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## Hospitals Have Spoken: How Medtech Can Benefit From the Affordable Care Act's Focus on Outcomes

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By Brian Chapman and Yuta Ito



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In January 2015, the U.S. Secretary of Health and Human Services announced that the federal government's goal is that by the end of 2018, 90% of all Medicare fee-for-service payments will be tied to quality or value, as will 50% of Medicare payments through alternative payment models.

Lost in all of the noise about the constitutionality of the individual mandate, insurance exchanges without suppliers, websites that don't work and canceled policies that don't comply is a much more encouraging and lasting impact of the Affordable Care Act: accelerating the outcomes-focused orientation with medtech vendors as the unintended beneficiaries. Forward-thinking medtech companies can start better positioning themselves now to take advantage of this opportunity.

The ACA is accelerating a change already under way in healthcare by aggressively driving financial incentives for hospitals tied to patient outcomes, and penalties for re-hospitalization; incentives for physicians to join accountable care organizations and a race for scale has prompted M&A activity in local healthcare ecosystems; and more. In January 2015, the U.S. Secretary of Health and Human Services announced that the federal government's goal is that by the end of 2018, 90% of all Medicare fee-for-service payments will be tied to quality or value, as will 50% of Medicare payments through alternative payment models.

The impacts have been felt across the industry, and hospitals are being thrust squarely into center of it all, forced to take responsibility for much more of the care continuum than ever before. We see physician practices folding into hospital systems, and rehab, outpatient and extended care facilities all becoming affiliated or owned outright by hospitals systems.

Competitive forces, in general, and the Centers for Medicare & Medicaid Services specifically are reshaping the healthcare landscape—and opening up a unique opportunity for medtech manufacturers to transition from serving as suppliers to becoming partners with their hospital customers, working together to ensure favorable outcomes for patients and profitable growth for both parties. Given the new environment, it doesn't have to continue to be a zero-sum game in which hospitals improve their costs by attacking manufacturers' margins. In the new world, where poor clinical outcomes hurt a hospital's bottom line, hospitals will be laser-focused on quality and performance, and medtech vendors can play a critical role in helping them achieve those aims.

The future of healthcare could present a win-win for medtech and hospitals, but to make this win-win scenario a reality, medtech vendors need to develop new value propositions that emphasize selling outcomes rather than products. They also need to build the capabilities to deliver on these value propositions and design new business models that allow them to capture their share of the value created in the outcomes-focused ecosystem.

They'll also have to persuade the skeptics: A recent ZS survey found that many hospital executives aren't yet convinced that medtech vendors can help them address their biggest priorities, so the industry needs to boost hospital executives' confidence that medtech manufacturers can function as more than suppliers, partnering with the hospitals to improve the total patient experience and helping ensure quality outcomes.



## Seeing Cost Through a New Lens

Traditionally, one of hospitals' top priorities, from a business perspective, has been cost reduction, and to achieve that objective, hospitals have leaned on medtech vendors to supply their products at lower prices. While cost reduction remains a top priority, ZS's research reveals that hospitals have a new focus in how they want to achieve it—opening the door for medtech vendors to enhance their relationships with customers.

In late 2015 and early 2016, ZS surveyed 85 U.S.-based hospital executives—both C-suite executives and departmental leaders across service lines—to determine hospitals' business priorities, and whether and how needs differ between the administrative and departmental levels. What we found is that hospitals' focus on cost containment is evolving in line with CMS's quality-focused metrics. While cost reduction still rates as a priority for hospitals—in fact, it's the top priority (26%)—respondents rate quality care (25%) and revenue growth (22%) as nearly as important (see figure 1). And this emphasis on balancing cost reduction with quality and profitability will continue: Survey respondents expect that these priorities will be essentially the same two to four years from now.

### HOSPITAL EXECUTIVES' TOP PRIORITIES IN 2016-2020

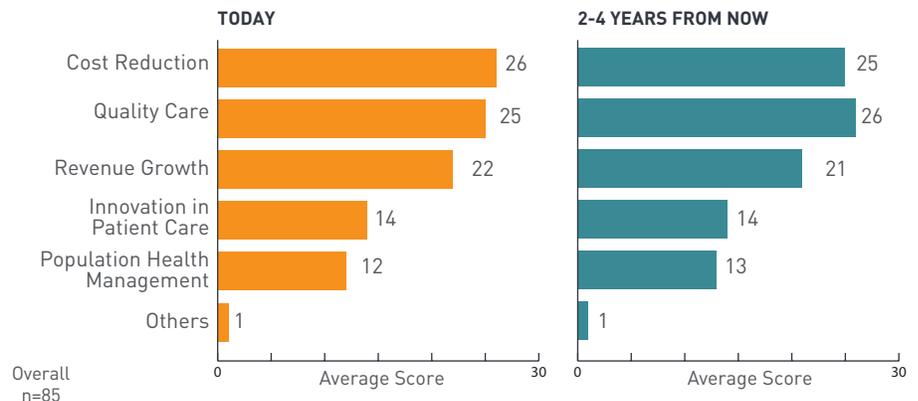


Figure 1: While cost reduction still rates as a priority for hospitals—in fact, it's the top priority (26%)—respondents rate quality care (25%) and revenue growth (22%) as nearly as important.

CMS's risk-based payment model and other new reimbursement models that promote accountability for outcomes have changed how hospital executives think about cost containment. Under these reimbursement scenarios, hospitals bear the costs arising from hospital-acquired infections and other poor outcomes that require prolonged stays or readmissions. What's more, a hospital's performance against quality metrics is a factor in determining its reimbursement rate under a risk-based payment model, so poor outcomes today will mean lower revenues down the road.

Our survey results demonstrate that cost-reduction efforts have shifted to achieving outcomes and minimizing Medicare penalties (see figure 2). Respondents prioritized maximizing performance against CMS's risk-based payment and quality metrics above all other cost-reduction initiatives. They gave significantly lower priority to reducing the costs of medtech products.

## PERFORMANCE TRUMPS SUPPLIER COSTS

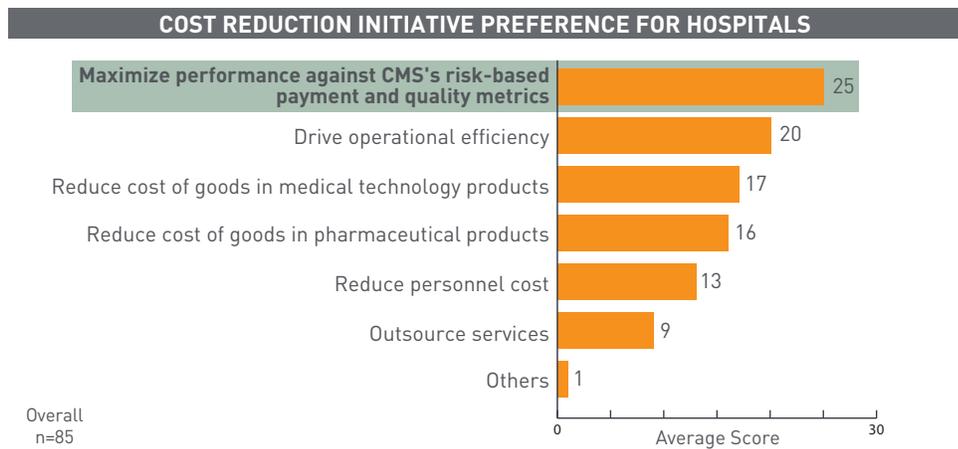


Figure 2: Respondents prioritized maximizing performance against CMS's risk-based payment and quality metrics above all other cost-reduction initiatives. They gave significantly lower priority to reducing the costs of medtech products.

Hospitals' focus on outcomes is a recent development, indicating that CMS's efforts to emphasize quality metrics have succeeded in changing hospitals' priorities and behavior much faster and more effectively than many in the industry had anticipated. Even hospitals that don't participate in accountable care organizations or other voluntary programs are shifting their focus to outcomes and quality metrics.

Hospitals' increasing focus on performance over price gives medtech vendors an opportunity to position themselves on the same side of the table, collaborating with customers to design innovative ways to create value.

## Medtech's Perception Problems

Hospitals' increasing focus on performance over price in their cost reduction efforts gives medtech vendors an opportunity to radically change their relationships with customers, effectively positioning themselves on the same side of the table, collaborating to design innovative ways to create value. To get there, medtech vendors need to battle hospital execs' lackluster perceptions of medtech manufacturers as potential partners.

More than half of departmental stakeholders believe that medtech can help them with innovative technology and cutting-edge procedures and treatment methodology (see figure 3), according to our survey. However, fewer departmental stakeholders are convinced that medtech vendors are ready to support a more ambitious agenda. Roughly 40% believe that medtech can help with minimizing hospital-acquired infections and re-hospitalization. And about one-third believe that medtech can help with priorities such as driving operational efficiency, maximizing financial performance and performing well on published quality metrics.

Adding to the complexity, hospital execs' needs vary between the administrative and clinical levels, and also between departments. For example, interventional service lines such as cardiology, orthopedics and general surgery believe that maximizing performance against risk-based payments is more important (28%), while central labs and radiology focus much less here (14%). Central lab and radiology prefer to reduce cost through traditional means such as decreasing the cost of goods (33%).

### PERCEPTION VS. OPPORTUNITY

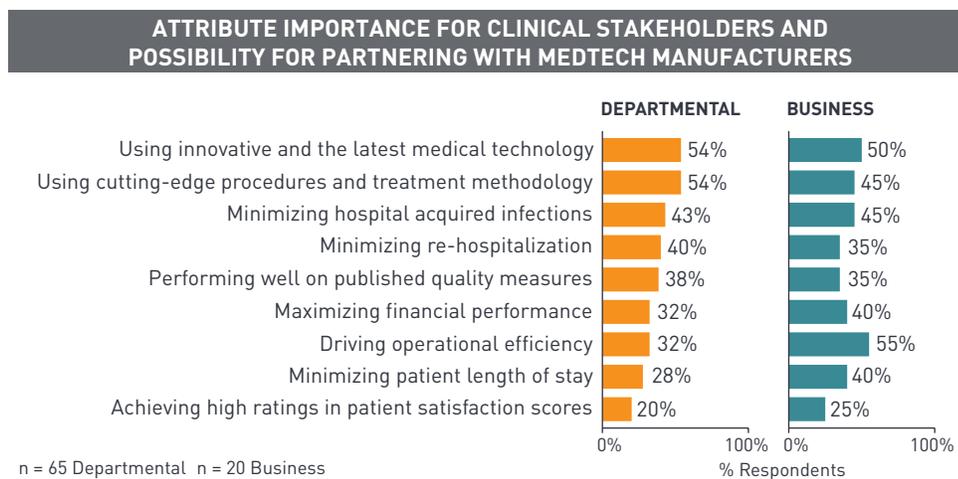


Figure 3: Respondents rate objectives such as performing well on published quality measures as important, but only about one-third of respondents see much possibility for medtech vendors to partner with them to achieve favorable outcomes.

## How to Become a Viable—and Valuable—Partner

To transition from functioning as a supplier to serving as a partner, the medtech industry must make the leap from selling products to selling outcomes. Success will require understanding what customers perceive as “value” and translating these value perceptions into a new commercial model. Here are three key steps:

**1. Rethink your value proposition.** Chances are, it isn’t quite right anymore. Identify your customers’ most important outcomes-based priorities and determine what you can offer that will most effectively help them achieve their goals. Questions to consider include:

- What outcomes do customers care about most?
- How can our products and services help our customers perform against those outcomes?
- How can our product portfolio be reshaped to be even more compelling in addressing these outcomes?

Thinking outside the box is essential. Consider the example of equipment used by nurses in their daily work. In the traditional zero-sum game, a medtech vendor would emphasize the quality of the equipment and its affordable price. In the win-win game, the dialogue shifts from the product’s attributes to its benefits in terms of reducing costs arising from injuries to patients. And thinking further ahead, what services can be provided to ensure usage and adoption among the nursing community? But changing what “cost” means is only part of the new conversation.

**2. Identify and refine the key capabilities necessary to deliver that value.**

Assess your existing portfolio and determine the capabilities that you’ll need to successfully deliver on your new value proposition. Also consider your business model: Should you gear up for risk-sharing, outcomes-based contracts, service-based payment models, and pricing on the basis of procedures rather than individual products? Compare your current capabilities with what you’ll need for your new commercial model, and identify the most critical gaps.

DePuy’s March 2016 strategic alliance with Value Stream Partners is an example of one firm’s effort to bolster its ability to support hospitals in delivering quality patient outcomes by creating “total solutions that go beyond the implant and make a real difference both inside and outside of the operating room,” as DePuy Pres. Juan-José Gonzalez said in a press release this spring. This isn’t a masterstroke; it’s an early step, but an important one.

**3. Transform your go-to-market strategy.** Keep in mind that you should be building the capabilities required to present a compelling value proposition not only to clinicians, but also to business leaders. The emergence of the non-clinical stakeholder is old news, but the importance, especially when presenting outcomes-based solutions that cut a hospital’s costs, cannot be stressed enough.

There is no one-size-fits-all approach. Each manufacturer's capabilities will differ depending on its products, portfolio and customer base.

Here's an illustrative example: A wound-care company had been selling its portfolio the old-fashioned way, doctor by doctor and product by product. Recognizing that business executives have become its primary customers, the company decided to change its approach to selling. To directly address both clinical and economic outcomes, the company designed an integrated program of products and protocols that improves performance on the most important patient metrics while saving money.

Two other factors also must be addressed: how to promote the behavioral changes required to achieve the cost savings and how the parties should share the value that results from better outcomes. For instance, one medtech company is providing "coaches" to observe and intercede where necessary with nurses on protocols for an extended period. This is different from training every shift: It's driving behavior change through an add-on service. Then the vendor stands behind the offering's value by accepting a deferred payment that's based on the hospital's improvements in performance or operating costs.

There is no one-size-fits-all approach. Each manufacturer's capabilities will differ depending on its products, portfolio and customer base. Indeed, not all medtech vendors need to partner with hospitals or offer broader solutions—and not every hospital will want a partner. Some medtech manufacturers might be better positioned to hone in on the few things that they do really well and to become the vendors of choice in those areas. And some large integrated delivery networks, for example, might continue to focus on margin, rather than seeking medtech partners to achieve cost reduction via performance.

And even if a medtech firm is well-positioned to partner with a hospital or hospital system—and the hospital is receptive to it—many medtech firms have a ways to go to develop the necessary key account management mindset to create an effective partnership. Firms might be unsure of the value of a key account manager beyond contracting and pricing work, they might lack the required talent management capabilities or they might not have determined how to coordinate a KAM team with the field team.

But the effort is worthwhile and the opportunity is real. With the ACA-led focus on outcomes prompting hospitals to shift their attention to achieving cost reduction via performance rather than price, medtech manufacturers now are well-positioned to move beyond their traditional supplier models and effectively partner with hospitals on delivering high-quality customer experiences and patient outcomes. Hospitals are increasingly focusing on performance and value, so medtech needs to be ready to deliver.

## About the Authors



Brian Chapman is a principal in ZS's Evanston, Ill., office and leads the consulting practice for ZS's medical products and services team. He has worked with companies on a range of sales and marketing issues, including sales force effectiveness, organizational design, opportunity assessment, channel design, new product launch strategy, value proposition development, territory alignment and incentive compensation. Having spent several years working and living in Europe and Asia, Brian focuses on both U.S. and global projects.



Yuta Ito is a business consulting manager in ZS's Evanston, Ill., office and a member of the medical products and services team. He has worked with a wide range of leading medtech companies in North America, Europe and Asia spanning various commercial issue areas, such as go-to-market strategy, strategic account selling, segmentation and targeting.



## About ZS

ZS is the world's largest firm focused exclusively on helping companies improve overall performance and grow revenue and market share, through end-to-end sales and marketing solutions—from customer insights and strategy to analytics, operations and technology. More than 4,500 ZS professionals in 22 offices worldwide draw on deep industry and domain expertise to deliver impact for clients across multiple industries. To learn more, visit [www.zsassociates.com](http://www.zsassociates.com) or follow us on Twitter and LinkedIn. And to read more insights from Brian Chapman, Yuta Ito and their colleagues, visit [info.zsassociates.com/thepacemaker](http://info.zsassociates.com/thepacemaker).

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**For more information,  
please contact:**

ZS Associates  
+1 855.972.4769  
inquiry@zsassociates.com

[www.zsassociates.com](http://www.zsassociates.com)