The US medical products industry is without a doubt one of the most dynamic and exciting areas to be working in right now. While the pharmaceutical industry has been under increasing pressure from generic competition, product safety concerns and disappointing product pipelines, the medical products industry has been thriving. Its success has been fueled in part by increased demand from an aging population, but more significantly by the frequent introduction of new technologies that both improve the quality of patient care and expand the market. Two of the most significant examples of this are in the cardiovascular area: cardiac resynchronization therapy devices improve heart efficiency and extend life in patients with heart failure, while drug-eluting stents prevent arteries from re-clogging after stenting procedures to relieve pressure from blocked coronary arteries.

ZS spoke with executives from across the industry, including diagnostics, medical devices and medical supply companies, to understand their perspectives on the market. We found that overall these executives are optimistic and see continued growth opportunities ahead. However, there are a number of major trends impacting the medical products industry—creating both opportunities and challenges. We identify here six macro trends affecting the industry:

- Escalating cost pressures on providers
- Increasing scrutiny on medical sales and marketing practices
- Continued shortages of skilled labor within provider institutions
- Technological innovation
- Consumerization
- Evolving group purchasing landscape

Each has significant implications for medical products sales and marketing.

Escalating cost pressures on providers

This topic is certainly not new, but nearly all interviewees identified this issue as being important in today's environment. In fact, many industry execs see the cost pressures on hospitals getting worse before they get better. Greater numbers of uninsured patients seeking treatment, increasing demand for services from an aging population, rising costs due to the nursing shortage, and rising costs of devices and pharmaceuticals all were identified as contributing to the cost increases. In addition, state and federal budgets are still feeling the strain from the economic slowdown in 2001-2003, putting continued pressure on reimbursement.
The good news in spite of all this is that many segments of the medical products industry have very promising fundamentals. The introduction of innovative new technologies, coupled with the positive demographic trends that are causing hospital costs to rise, are spurring market growth.

Medical products companies today more than ever must demonstrate the positive impact of their products on the economics of the buying institution. More and more, efficiency savings claims by manufacturers are being downplayed in favor of tangible price, product usage or length of stay impacts. Marketing and sales efforts must explicitly address both the clinical and economic performance of their products.

Increasing scrutiny on medical sales and marketing practices

Medical products and pharmaceutical companies have been taking a beating lately in the public perception. There have been several well-publicized stories over the past few years of Department of Justice prosecutions of pharmaceutical sales and marketing executives. Perhaps the most visible case was TAP (Takeda-Abbott Pharmaceuticals), which set the tone with the largest penalty levied ($875 million) and for criminal prosecution of executives. It is clear that medical products companies will not be immune from these investigations. Associate Attorney General for the Eastern District of Pennsylvania, James Sheehan, told attendees at a recent health care conference that device companies were "worse than" pharmaceutical companies1. In addition to DOJ crackdowns for Medicare and Medicaid fraud, stories of pharmaceutical industry sales force excesses may be having a spill-over effect on medical products companies, which are often "painted with the same brush" as pharmaceutical companies.

In order to pre-empt the possible pressure, the industry has established through AdvaMed its own code of ethics on interactions with health care professionals. Mirroring many of the tenets established by the pharmaceutical industry, the new guidelines address physician entertainment, gifts and consulting arrangements. Moving forward, medical companies have little choice but to comply with the code and recognize that even if they don’t bill Medicare and Medicaid directly they are still subject to scrutiny. While medical sales reps are generally viewed by clinicians as more knowledgeable than pharma’s detail reps, frustration with the legions of pharma reps means that medical products companies must continue to add value during their physician interactions.

Continued shortages of skilled labor within provider institutions

The nursing shortage has reached, according to some, "epidemic proportions" in some areas of the country. According to an American College of Healthcare Executives report from October 2004, 72% of hospital CEOs were experiencing a nursing shortage at their facilities. With enrollment down and "burnout" leading to high turnover, the problem is not anticipated to end any time soon. In fact, the US Department of Labor predicts that more than 1 million new and replacement nurses will be needed by 2010.

The lack of skilled labor is having an impact on both the product development and sales force strategies of medical companies. From a product development perspective, the skilled labor shortage and high turnover means that ease-of-use is becoming more and more of a priority in product design. Additionally, medical products sales forces are expected to provide clinical support resources and training as a cost of doing business. Many companies have "clinical specialists" within their organization to handle some of the workload. Others use salespeople, contract-nursing organizations or simply hire qualified nurses on a local level to provide the support on an as-needed basis. Expect to see more and more pressure for manufacturers to provide clinical support in the future.

Technological innovation

Perhaps the primary driver of optimism for growth is that there are so many medical product innovations on the horizon in so many areas. Revolutionary new technologies like drug-device combinations and molecular medicine, or new procedure trends such as the shift to minimally invasive surgery, are creating fundamental shifts in the way healthcare is delivered. Information technology is also finding its way into more equipment and devices as the electronic revolution enters the medical arena full-force. Hospital information systems and connectivity with diagnostic, monitoring and other types of equipment means that few medical products companies can escape the technology integration trend.

Quite simply, for companies to compete effectively in this environment, they must continuously bring new products to market successfully. New product development, in-licensing and commercialization are therefore fundamental core competencies that medical companies must possess. Medical products companies also need to be flexible and adaptable to respond to technology shifts and make a consistent effort to bring best-in-class products to the market. Medical sales representatives typically need to be experts in the new product to help customers understand and use the product, as well as be conversant in information technology that will most likely be incorporated into the product. This implies that sales forces need to maintain the appropriate degree of specialization in order to facilitate expertise development. Sales forces also need to have the appropriate strategies, compensation, hiring and training processes, and information

1Medical Device Companies Next Target for Major Federal Fraud Enforcement: Health Law: March 31, 2003, Vol. 8, Issue 2 by Holland and Knight LLP
systems to ensure that personnel with the right skill level are attracted and retained.

**Consumerization**

Increasingly medically-aware patients are more willing to engage their physicians in a treatment dialog, fueled perhaps by the direct to consumer advertising in the pharmaceutical industry and consumer access to health information through the Internet. The growth of home care and patient self-care devices such as glucose monitors and insulin pumps is also increasing the direct involvement of patients in their own medical care. Conventional wisdom in the past was that patients typically defer completely to their physicians regarding medical products and hospital procedures. However, as patients learn more about medical technology, they are bringing more and more questions to their physicians. Additionally, many of the fastest growing medical products are for elective procedures (e.g., Lasik, gastric bypass and cosmetic surgery). With the increasing shift of the cost burden to the patient from the employer, we expect this trend of heightened patient influence to continue.

The direct sales force is still and will continue to be the top priority for driving sales for most medical product companies. However, sales and marketing organizations need to evolve to recognize the growing influence of the consumer. They can do this by tailoring direct marketing, web and provider outreach programs to help provide appropriate information to consumers. Many medical products companies have underdeveloped marketing organizations, which need to move beyond sales support organizations toward more strategic consumer-oriented marketing functions.

**Evolving group purchasing landscape**

Visible public and government pressure on GPOs to be less restrictive and more accepting of new products is changing the balance of power in contracting. More and more brand decisions will be made at the IDN and individual hospital level as single source GPO contracts are becoming an artifact of the past.

As individual hospitals and IDNs gain in their ability to influence product choice, local relationships and sales force strength becomes more important. More than ever, medical products companies need to ensure that they are adequately resourced in the field and that their sales forces are as effective as they can be. Continued investments in local thought leader development and local provider partnerships will be important as well.

**Implications**

Overall, the key considerations for medical products companies in the future include:

- Improve competency in identifying and bringing new products to market
- Build and maintain highly effective sales forces
- Develop and maintain sales force strength as individual hospitals and IDNs gain purchasing power and national contracts lose their influence
- Maintain a high level of expertise to ensure salespeople have the ability to deliver effective clinical, economic and technical messages
- Provide value in clinician interactions and respect the AdvaMed code of ethics
- Develop more sophisticated marketing capabilities to refine the commercialization process and consumer marketing strategies

In summary, the outlook for the US medical products industry is quite positive. New product innovation and positive demographic trends help to drive market growth and profitability for medical products companies. However, companies must position themselves well in light of these market trends and shifts by continuously developing innovative new products and by evolving their sales and marketing strategies to stay ahead of the pack.

Pete Masloski is a Principal based in ZS Associates’ Evanston, IL office.