Creating Forward Momentum

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Zeno, a Greek philosopher, made his mark on history by developing theories that challenged what humans have learned from their physical experience. One of his paradoxes claimed that motion is an illusion, and even a flying arrow is motionless at any given instant. While Zeno’s theory has been challenged by philosophers and scholars over the centuries, the arrow paradox seems to be an apt analogy for the way that the medtech industry is being affected by the healthcare ecosystem’s evolution: Medtech customers are changing fast, yet these customers appear to be standing still.

The medtech industry is challenged by this paradoxical nature of change. Medtech customers are consolidating and their contracting processes are evolving, adding yet more complexity for the medtech organizations that serve them. And the move to value-based healthcare has started, with many medtech customers beginning to experiment and prepare for the shift. Yet old buying behaviors still dominate. The definition of value is unclear, so lowering the cost per unit is still considered a primary source of value. Moreover, the scope of purchasing across most institutional customers is still very narrow, and multi-source arrangements are still widespread, keeping medtech companies on their toes to protect their business.

We recently interviewed more than a dozen executives from top medtech companies, and many of them shared common concerns about how to prepare for the future of healthcare while addressing revenue pressures today—how to start transforming their commercial models while still serving customers who have yet to transform, themselves. As one executive acknowledged, “Our customers are asking for value-added services and yet do not have the capabilities or infrastructure necessary to track outcomes throughout the episode of care to measure or realize the value from these benefits.”

The medtech industry finds itself stuck between a rock and a hard place. It can’t let go of its old (high-touch, clinically oriented, field-dominant) selling model in order to preserve business, but at the same time, however slowly the customers are changing, medtech still has to develop and operationalize new business models for the few customers who are buying differently. This puts a strain on SG&A spending for most medtech companies, just as most senior executives are grappling with the task of cutting down costs to fund investments intended to “future-proof” their organizations. “In addition to maintaining my current sales force, I have to push my team to drive initiatives that create demand for some of the new ways we would like to interact with our customers, requiring investments in additional market development activities,” another executive emphasized.
To add to the strain on SG&A, the industry also faces increasing commoditization of once-profitable categories as the bar for clinical differentiation has continuously been raised. Pricing has become a key differentiator, putting significant pressure on the top line.

A key question on executives’ minds today is, “How can we fund the investments required for the future while the profitability of our existing businesses is under serious pressure?”

Bridge for Growth

There’s a silver lining in this environment. The market has become more heterogeneous as customers are all in very different stages and competing in very different local dynamics. Their clinical vs. economic needs, their organizational buying and decision-making processes, their ability to influence physicians and drive protocols, their intent and maturity to partner with outside organizations, etc., all are different. One medtech executive said, “Even customers that are similar in size and scope may exhibit varying tendencies toward single versus multi-source purchasing agreements or may ascribe dramatically different importance on physician preference.”

The organizations that build the capabilities to understand and act based on these differences will not only find incremental profit opportunities but also build the organizational agility that, in itself, can be a differentiator for medtech companies. A senior medtech commercial leader described this flexibility as a “Chinese food menu” armed with a range of innovative services and capabilities to tailor the offering to a specific customer’s needs and priorities.

Most medtech companies aren’t able to capitalize on these opportunities because they don’t have the agility required to operate surgically (pun intended). Their operating models are centered either on the sales reps who focus on the products or on KAM reps who want to build C-suite relationships with their customers. What these medtech companies need is the bridge between the two worlds.

Although the future is uncertain, which makes significant investments in future-focused preparation risky, here are three “no regret” moves that medtech companies can make now to build a bridge to a profitable future.
1. Customize your sales models to fit local dynamics and reduce selling costs.

As customer needs have evolved, there’s a big opportunity to optimize the role mix across account management, selling and service roles, including inside sales and digital, and to customize the coverage model. Plan nationally, but deploy locally, enabling local sales leaders to manage their own P&Ls. Even in highly science-driven categories such as neurovascular and heart valve replacement, the provider’s role varies considerably across hospitals, and expensive sales reps aren’t always necessary. When there’s good institutional control, a clinical service rep or an inside sales rep may be sufficient.

The medtech executives with whom we spoke commented on the need for sales models that offer more leverage, noting for example that products that would have had a dedicated sales force a few years ago are now more likely to be combined with several products into one bag to get leverage. In the near future, optimizing the current sales model can drive much-needed growth for many businesses.

Once companies understand the levers for customizing their sales models to providers’ and patients’ needs, they can employ basic commercial effectiveness tools such as targeting and messaging that can yield topline growth. This can be done while companies are setting up and evolving their KAM models—a critical component to medtech companies’ future success, better enabling companies to understand and holistically address customers’ needs, and to deliver value on the customers’ terms. It’s critical to develop a better link between the strategic account team and the field team—at least for those customers who are beginning to evolve. The current model in which the two groups are run independently creates a real disconnect for the customer. By more strategically linking the two teams, medtech companies can more accurately and efficiently meet customers’ needs.

Overall, companies that have customized their sales models demonstrate the potential benefits of this transition. Based on our analysis of clients’ results, we estimate that customizing sales models can lead to a 5 to 10% increase in profits for the short term, while positioning the commercial model for long-term success. This upside is both a combination of the revenue lift that you can get by creating sales models that are customer-centric and better equip you to meet customer demands, and an efficient use of resources that could otherwise be wasted in a “one size fits all” model.
A division of a diversified medical device company faced significant revenue growth expectations for its diverse portfolio, yet it had a highly constrained SG&A budget. The division was tasked with meeting a variety of customer needs, but historically, it had limited mechanisms to stray from a “one size fits all” go-to-market approach.

The division wanted to optimize the mix and deployment of sales roles across regions to match the local market and customer needs—for example, a high key opinion leader concentration in one market vs. strong competitive presence in another market, vs. a low need for specialization in another.

To achieve the optimal sales mix, the division defined the customer journey and buying process, as well as the stakeholders involved in making a purchase decision, and it identified customer needs (knowledge, activities, etc.). The division then grouped sales activities and skill sets into new roles, and worked with the sales leadership team to facilitate trade-offs among various alternatives, taking into account efficiency, effectiveness, manageability and strategic fit. The division determined sizing requirements for the sales team and supporting roles, and the appropriate geographic requirements based on local market conditions.

This effort resulted in the creation of a sales role “menu” that includes a combination of technical, clinical and economic functions, as well as a gap assessment and implementation plan. Skill sets, activities and talent development have been optimized at a local level.

The effort also helped improve the division’s customer segmentation and targeting. And it garnered the field’s buy-in while creating opportunities for flexible deployment, manager input and disruption mitigation—as well as a career path for sales team members within the organization.

The division was able to achieve SG&A savings of approximately 4 to 5%, combined with more effective coverage that contributes to topline growth. The company now is considering using this line of thinking across additional divisions going forward.
2. Shift from intuition to data-driven insights to drive both top- and bottom-line growth.

Medtech companies have long relied on their executives’ and sales team’s intuition—their belief that “we know our customers best”—to make decisions. And the medtech industry traditionally has been data-starved, which has compounded the problem: The sparsity and imperfection of available data has been used as a rationale to not use data-driven insights at all. With increasing complexities in the customer and selling processes, there is a greater need to use data and analytics to drive business outcomes. Without data analytics and the resulting insights, companies could be dealing with significant blind spots and untapped opportunities.

It’s a good sign that some medtech companies are starting to make the case for investing in data and analytics capabilities, and exploring the use of analytics to improve their understanding of customers, as well as their segmentation and targeting, pricing and contracting, and other areas.

One medtech executive we spoke to said: “By no means are we best in class yet, but we have made some incremental improvements in our customer analytics capabilities. And even this minor improvement in our capabilities is already meaningfully improving our ability to impact our business.” However, he went on to say, “Our industry, in general, recognizes the importance of data analytics more than we did as a whole five years go, but very few [companies] have the right path forward to overcome the barriers that we have in terms of having the right people, processes or infrastructure in place.”

Common pitfalls that medtech companies still grapple with include an overreliance on rearview-mirror sales and performance metrics, dumping data without insight generation, the persistence of data silos or unconnected data sources, and the ongoing tussle between business and IT priorities on the challenge of quickly developing the analytics capabilities that the business needs while addressing IT requirements for a proven infrastructure.

Based on our experience, here are five tips that can help medtech companies develop into data-enabled organizations:

- **Data is an asset, rather than an expense, and should be managed as one.**
  By better linking available data—not just the traditional sales and revenue data, but other forgotten data like distributor, customer service, inventory and CRM data—significant power can be generated to do not only retrospective reporting but also prescriptive and predictive analytics, helping the medtech organization move along the spectrum from “data dumping” to advanced insights.
A division of a medical device company that serves a diverse customer base with a variety of products within a therapy area had been seeing more than a 10% decline in its sales over the last few years. Committed to reversing this trend, the division invested in the use of cutting-edge analytics to identify at-risk customers.

The division first started tracking a variety of KPIs, of which customer churn was an important metric. It didn’t take the company long to realize that heavy churn in the last few years had been a significant reason behind the declining revenues.

Next, they used analytical approaches to identify where revenue declines have happened, why they’ve happened, and whether the division could proactively anticipate at-risk customers and take preventative measures to retain those customers before they switch to competitor products.

Data has been an ongoing challenge for the division because most third-party data is very sparse at a customer level, and other sources of data often are unavailable or lack the necessary granularity. Besides sales data, the limited availability of data types and the sparsity of data (such as potential, utilization, etc.) make it very difficult for the division to obtain predictive results using traditional growth or trending approaches because customer sales often are too erratic.

The division’s leadership committed to investing in best-in-class analytics to predict customer churn. Using sophisticated analytics techniques, they were able to achieve significant confidence in predicting at-risk customers. This early insight now can give the division a critical heads-up to take action (outreach, messaging, etc.) and prevent valuable customers from churning. An integrated system where this information can be made directly available to the field eventually will build a closed loop where field feedback can help continuously improve the model.
Following the 80-20 rule in tracking KPIs will help keep things efficient. Eighty percent of the impact can come from only twenty percent of the insights. Focusing efforts on better understanding these factors through analytics (and associated KPIs) will greatly improve the organization’s ability to make better decisions.

Companies don’t have to wait to implement analytics until they’ve made significant investments in building the underlying infrastructure over many years (not to mention millions of dollars). Many companies have found success using small building blocks to support commercial decisions in a relatively short time period, and later harmonizing such investments into an overall IT road map for their data management ecosystem’s evolution. This approach also helps in avoiding turf wars between IT and business in an effective way.

Investing in data partnerships can have high returns. This is applicable to commercial analytics, where data providers can offer nuanced data sets and analytics partners can generate analytics that improve medtech companies’ internal commercial decisions. In addition, developing partnerships between medtech companies and their customers to analyze the customers’ operational data (such as inventory data for better customer service) and outcomes data (such as RWE to develop better value propositions) can help elevate medtech companies’ status from suppliers to partners.

Developing a center of excellence for analytics will help sustain and improve your efforts to build a data-driven organization. An analytics center of excellence with the right charter, process, roles and talent isn’t a cost center, but a profit center.

Companies that achieve the right balance of intuition-based thinking and data-driven, insights-based decisions can thrive. Our prior research with The Economist Intelligence Unit suggests that medtech companies can achieve eight to 12 times the return on investment in building commercial analytics capabilities without the need for significant IT infrastructure investments.
3. Optimize your pricing and contracting strategy to realize hidden profits.

The power of optimized pricing and contracting practices can be distilled down into a simple formula: Selling more at a higher net price while reducing or maintaining the cost of operations will result in sustainable profit growth. Yet many medtech companies struggle to find effective ways to identify differences in price sensitivity across customers and effectively engage with those who are truly price-sensitive versus those who are adopting a “one size fits all” contracting strategy. Put simply, they’re leaving money on the table. Herein lies an opportunity that can yield significant benefits in the short term.

One of the biggest impediments to best-in-class pricing is the lack of processes and capabilities to analyze pricing and contracting data across key customers. This is a significant challenge observed across many medtech companies. Medtech companies need to streamline their pricing and contracting business processes to leverage analytics more effectively and to track the right metrics. This often can be achieved without investing in elaborate contract management solutions by simply integrating pricing and contracting data with other data sources such as sales, compensation and segmentation.

For example, by tracking historical net pricing data, some medtech companies find significant price discrepancies across customer segments, where the least valuable customers receive more favorable prices than the best or high-value customers. This puts customer relationships at risk, not to mention the compliance risk of violating contractual obligations for customers who have acquired hospitals and realized price variability across their facilities. By building an integrated data management and analytics environment across all price lists, promotional discounts, rebates, and terms and conditions, medtech companies can enable price transparency from list price to net price, and provide a powerful diagnostic for identifying areas of profit leakage and revenue maximization.

Volume and share-of-wallet contracts are standard across the industry, but rebates often are paid to customers without validation, resulting in unjustified and unnecessary discounting. Companies can triangulate multiple data sets to validate customer utilization and the book of business, which enables discussions about how accounts are tracking and their accountability to their contractual commitments.

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A division of a diversified medical device company had launched a new, first-in-class device for an adjacent therapy area to their other products. The new device was highly desired by leading-edge clinicians based on its clinical benefits, but many hospitals were reluctant to purchase the device because of its expensive price point relative to the reimbursement level. The manufacturer also was challenged with growing more mature parts of its portfolio that faced stiff competition. The company needed to develop a pricing and contracting strategy that would leverage the strength of its portfolio for the benefit of both its customers and the company.

The division developed a contracting strategy that allows for the discounting of the new product if mature products are purchased in tandem. The division also developed a strategy for incentivizing customers to purchase larger volumes of the new products.

The new product’s sales have improved, as have sales of the company’s mature product lines. Customers are satisfied with their ability to obtain the new product at profitable prices.

One of the results of the strategy was that customers bought large volumes of the mature products (in bulk) to drive down the price of the new product. One consequence of the strategy was that while sales grew, they also became more volatile as bulk purchases sat on the shelf of the hospital for some time prior to being used. To counter this trend, the company has changed its incentive plan for sales reps so that they are now compensated based on customers’ actual product utilization (what comes off the shelf) rather than just sales volume (what gets put on the shelf).
Volume and share-of-wallet-based tiered contracts provide strong motivation for customers not only to be compliant with contract terms, but also to increase volume or share of wallet to achieve improved pricing. And evaluating contract performance against the contract assumptions can help medtech companies identify contracts with low pull-through or those that are falling short of the next tier, providing an opportunity to engage with customers about how to achieve better pricing.

Once a company has established the basic hygiene and rigor in pricing and contracting, it can start to develop more rigorous price elasticity models to identify price optimization opportunities across customer segments, and to leverage portfolio opportunities with customers who are open to bundled contracting.

This is low-hanging fruit that can provide significant benefits with low investments. For example, one medtech company, which competed in a product category that historically was driven by physician preference, increasingly was facing competitive and customer pressures to offer price discounts, but the company lacked a cohesive price discounting strategy for different products. In an effort to improve its pricing and contracting strategy, the company conducted a customer price-volume correlation analysis for leading brands and associated SKUs. It then designed pre- and post-contract analytics to assess the price elasticity of demand for different products, as well as a price discounting matrix based on a product-specific profitability analysis. Next, the company developed pricing governance guidelines and an approval process for the field sales and revenue management team.

Their effort paid off. The recommended pricing matrix and governance process enabled the company to execute a disciplined price discounting strategy in collaboration with field sales. The price variance analysis helped identify several customer-specific opportunities to optimize prices and increase overall revenues.

Change is a constant, but in healthcare as in many industries, change often is slow and sporadic, and stymied by companies’ current realities and revenue pressures. Like Zeno’s arrow paradox, the healthcare industry is moving forward, but at this point in time, that movement is incremental. Investing in incremental improvements and innovations to your commercial model will position your company to succeed as the industry’s pace of change continues to accelerate. It’s time to act, but to do so strategically, building a bridge between today’s customer realities and tomorrow’s commercial evolution—preparing for the future while maximizing performance now.
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