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Medical Devices Aren't Luxury Goods, So Why Does Medtech Try to Sell Them That Way?

By Brian Chapman, Kevin Stockton and Will Randall

Published in In Vivo, April 2017

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Clinical outcomes, quality and total cost of care are driving hospital purchasing decisions more than ever before. Providers can no longer justify spending on medical devices as clinical luxuries without links to outcomes. ZS recommends five fundamental factors that medtech needs to successfully communicate outcomes-based value.

"It's a paradigm shift. Five years ago, we'd be giving the surgeons what they wanted, or buying whatever the GPO could get us the cheapest. Today, the clinical outcome is the main driver for the value analysis committee decision."

The medtech industry has long behaved like manufacturers of luxury goods, relying on relationships with individual decision makers to sell innovation at a premium.

Like the sports retailer selling the latest lightweight, carbon fiber road bike or the jewelry store clerk discussing the appeal of a self-winding wristwatch, medtech sales reps have leveraged customer preferences and "features and benefits" to drive purchasing decisions. For years, they've sold to individual stakeholders based more on desirability than on outcomes: If a surgeon wanted the new top-of-the-line medical device, he'd usually get it.

However, medtech companies are increasingly recognizing that they can't simply talk about features and benefits, and must work hard at adapting their messaging for non-clinical decision makers.

A vice president of supply chain for an IDN summed up the group's sentiments, telling us: "It's a paradigm shift. Five years ago, we'd be giving the surgeons what they wanted, or buying whatever the GPO could get us the cheapest. Today, the clinical outcome is the main driver for the value analysis committee decision."

Many more stakeholders are involved in purchasing processes nowadays, and the decision criteria are increasingly complex and tied to quality, outcomes and total cost of care. Price concessions such as volume-based rebates, which may have been enough to keep the purchasing department happy in times past, are increasingly insufficient in the new model.

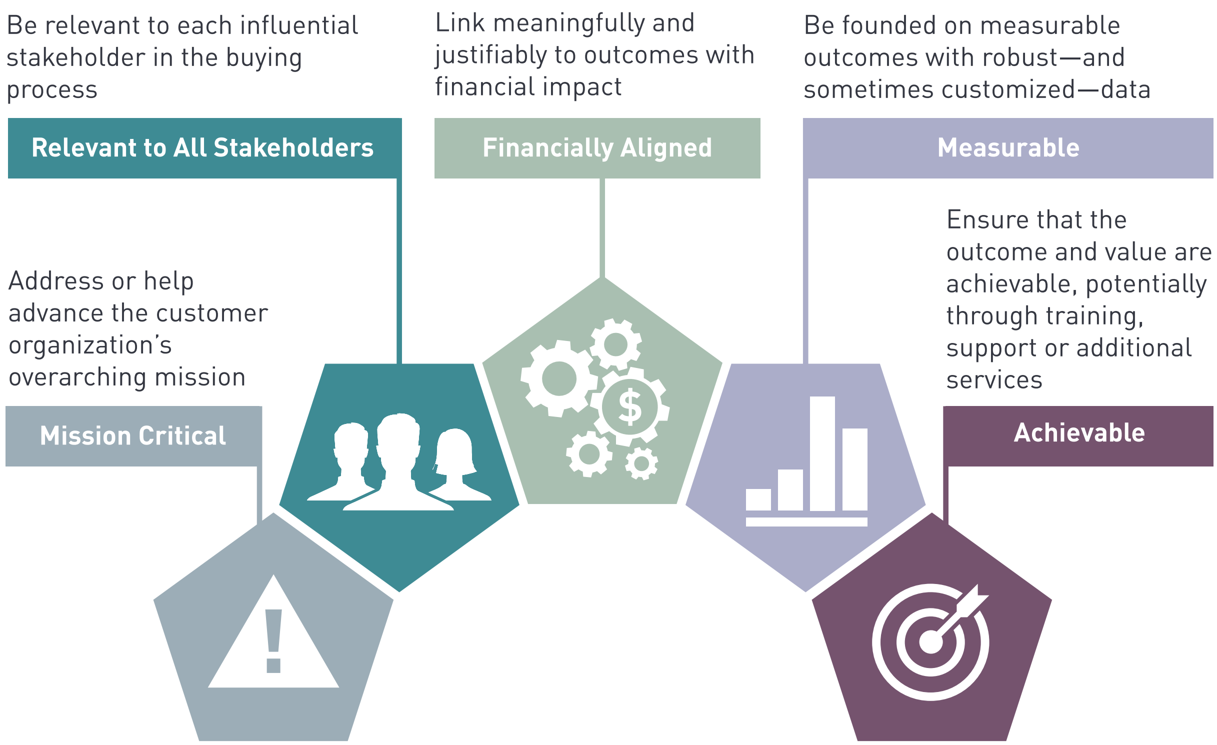
To win over stakeholders, from nursing staff to department leadership and hospital executives, manufacturers need to move away from the luxury model, and develop a compelling, outcomes-oriented value proposition that clearly communicates the value of an offering in terms of its impact on quality improvement and cost reduction.

Some medtech leaders are hesitant to change when the old model continues to work, but as one medtech executive told us, the impetus to change is real. "As long as features and benefits are still paying the bills, we are holding off as long as we can on redefining our value proposition, but we know that it's coming," he said. Medtech companies must act quickly to shape their value propositions to stay relevant, and to position themselves to win.

From Luxury to Necessity: How to Redefine a Medtech Value Proposition

Very few medtech executives would dispute that the ecosystem is evolving, and that they, too, must evolve. Many medtech leaders are challenged not by the "when" or the "why," but by determining exactly how to change: How can medtech shift the conversation away from medical devices as luxury items, and toward medical devices as essential and cost-effective drivers of positive clinical outcomes?

FIVE FUNDAMENTAL FACTORS FOR CREATING A SUCCESSFUL MEDTECH VALUE PROPOSITION



Source: ZS

Figure 1: ZS research helped identify and validate five factors for medtech value propositions. All are important, but each will be weighted differently depending on the offering in question.

We conducted our research study to combine first-hand provider insights with our own experience working with medtech clients to create and validate a practical and medtech-specific approach. This research has identified five fundamental factors that are at the heart of successful value propositions, specifically in the outcomes-driven, value-based healthcare environment. (See figure 1.) We offer these as a framework for how medtech companies can demonstrate their ability to help healthcare providers improve the quality of patient care and control costs.

Each of the five factors is a core strategic element of a value proposition, but the weight allotted to each one will depend on the specifics of the device and procedure, as well as other aspects and circumstances.

"We found it was all about the process, the production line, and not the implant, so we are pushing our surgeons not to use the 'Cadillac implant' on every patient. Many patients do not need the top-of-the-range implant in order to get the same outcome."

1. "Mission-Critical" Status

As one healthcare executive told us during our research: "It's difficult to solve a problem we don't have. It needs to be a high-priority issue for us." An item that doesn't address a high-priority issue or a critical need, whether a designer handbag or a million-dollar robot, is a luxury. To be compelling in the value-based healthcare ecosystem, a medtech value proposition has to address or help advance the overarching mission of the provider organization—the IDN, the hospital or the individual.

The key to success here is customer insight and an understanding of customers' needs. It's likely that the core Centers for Medicare and Medicaid Services' metrics—hospital-acquired infections, lengths of stay, readmission rates, etc.—will be a good place to start when defining customer needs, especially early on, as the value-based model is still emerging. If a value proposition doesn't address one of those today, it's probably behind the curve.

But medtech manufacturers will need to dig a little deeper to identify segments within their customer base to really define what the mission-critical needs of each segment are. Moreover, CMS-based metrics are just the starting point. In the longer term, medtech companies will need to push the conversation beyond those core metrics, as the healthcare ecosystem moves beyond proficiency with the basics and toward the progress of ever-diversifying metrics and priorities.

Some customers are already fairly advanced in terms of how they assess quality and outcomes, which creates an opportunity for manufacturers to find a mission-critical customer need. One IDN supply chain leader described how his team will regularly "add and remove our quality metrics based on what each department tells us is important to them. Those are the metrics we will use to evaluate our success." To continue to succeed, medtech leaders need to play an active role in shaping the priorities of departments' and organizations' quality measures.

2. Relevance to All Stakeholders

A medtech value proposition needs to be informed by customer insight, and to get the right insights, manufacturers need to understand who the multiple influential stakeholders are in the buying process for a device or service. The clinical decision makers aren't the only stakeholders today.

Of course, clinical buy-in is the first step, but it isn't enough to just make a great device that offers a clinically compelling story only for clinical staff. A single-stakeholder proposition risks being seen only as a clinical luxury item. As a vice president of supply chain at a large IDN put it during our interviews, "You need to have buy-in from clinical, administration and the value analysis committee." A manufacturer must articulate why the offering is important to the department leadership and hospital executives, and how it will improve their outcomes. (By contrast, luxury goods are almost never marketed—or relevant—to multiple stakeholders at once. A suburban family of four plus a dog is never going to pick a sporty coupe for the next family car, regardless of how much Mom or Dad wants that Lamborghini.)


70
100
12
37.2


300
250
200
150
100
50

"Any offering has got to link to our financials, and it has to be 'worth it' for us to consider making a change."

One respondent in our study described a recent initiative to evaluate the outcomes of orthopedic procedures to identify opportunities to improve those outcomes across surgeons in the IDN. The initiative found no conclusive link between the patient outcome and the implant, even the most premium or "luxury" implants preferred by the surgeon. "We found it was all about the process, the production line, and not the implant, so we are pushing our surgeons not to use the 'Cadillac implant' on every patient," he said. "Many patients do not need the top-of-the-range implant in order to get the same outcome." There is an increasing amount of pressure being applied by non-clinical decision makers to move away from luxuries that can't be justified.

Another complexity to consider is that if the value created by a product or service causes the elimination of a function or revenue stream, then those responsible for the at-risk function or revenue will fight the adoption or purchase of an offering, which may lead to a lack of commercial success. Consider the rather public demise of Johnson & Johnson's Sedasys technology, which lasted only about 18 months on the market before being scrapped.

The device promised to automate sedation for basic procedures, eliminating the need for—and significant cost of—highly paid anesthesiologists. Unsurprisingly, the anesthesiologist community resisted strongly, pushing Sedasys into ever-narrower indications. Ultimately, the device was discontinued in 2016 after poor sales performance.

3. Financial Alignment

Financial metrics are intrinsically linked to both of the factors above, but financial issues are arguably important enough in today's environment that they're worth calling out separately. One industry executive accurately summed it up for us: "Any offering has got to link to our financials, and it has to be 'worth it' for us to consider making a change."

For example, if a new suture technology only saves two minutes in the OR, there is no meaningful financial impact. It's not as if it frees up enough time for another patient to be treated in the OR to create revenue upside. Of course, revenue upside isn't the only driver. The financial downside risk is clear, too: "You don't need a lot of bad outcomes to get a big penalty" when considering CMS and outcomes measurement, as one hospital executive succinctly stated.

However, providers appear to still be at different levels of maturity. One told us, "We would consider taking a revenue hit in order to improve our outcomes," while another reported, "We are still trying to get finance to understand why we don't just buy the cheapest." This suggests that even a financially oriented value proposition will need to be tailored to the specific maturity of the target customer.

Nonetheless, a fundamental outcomes-based value proposition will link the product and service to outcomes with financial impact. Without that link, the product is simply the latest gadget, and at risk of becoming niched as a luxury

“We will pay for demonstrably better outcomes, but they have to be just that.”

item in today’s healthcare ecosystem. The marketing departments of Swiss watchmakers don’t try to convince potential customers to buy self-winding watches to save money on watch batteries. Those customers aren’t looking for a financial justification for their next five-figure purchase. But in healthcare, it’s very different: The link to financial outcomes must be meaningful and justifiable.

Consider the recently announced launch of Stryker Corp.’s Mako robot. The company could have launched “just” a surgical robot and many still would have considered buying this latest technology, but by delaying the launch and gathering additional data, Stryker now has a clear financial proposition that is well-linked to outcomes and much more widely applicable in the orthopedic market. “The cost of complications and readmissions for Mako cases [is] 66% lower than non-Mako cases … even accounting for the additional cost of using Mako,” Stuart Simpson, Stryker’s vice president and general manager, recently told *MedCity News*. Stryker successfully avoided the risk of its robotics technology becoming niched and limited only to those who could afford the price tag.

In some cases, simply demonstrating an improvement and charging a higher price leaves opportunity on the table. One IDN executive we spoke to described how a product created a “reduction in infection that was so significant, the manufacturer could have set up a risk-sharing agreement and charged an even higher price than they did, and we would have paid it because we would have been so sure that we would see the outcomes improvement.” If a manufacturer is confident in the outcomes and value that an offering can deliver, the company can create a more advanced value proposition or offering that’s supported by some kind of risk-sharing agreement or contract.

But the manufacturer needs to show that it has skin in the game, too. There has to be a mutual “incentive.” As one of our interviewees noted: “Any risk-sharing agreement needs to have ‘teeth.’ You can’t just give us a few free catheters every now and then.” Providers tell us that they need to be offered real value.

Few manufacturers are operating at this level today, and that may well be due to the operational considerations required to make such an agreement functional. A proposition must be financially compelling and create an impact on the customer’s mission or priorities, but the impact has to be clearly measurable and simple to operationalize.

4. Measurability

The measurability of the outcome is critical to the value proposition’s success. “We will pay for demonstrably better outcomes, but they have to be just that,” one provider said. A device without a measurable outcomes improvement is a luxury that cannot be afforded in the value-based world.

However, it’s imperative that manufacturers clearly link the device or service to the outcome (and any financial impact), which can be difficult to do. “There are so many variables,” another respondent said. “It’s like being a detective.”

"Many times, it's not the device itself, but it's the behavior change that it's associated with that improves the outcome."

Speaking of detectives, consider the Sherlock tip location system manufactured by CR Bard Inc., used to confirm correct PICC placement. This system eliminates the need for an X-ray procedure, saving a measurable cost, and also significantly reducing the time between PICC placement and the rest of the procedure—resulting in a clearly quantifiable average time savings of two hours per patient.

To create that clear link between the offering and the outcome, manufacturers need data, and they shouldn't assume that their own clinical data (pre- or post-approval) will be enough to satisfy customers here: "We need good data. A manufacturer can't just run their own numbers and give us those, as sometimes specific claims aren't transferrable between systems. We need to use our own data," one hospital executive told us.

The burden of proof remains long after the sale, as well. Another provider told us: "We will do a trial, and then continue to monitor the impact on outcomes long after we implement. We do a 90-day retrospective to make sure we see the outcomes improvement."

Making outcomes measurable is one of the biggest challenges that medtech companies face today, especially when it comes to economic outcomes evidence. Evidence is even more critical when offering a more advanced outcomes-based/risk-sharing contract. To develop the outcome/risk threshold, a manufacturer needs to have the evidence to know what can be guaranteed so that it's attractive to the customers while not too risky for the manufacturer.

5. Achievability

Although measurability is a challenge, manufacturers also have to ensure that the outcomes improvement can be easily achieved.

There are many ways to make the outcome achievable for a customer, whether through the simplicity of the device itself, or through training, ongoing support, or additional services or systems that help the customer achieve that outcome. Several respondents shared this view with us during our research. One said: "The problem is in the utilization, not the product itself. It's really hard to use a product to drive behavior change across the organization, especially if those behaviors are entrenched. We have 3,000 nurses on staff working 24/7. We need training, practice, support and service. Without that, we won't see any improvement in outcomes."

It's critical to ensure that the support or services are in place to guarantee an improvement in outcomes. "Is it the product, or is it the process?" one respondent asked. "Many times, it's not the device itself, but it's the behavior change that it's associated with that improves the outcome. That could be the clinical pathway or even education about the correct usage of the product."

For example, the manufacturer of a negative pressure wound therapy system encountered two issues that were limiting product usage, and therefore limiting the outcomes improvements that could be achieved through the therapy: inconsistent identification of eligible patients, and reimbursement barriers. The company's solution was to support the device with a nursing service, to help providers and wound care nurses identify suitable patients, and to assist with the necessary documentation required to secure reimbursement. This service helped the therapy succeed because it made it significantly simpler for providers to achieve the desired outcomes.

Communicating the Value of Outcomes

So often, companies are unsuccessful because they're trying to bring their product, device or service to market without a compelling value proposition. Medtech manufacturers have a critical window of opportunity now to assess and redefine their propositions, and our five fundamentals can help medtech executives determine how to plan for future change. To recap, the five fundamental factors call on manufacturers to:

+ Understand your customers' needs and identify how your product or service can align to an existing, mission-critical customer priority, or work with the customer to shape and define the need.

+ Map out the relevant internal stakeholders who will need to be targeted to become your advocates within the customer organization.

+ Deliver outcomes that matter for each stakeholder, and demonstrate how these outcomes are aligned to tangible financial benefits for the provider system.

+ Establish clear measurement to quantify the outcomes improvements that you promise, and ensure that these are clearly linked to your offering.

+ And finally, ensure that the outcomes improvements are achievable. Manufacturers should eliminate any internal barriers that might prevent success, and provide the training, support and service required to guarantee that they can deliver those outcomes.

Redefining value propositions around outcomes improvements will enable medtech commercial organizations to successfully defend their portfolios against commoditization and price erosion. Medical technologies and services aren't just luxury items for clinical customers. They're the necessary tools for healthcare providers to improve the quality and outcomes of clinical care, while controlling costs. It's time for medtech companies to evolve their commercial strategies to reflect that.

About the Experts

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