Future of medtech: Define new markets before they define you

Expansion of services and ecosystems create opportunities to grow faster than ever before

The 2020s are bringing many opportunities for the medtech industry to generate value and growth beyond historic industry norms. Medtech companies willing to do business in new ways and develop holistic approaches to meet their customers’ needs stand to exceed industry growth forecasts and reap significant revenue rewards.

To achieve this growth, medtech companies must move beyond the traditional playbook of incremental product improvements, narrow M&A activity and investment in sales and marketing efforts. They must also take into account the rapidly changing healthcare ecosystem and the transformational effects of the COVID-19 pandemic, including supply chain disruptions, healthcare staffing shortages, shifting care settings and the rapid uptake of digital health solutions.

These changes are creating big opportunities. According to the Centers for Medicare and Medicaid Services, annual US healthcare spending on medical devices is projected to reach around $300 billion to $400 billion—5–6% of $6.8 trillion in total healthcare spend—by 2030.[1] However, medtech companies that are able to predict and meet changing customer needs within the evolving ecosystem will be well positioned to seize not only their expected share of traditional revenue growth, but also to tap into new opportunities that access the remaining $6 trillion in projected total annual US healthcare spend by 2030.[2]

Today, medtech companies’ revenue growth is primarily driven by incremental product improvements. Only about 1% of devices cleared for the US market in 2021 were novel and required premarket approval; the rest were cleared via the 510(k) pathway.[3,4] Medtech companies must sustain their core business, but those seeking to capture growth beyond their traditional market share must navigate disruptive market trends and partner with customers to help meet their larger needs and future goals. With vision, the industry can increase the number of truly new products and solutions that improve outcomes and lead to customers’ overall success.

Below, we present three growth strategies to win in this competitive and rapidly changing environment. Each medtech company’s path to growth can draw from any or all of these strategies. The most successful will find the right blend of the three.

Growth strategies for medtech companies

Master products and care settings.

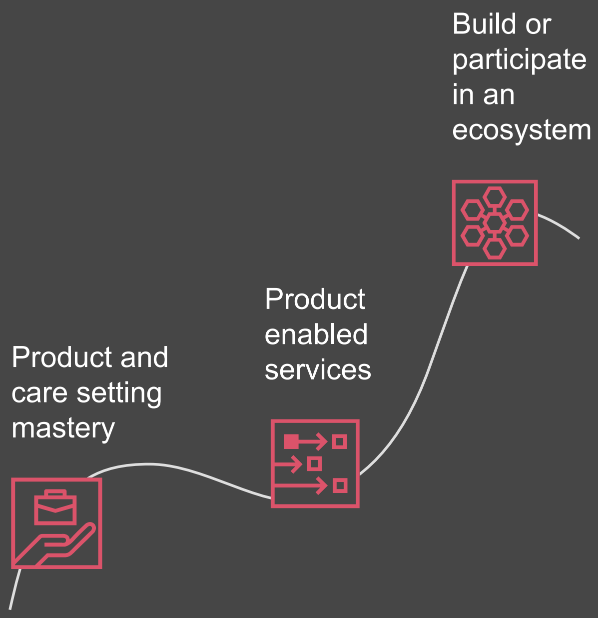
Meet the evolving needs of patients and customers with high-value products that deliver better patient outcomes, customer value and efficiency. This path is the closest to the industry's traditional approach to achieving growth.

Create product-enabled services.

Design services that take on a customer-success mindset to help customers address larger business challenges, not just a single problem. Great services complement and increase the value proposition of core products.

Build or participate in an ecosystem.

An ecosystem meets the complex needs of healthcare segments by bringing together partners and encouraging their collaboration to solve complex problems. A medtech company can either become a leader that brings all of the players together or join one as a contributor. Both have economic advantages.



Blending these new strategies in a way that accounts for your company's individual resources, market forces and competitive pressures will likely lead to an acceleration of growth and increased share of the medtech market.

Strategy 1: Master products and care settings

Definition and value

Product and care setting mastery is the ability to deliver market-leading solutions that improve patient outcomes and user experiences, and drive overall customer success. This can be achieved by understanding, predicting and addressing the needs of your customers as they navigate in markets faster and better than their competitors do. It means you must go beyond the traditional incremental medtech approach to product innovation and deliver products that improve the care setting and the care experience while also providing value-chain improvements and efficiencies. Many companies are already proficient in these areas, but there is potential for further improvement and to lead the market.

With this approach, a well-known orthopedics company created a new path to success for a decade-old knee implant by bypassing the status quo of incremental improvements in areas like materials and instead leveraged surgical robotics and 3D printing to make a real difference in outcomes, efficiency and experience for its customers and their patients. Studies show that robotic techniques can speed recovery after surgery and reduce the length of time patients need to spend in the hospital.[5,6]

Others have created premium brands by developing new approaches to existing procedures, advancing products well beyond improvements in features. NuVasive improved spine surgery by developing the products and tools to enable new, less invasive surgical approaches that reduce operating time by up to 15%, improve overall case efficiency by 20% and lead to 50% shorter hospital stays for patients. Standard Bariatrics has been growing its market share through a new approach to bariatric surgery that cuts down on operating times and provides procedure standardization for improved outcomes.[7]

To master the care setting, companies are combining their expertise, experience, and product portfolios in ways that generate increased value, better outcomes and brand loyalty for surgeons and patients. There are two levels to this type of approach. Some companies are enhancing their imaging equipment solutions by connecting to cloud services that enhance providers' experience and capabilities. Some surgical tool manufacturers are even more advanced, aiming to create fully digital operating suites where all of the tools are connected within the care setting. This could help drive value in four areas: operational excellence, data-enhanced workflows, analytics and insights, and data enrichment.

What it takes to deliver product and care setting mastery

1. Know the limits of incremental innovation.

Incremental product improvements are beneficial up to a certain point, but when improvements start delivering diminishing returns for customers, a new approach is needed. That may be expanding from product to care setting mastery (e.g., the operating room in acute care settings) or it may mean investing in a different growth strategy.

2. Confirm the effectiveness of M&A.

Continuing to identify and effectively integrate tuck-in businesses remains an important source of innovation and growth when mastering the product and care setting.

3. Execute the launch.

Medtech companies typically excel at launching new products by articulating product benefits beyond technical features (for example, business case development for hospital value analysis committees), providing the tools for seamless product integration into existing systems, and reaching clinicians with digital sales and marketing methods that are increasingly preferred in the wake of COVID-19.

Strategy 2: Create product-enabled services

Definition and value

Buyers are no longer looking for just point-solution vendors, they're interested in partnerships that can deliver holistic solutions to broader business challenges. This shift to a customer success mindset, a concept first developed in the technology industry by software as a service vendors, can position medtech companies for success.

Product-enabled services help target pain points and address gaps to better serve a larger share of customers' needs. While the margin and investment profile of services differs substantially from that of products, there are often significant advantages, including faster development cycles and more rapid implementation of new capabilities that expand the value to customers. For example, a medtech company that makes a great surgical implant, may increase growth by extending the impact the product makes on the customer in non-traditional areas across the care pathway. This can mean extending into surgical planning, navigation, physical therapy, consultations and multiple other areas of care that impact outcomes and lead to better experiences for customers and patients.

Following this line of thinking, BioIntelliSense is developing actionable insights from the avalanche of medical device data by automating patient monitoring in the cloud. Through a suite of patient wearables, the company is continuously monitoring patients with advanced analytics that can assess up to 1,440 vital sign measurements per day per patient, compared to four for the average healthcare worker. That capability has the potential to ease healthcare staff shortages. New entrant Best Buy Health is leveraging its retail expertise and healthcare acquisitions to meet clinicians' and patients' home health needs with innovative product-enabled services that allow clinicians to monitor patients remotely.

What it takes to deliver product-enabled services

1. **Build customer success into your DNA.**

   Customer success goes beyond just understanding and addressing customer needs, priorities and pain points. It also requires a proactive approach to predict and deliver what customers will need to put solutions to work and make sure they continue to increase value after implementation.

2. **Solve 100% of a specific problem.**

   Delivering on product-enabled services requires establishing a new service delivery model that identifies which services you want to deliver directly to your clients and which you will work on with third-party partners. It is imperative that product-enabled solutions solve 100% of a particular problem. Those that fall short of that goal will likely face difficulty in gaining market traction.

3. **Revisit your operating model.**

   The new service delivery model will require an evolution of your operating model. This shift may involve designing new processes, upskilling workers, investing in new technologies, adjusting governance structures, and changing roles and responsibilities. Most importantly, services development requires a very different approach than product R&D.

4. **Establish a business model to monetize services.**

   Services business models are fundamentally different from product business models. Many are “as a service” models that borrow from the software industry's transition over the last decade. However, there are nuances with every product-enabled service, and understanding how your choices impact everything from sales to financial reporting needs to happen in parallel with the development of new offerings.

Strategy 3: Build or participate in an ecosystem

Definition and value

An ecosystem is an environment that brings together stakeholders from across the value chain and enables them to build, collaborate on and use solutions to address big, complex healthcare problems. Ecosystems build on the capabilities required for product-enabled services, but the involvement of many diverse players drives increased complexity and requires more sophistication across strategy, development and execution. While high-tech companies such as Salesforce and Apple have developed successful ecosystems, medtech companies have yet to achieve similar success, but the industry can benefit from high-tech lessons learned:

- **Ecosystems thrive on the transparency and sharing of information** between collaborating partners but there are strategic decisions to make about how to provide that transparency, for example, through structured app stores.
- **The establishment and use of standards (even if proprietary)** enables multiple players, from multiple parts of the value chain, to collaborate and share valuable experiences and resources to solve problems that no single player could solve on their own.
- **New business models** are required to enable ecosystems with the right incentives for all participants. Those ecosystems revolve around four components: value proposition, network of partners/stakeholders, profit model and technological capabilities.

There are relatively few medtech ecosystems today. Some imaging companies have started down the path, with the development of ecosystems that integrate their own product lines with complementing pieces of partners' portfolios. The early adopters of ecosystems are catering to specific patient populations based on disease states and demographics, care settings (surgical, ambulatory, at-home) or breakthrough products and technologies. The ecosystem model in the medtech industry is in its infancy, with plenty of potential to bring greater collaboration to solve an increasingly complex set of issues for providers, patients and payers.

What it takes to build or participate in an ecosystem

1. **Define the problem(s) you are solving and identify the partners who can help solve them.**

A successful ecosystem sets out to solve big, complex healthcare problems (in areas like diabetes care) through the recruitment and collaboration of multiple players from across the value chain. To do this, companies must understand who these partners need to be, what value you need them to deliver, how to develop the necessary trust, and how to develop the appropriate value proposition that incentivizes them to work together.

2. **Manage the ecosystem.**

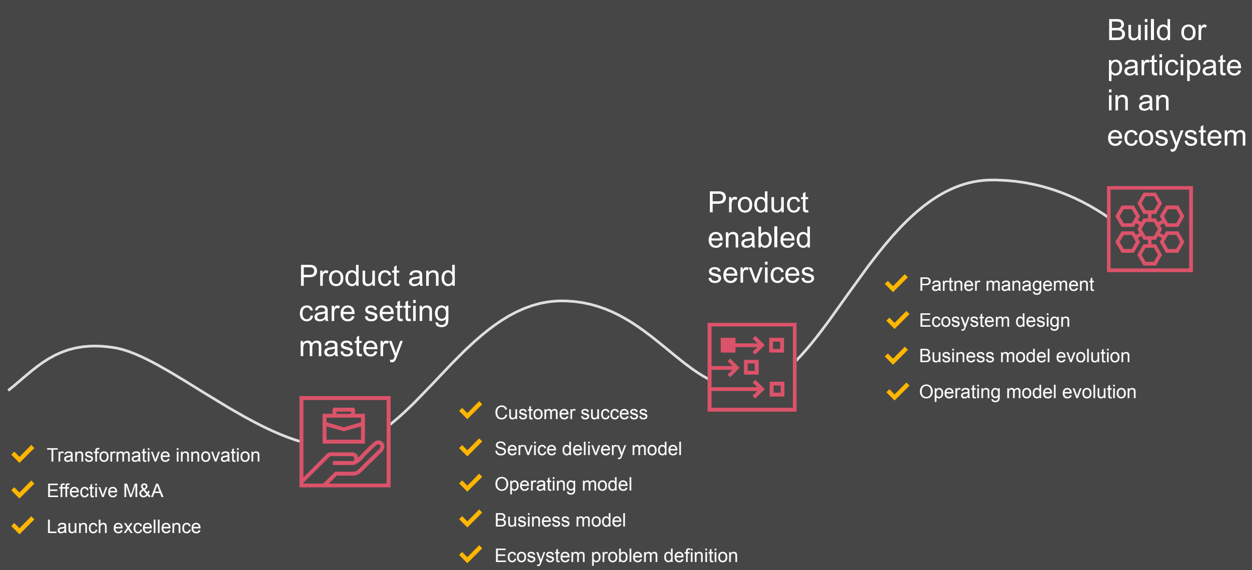
Successful management of the ecosystem requires setting rules and developing standards for participation, managing quality and confirming that the value proposition continues to be realized.

3. **Develop a balanced ecosystem business model.**

To make an ecosystem work, business models must balance near-term revenue and profit growth pressures with a long-term growth mindset. Often, ecosystems are a means to an end that takes time to realize.

Final thoughts: Capabilities to master your medtech growth strategy

To unlock the medtech industry's potential, companies must blend the strategies of product and care setting mastery, product-enabled services and ecosystem plays in ways that create new value and competitive differentiation while building and advancing differentiated capabilities along the way. Above-market growth can only be achieved through finding new and better ways to deliver improvements in healthcare outcomes, patient experiences and provider effectiveness.



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