and Offering (See Figure 6). Ultimately, suppliers that succeed will benefit from a continuous revenue stream, long-term partnership and cross-selling opportunities irrespective of the provider budget situation.

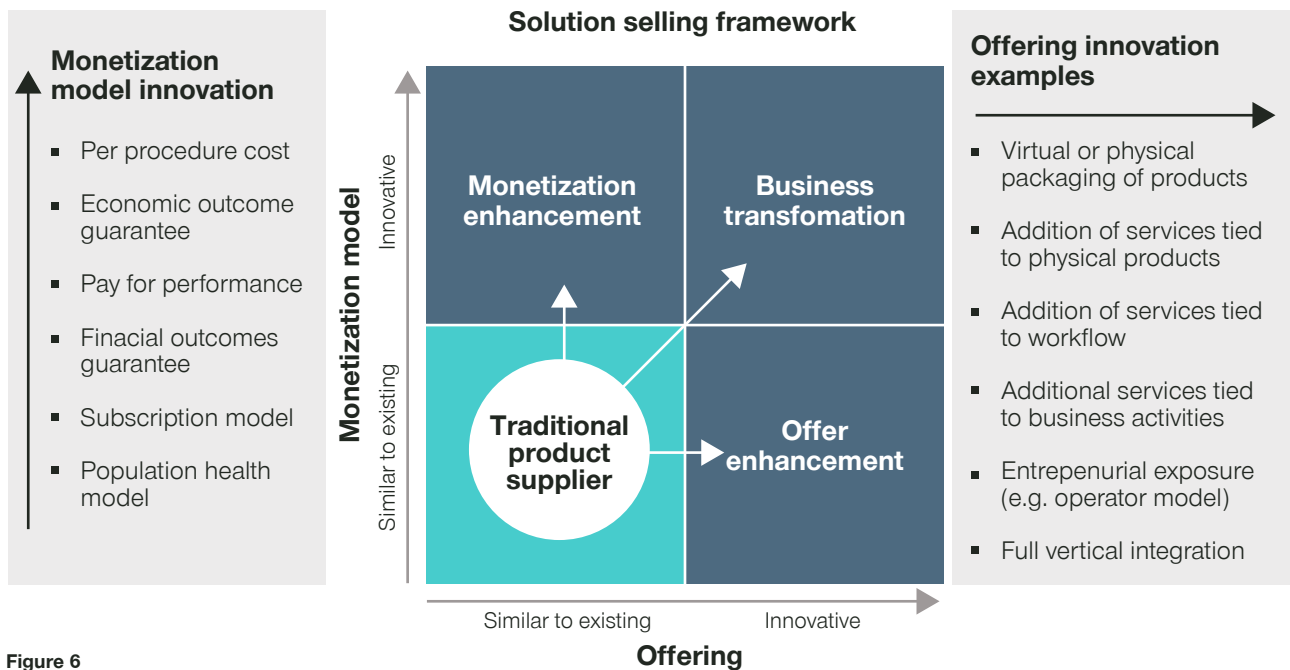


Figure 6

- **Offer enhancement:** The route to success is to go beyond the product and focus on offering a holistic solution to solve a clinical and economic need. This approach creates a win-win situation whereby a healthcare provider can get immediate value from their investment while the supplier opens up a new revenue stream.
- **Monetization enhancement:** As discussed in the previous [section](#), there are many new monetization models like capex-to-opex or risk sharing or outcome based models that medtech suppliers can take advantage of in the future.

Put into practice:

Managed services: Medtech supplier taking full responsibility to run central sterilization department for an annual fee.

Operator model: Medtech supplier vertically integrating and managing imaging department or cath lab with full financial exposure.

Patient monitoring: Medtech supplier in the cardiology space offering remote patient monitoring solutions for implanted heart devices.

Digitalized inventory management: Medtech supplier optimizing inventory management and replenishment of medical implants and kits for laparoscopic/bariatric surgery.



To stay in the game and keep their business up to date, medtech companies must refine themselves from a product supplier to a full solution provider. More about a successful transformation and other best-practice approaches and success stories in our colleagues' series: [Why Medtech companies need to act now.](#)



3

**The path
forward for the
medtech industry**

It is clear that medtech suppliers are facing a period of sustained and wrenching change. Fortunately, many have already built resiliency in their systems, an inevitable impact of the pandemic. Despite the concerns of an unclear inflation development and subsequent changes in the business, the overall outlook is positive. Having weathered most challenges already, they now realized the importance of changing their business model – leading to an increasing willingness to improve.

To survive in today's dynamic environment, suppliers must re-prioritize their commercial activities to stay afloat. The path to growth is multi-level: immediate, short term and mid-term.:

- Immediate action: Manage the pressure of inflation and margin pressure via price increases.
- Short-term action: Strengthen commercial competencies in areas such as portfolio optimization, key account and tender management, and innovative revenue models.
- Mid-term action: Focus on reinventing the business model for mid-term growth by providing and monetizing end-to-end (digital) solutions.

If you are looking for the right path for your business, contact our authors and learn more about how you can leverage the disruptive changes and challenges. Together with our team of experienced experts we will find your path to better growth.

About the study

The study is based on an online survey in May 2022 using a sample size of 60 representatives (of which 2 were subsequently excluded) from several medtech suppliers (post data qualification and analysis).

In our sample, 78 percent of the respondents belonged to companies with annual revenue above 1 billion US dollars, and 22 percent belonged to companies with annual revenue between 300 million US dollars and 1 billion US dollars. The respondents included representatives from several departments: Marketing (34 percent), Sales (24 percent), Business Development (21 percent), General Management (19 percent), and Pricing (2 percent).

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