



ZS ASSOCIATES

ZS EXECUTIVE SUMMARY

Not-So-Future Shock:

ZS's Commercial Operations Benchmark Study for Medical Products, Devices, and Services Industries

In the medical devices and diagnostics industry, consolidation among the customer base has created labyrinthine buying processes that are difficult to understand, much less navigate.

Medtech companies must now pinpoint key decision makers at physician practices, hospitals and integrated delivery networks (IDNs). For large multidivisional companies, the selling process has become enormously difficult as they adjust their sales models for institutions with multiple stakeholders.

ZS's latest Commercial Operations Benchmark Study for Medical Products, Devices, and Services Industries, released in January, reflects how industry leaders are coping with these changes—and how they are gaining a competitive advantage through commercial operations.

Among the study's findings:

- **IDN struggles:** Only half of respondents can track membership in IDNs among their customer lists.
- **Mobility for all:** About three-quarters of respondents use tablets report using tablets and mobile phones; all will have business intelligence on mobile devices in two years.

About the Experts

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Principal



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Raj has deep and varied experience developing and building commercial capabilities for life sciences companies. He has led global transformational projects in the areas of commercial operations, business model optimization and organizational change for both fast-growing and mature life sciences companies. These projects have tended to include significant and innovative use of analytics and technology.

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Tobi has worked primarily with medical products clients in numerous areas, including sales force effectiveness, go-to-market strategy and transformation, organizational design, compensation design, value proposition design, commercial operations and recruiting effectiveness. He has worked on projects in North and South America, Europe and Asia.

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- **Outsourcing taking hold:** Nearly half of survey respondents are outsourcing at least one commercial operations function; more than 25% are outsourcing at least two.

This executive summary of ZS's research includes key findings from the study, what these findings mean for commercial operations and insights from Raj Jayashankar, a Principal at ZS, and Tobi Laczkowski, an Associate Principal at ZS, on how commercial operations can improve companies' competitive positions in an unstable market.

Key findings

1. Consolidation is affecting commercial operations in myriad ways.

As IDNs acquire independent hospitals and smaller IDNs, commercial operations will face enormous challenges, Tobi says, because they "have to identify and track IDNs over time, including their purchasing behaviors, decision makers and affiliated brick-and-mortar locations."

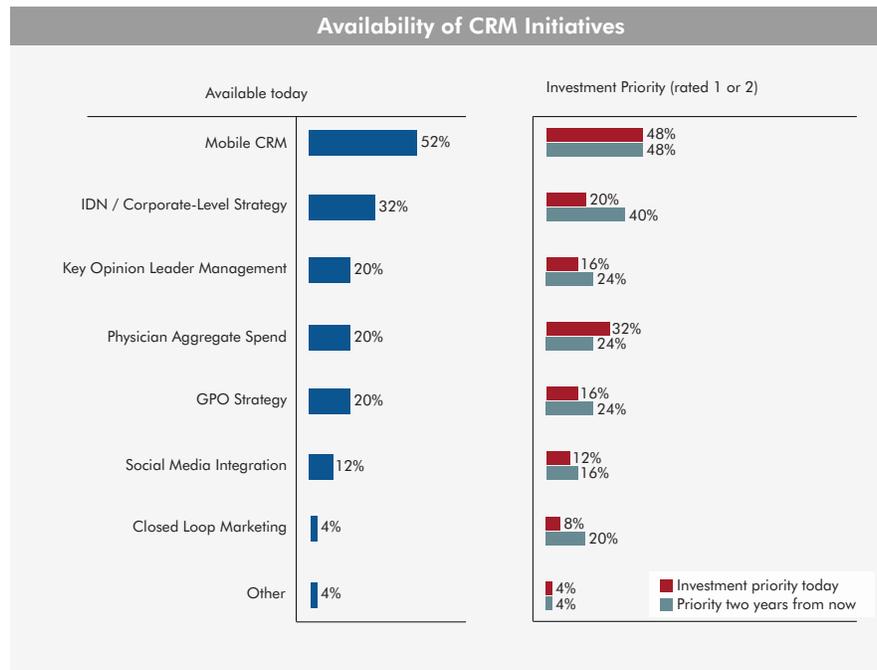
Fully 40% of survey respondents say that having an IDN strategy is a top CRM priority over the next two years (see Figure 1), while 88% anticipate being able to track IDN membership by 2016. But only about half of respondents (56%) say they can track IDN membership now.

Raj says medical device and diagnostics companies need ways to track new developments among IDNs, such as changes in key decision makers, and to communicate these developments internally and to the sales force. The new information can affect future contracts, pricing and customer relationships.

Account management is now a top priority among medtech companies, Tobi says. "Medical product companies' customers are transitioning from hospital or departmental decision-making processes to IDN decision-making processes," he says.

However, only half of surveyed companies say they have a well-defined account management process, and only 36% are able to track their progress against account management goals (though 92% anticipate being able to do so in the next two years).

Figure 1. The greater priority afforded to an IDN strategy underscores the growing importance of IDNs.



Study Background

Participants from 25 U.S.-based medical products, devices and services companies completed the survey. The study was designed to identify the capabilities of specific processes within each key category; the human resources used to manage these systems and processes; initiatives to improve these systems and processes; and field sales team and management satisfaction of current systems and processes being used.

Centralized buying among IDNs, Raj says, has created issues with multidivisional medtech companies that must establish one person as a centralized decision maker. This necessitates technology (like a CRM system to support sales teams) that can coordinate communications across the entire sales and marketing organization.

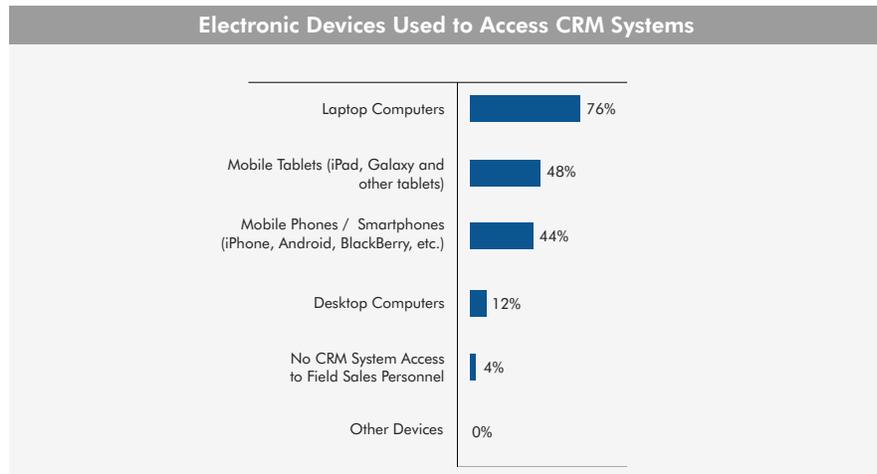
2. Mobility is unstoppable.

The survey showed that 75% of companies have armed their sales forces with mobile devices, compared with 35% a couple of years ago—and all companies anticipate they’ll be delivering business intelligence content via mobile devices by 2016. “That’s a massive shift, both in terms of infrastructure and mind-sets,” Tobi says.

Companies first viewed mobile devices as replacements for laptops to run email and video demos, Raj says. Today, they are vital business intelligence (BI) and CRM tools, serving as platforms for real-time automated customer alerts delivered immediately before a sales call.

Although 76% of respondents access CRM systems using laptop computers, compared with 48% using tablets and 44% using smartphones (see Figure 2), sales reps are using mobile devices “in a very tangible way” to receive documents to help them learn about their customers’ account history and sales targets, Tobi says.

Figure 2. Mobile tablets are being used more to access CRM systems than two years ago; smartphone use has declined.



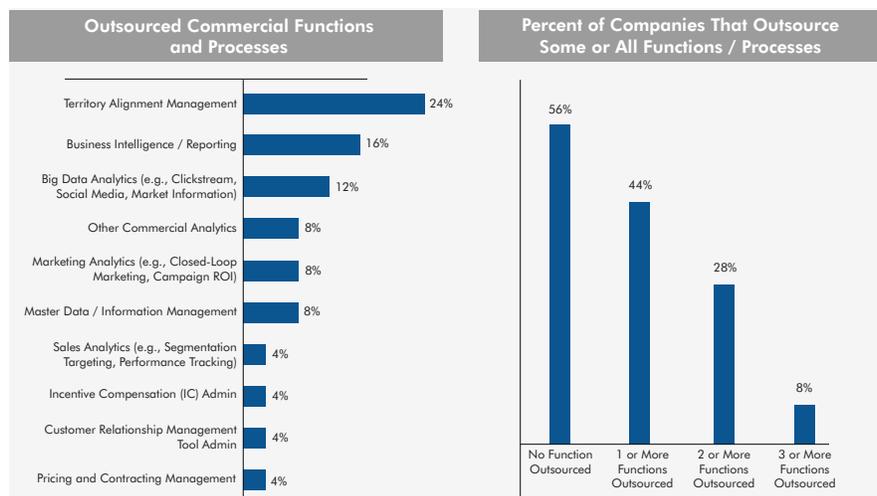
Technology is also helping management visualize whether sales teams are meeting goals. Managers are able to track a rep’s or region’s sales volume, or send email alerts to the sales force that show sales trends.

3. Commercial operations (tentatively) embraces outsourcing.

According to the study, nearly half of medical device and diagnostics companies already outsource at least one commercial operations function, and more than one-quarter are outsourcing at least two. The top outsourced processes include territory alignment management, BI and reporting, and Big Data analytics (see Figure 3).

Efficiency usually drives outsourcing, and the study showed the possible gains in efficiency might be greater than at first glance. For instance, the size of the commercial operations department doesn’t necessarily

Figure 3. Territory alignment management is the most commonly outsourced function.



match the sales force. Among companies with 200 to 300 salespeople, one company had just four full-time equivalent (FTE) job positions in commercial operations; several companies of the same size had nearly 30. Yet another company with a sales force 10 times larger (2,500 FTE) had just 50.

The ratio of commercial operations FTEs to sales force FTEs had some correlation with effectiveness and satisfaction. Companies with a ratio greater than 0.15 are less likely to have a CRM system in place, and have lower sales force satisfaction for their information management systems.

Outsourcing has benefits beyond efficiency and effectiveness, Raj says, as it enables personnel to focus on strategic processes rather than daily minutiae that could be done outside the organization. And there is something at stake for commercial operations survival: Limited budgets mean that commercial operations departments need to prove their value to the organization.

“There is a full shift toward outsourcing,” Tobi says. “Companies are becoming more comfortable with housing data outside their walls.”

4. Data on Big Data is uninspiring.

The study indicated few companies are engaging in marketing analytics: Only one-third of companies have processes in place to monitor their marketing programs, and only 20% have processes to measure marketing program results or effectiveness (although 64% anticipate having those processes in place in two years).

On average, medtech companies employ a single FTE dedicated to marketing analytics, underscoring the relatively low investment in marketing analytics relative to other industries.

The marketing analytics function appears to be “less top of mind, but it is important nevertheless,” Raj says. Companies anticipate placing more emphasis on this function. No companies currently have sophisticated analytics in place to measure return on marketing investments; however, 44% anticipate having them in place by 2016.

As marketing analytics has been slow to develop, Big Data analytics is one of the least developed functions among medtech companies. Fully 60% of respondents did not have such a function in place.

However, the survey found that 16% of companies have Big Data analytics initiatives today, and that 28% of companies anticipate they will be an investment priority in two years. The survey also reported that 12% of companies outsource Big Data analytics, including clickstream tracking and market information.

Conclusions

In light of the study's findings, Raj and Tobi recommend medtech companies should take action on a number of fronts, including:

- Develop new data sources to help identify and track changes in the makeup of IDNs and other customers, making it possible to target appropriate buyers and decision makers, and improve sales potential.
- Through data alerts and real-time customer insights for the sales force, use mobility to generate a true competitive advantage.
- Outsource analytical processes such as reporting and data management, focusing instead on high-end analytics that drive shareholder value.
- Establish formal measures, metrics and processes that track marketing costs and measure the effectiveness of marketing efforts across all channels.

About ZS Associates

ZS Associates is a global consulting, outsourcing, technology and software solutions firm focused on commercial strategy and implementation. For almost 30 years, ZS has helped businesses across a range of industries address market challenges and optimize performance. From 21 offices around the world, ZS experts use analytics and deep expertise to help companies make smart decisions quickly and cost-effectively. ZS comprises multiple affiliated legal entities. Learn more at www.zsassociates.com.



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