New Commercial Models in Medical Devices

Healthcare reform, new sales models, emerging social channels and draconian cost-cutting imperatives are forcing medical device companies to transform how they operate. By embracing a holistic model, these companies can remake their commercial operations.

Executive Summary

Enormous change is on the horizon for medical device (MD) companies. For years, MD companies built their commercial models around a combination of innovative products and strong relationships with healthcare professionals (HCPs). These products and relationships have resulted in preferred product designations, comfort with single companies as suppliers of choice and an interdependency that rewarded the salespeople, companies and the HCPs.

Impending change will impact product perception, salesperson relationships and ultimately the successful revenue model that has been in place for years within the MD marketplace. Successful MD companies must embrace the changes to established commercial models to effectively compete in the marketplace of the future.

Market Challenges

The dramatic transformation in the MD commercial model is being driven by four factors: healthcare reform, complex sales and contracting models, new promotional channels and demands to reduce and reallocate costs (see Figure 1).

Commercial Model Transformation

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<td>In U.S., includes 2.3% tax on medical devices; Medicare targets $500B savings from hospitals.</td>
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New Promotional Channels

- Increased use of digital and social media.
- Move towards intimate, bidirectional communications.
- Demand for integrated 360° view of customers.

Cost Reduction/Reallocation

- Price pressure strains profitability and drives cost reduction initiatives.
- Need to shift investment from major markets to higher-growth markets.

Figure 1
• **Healthcare reform:** Healthcare costs continue to grow worldwide, as new expensive therapies and innovative devices are introduced to address the needs of an aging population. Government and private payers are struggling to ensure clinical effectiveness while controlling costs of a healthcare model that is considered “unsustainable.”

Governments around the world are introducing policies designed to control the cost of healthcare. In the U.S., the Patient Protection and Affordable Care Act (PPACA), recently upheld by the Supreme Court, will have a direct impact on the financial results for MD companies. For example, starting in 2013 there will be a 2.3% excise tax levied on all device sales. In addition, there are a variety of programs embodied in the legislation targeting cost reduction at hospitals, including value-based purchasing programs, comparative effectiveness research and innovative care programs for Medicare. The Centers for Medicare and Medicaid Services (CMS) is targeting a $500 billion reduction in hospital expenses over the next 10 years.

MD companies can expect continued pricing pressure from the federal government in response to escalating costs. For example, in January 2012 the Government Accountability Office (GAO) reported concern regarding pricing for implantable MDs (IMDs) used in hospitals to the Senate Finance Committee. Medicare expenditures for hospital IMD procedures increased by 4.3% per annum from 2004 to 2009, to $19.8 billion.

The GAO noted that substantial price variations exist for the same devices across 31 hospitals sampled in their analysis — implantable heart defibrillator prices varied by as much as 50% and drug eluting stents prices varied by as much as 48%. The GAO noted that current purchasing practices lead to higher costs for hospitals and ultimately higher Medicare expenses. Factors contributing to the variance include:

- Physician influence/preferences impacting purchase decisions.
- Lack of transparency in pricing inhibiting competition.
- Limited bargaining power of some hospitals.

The GAO recommended adjustments to CMS’s approach to IMDs, including more granular reporting on costs for IMDs to use in setting payment rates and linking payment to quality and efficiency of care.

• **Complex sales and contracting models:** Clinical effectiveness has been the foundation of the MD sales model. MD sales reps provide details on the clinical value of their products to become the preferred solutions for physicians, who had considerable autonomy in product decisions. While physicians continue to have substantial input to MD purchases, hospitals and payers are exerting greater influence and increasingly focusing on clinical and economic value.

Hospitals are increasingly hiring physicians directly and buying group practices. The *New England Journal of Medicine* reported in May 2011 that more than half of practicing physicians were employed by hospitals or integrated delivery networks. Direct employment offers hospitals the opportunity to establish standard care approaches and hold physicians accountable for the cost of care. Physicians working within hospitals have diminished influence over purchase decisions. Many hospitals have procurement functions or value analysis committees to review and approve MD purchases (see Figure 2). These new economic stakeholders require different sales approaches, including comparative effectiveness studies, outcomes-based contracts or bundled purchasing models.

**New MD Sales Stakeholders**

![Figure 2](image-url)
Health outcomes are a key tenet of the PPACA and are embodied in the Accountable Care Organization (ACO) provisions of the law. ACOs are groups of providers and HCPs that take responsibility for cost and quality of care and receive a share of savings they achieve for Medicare. As hospitals and HCPs position themselves to become ACOs with outcomes-based rewards, MD companies must rethink their sales and contracting approach in terms of clinical and economic outcomes. They need to consider how their products fit within the medical procedures they support and the hospital ecosystem to provide more holistic solutions with more compelling value propositions.

- **New promotional channels:** MD companies are faced with an increasing variety of channels by which to promote their products, from direct sales and customer support to e-mail campaigns and wellness communities. HCPs and patients are increasingly using digital channels for medical information, offering MD companies an opportunity to establish intimate, bidirectional connections with stakeholders, often at a lower price.

The combination of personal and nonpersonal promotion provides opportunities and challenges for MD companies. The new channels must be leveraged in a coordinated fashion, ensuring delivery of consistent messages and interactions. Done correctly, the new channels will provide a rich source of information regarding customers and their perception of specific products. New information sources and the need to determine the optimal approach by channel and target segment will drive adoption of new technologies and analytic approaches, from social customer relationship management and marketing to multichannel promotion optimization models.

- **Cost reduction and reallocation:** MD companies have a substantial need to optimize their cost base to address price pressures, shift resources to higher growth markets, invest in innovative solutions, promote products to a larger stakeholder base and address continued performance demands from Wall Street.

Among the top opportunities is geographic expansion. The MD market is projected to grow to over $346B in 2015 with a 5% CAGR, according to a study by Espicom Business Intelligence in June 2011. While the major markets (U.S., Western Europe and Japan) represent almost 80% of the market, growth in those geographies has decelerated to 3%. However, growth in the rest of the world is expected to exceed 10%, to over $88 billion by 2015. Asia Pacific represents the largest segment, growing from $34 billion in 2011 to $55 billion in 2015. Given pricing pressure in the major geographies and accelerated growth in emerging markets, MD companies need to find and execute on opportunities to optimize their cost base and shift investment to higher growth markets.

In the new dynamic market environment, MD companies must also consider their technical and analytical foundations. From a product design perspective, new mobile and digital technologies offer opportunities to provide more effective linkage into the emerging hospital ecosystem. The adoption of cloud-based technologies, social listening solutions to more effectively understand customers, predictive analytics and wellness portals can provide new market insights and accelerate response to market changes. Again, none of these new solutions are free, so leading MD companies will cut expenses in noncore functions to support accelerated investment in these growth opportunities.

**Commercial Model Transformation**

Leading MD companies must transform their commercial models to respond to new market realities. Leveraging a comprehensive transformation approach, MD companies are assessing and adapting critical commercial processes (see Figure 3).

Commercial success must be driven by a holistic transformation model that addresses key operating paradigms:

- **New sales model:** Enhance the sales model to incorporate new skills; augment the model with new roles to ensure effective customer engagement and reduce cost.

- **Promotion optimization:** Revise the promotional approach to address a broader stakeholder base using both traditional and emerging channels.

Given pricing pressure in the major geographies and accelerated growth in emerging markets, MD companies need to find and execute on opportunities to optimize their cost base and shift investment to higher growth markets.
• **Digital marketing:** Embrace digital and social media channels to influence consumers, HCPs and other stakeholders.

• **Advanced analytics:** Leverage advanced analytics to continually refine commercial approaches in response to rapid market changes.

• **Comparative effectiveness:** Define outcomes-based solutions and contracting approaches to enhance clinical and economic value.

**The New Sales Model**

The MD sales organization of the future is a lean, agile organization that aligns itself to provide effective clinical and economic information to a growing stakeholder community. They are focused on solutions and outcomes, not products. The new sales team considers the needs of individual decision makers and their preferences for interaction, and then aligns the organization accordingly. They are ready and willing to adapt their model to changes in the hospital ecosystem and the overall market.

To that end, new sales roles are being created beyond the typical geographic model and include key account managers, inside sales, clinical specialists, administrative sales and contract specialists. These new roles provide different skills and are available at a different price point, enabling leading MD companies to optimize costs while effectively engaging with an evolving client base.

**Promotion Optimization**

MD companies are faced with a variety of channels to promote their products, from e-mail campaigns to symposia to patient wellness communities. These channels offer marketers new options for reaching healthcare providers, payers and patients in more intimate and often more cost-effective ways. While marketers welcome this plethora of choices, management and integration of promotional campaigns across channels remains a challenge:

- How do these various channels overlap with my target audience?
- What mix of channels will maximize my reach?
- What is the right frequency of touch points for each channel?
- How can I best integrate the execution across channels?

Multichannel promotional approaches can be used for a wide variety of purposes – from creating awareness to education to increasing brand preference – but success will be limited if each channel operates in isolation of the others.
The complex mix of promotional channels must be integrated to effectively support the device buying process. Leveraging advanced multichannel analytics, MD marketers can optimize their spend and improve performance by effectively integrating these new channels in their promotional mix.

**Digital Marketing**
Nonpersonal promotion opportunities are growing for MD companies. Leveraging digital and social media, MD companies can increase awareness, support diagnosis and treatment choices and improve compliance with best-practice clinical approaches.

Many companies have embraced product portals for providers and patients, but this is only the proverbial tip of the iceberg. These solutions provide a mechanism for these stakeholders to pull information about a product, but lack the rich, bidirectional communications of emerging social networks. Leading MD companies are embracing wellness portals and other social communities to engage in the decision dialog and ensure that patients, providers and payers understand the value of their products through effective engagement with current and future customers. Using emerging social listening capabilities, companies can gain new real-time insights concerning market perceptions of their products.

**Advanced Analytics**
Emerging promotional channels are highly measurable and provide opportunities to better assess performance and react to the market. Collecting and mining the “big data” proliferating across channels for insight about decision makers, product perceptions and the competition can inform and guide brand strategies. Combining this new data with traditional data and analytics can offer a comprehensive view of the market and enable rapid response to changing market dynamics (see Figure 4).

Leading MD companies are taking steps to improve their data management and analytics to leverage these data. Over time, these companies will set up customer innovation labs that allow

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Integrated Commercial Analytics

![Integrated Commercial Analytics Diagram]

Figure 4
them to effectively analyze the data in near real time and adjust their promotional approaches accordingly.

**Comparative Effectiveness**

With payer influence on the rise and concern over quality and efficacy, MD companies must better understand how their products fit within the procedures in which they are used and in the hospital ecosystems overall. Leveraging new health economics teams that are closely aligned with marketing, they craft effective messaging and consider alternative business models to ensure market success.

In some cases, a stronger integration with the hospital ecosystem through remote monitoring or more effective patient intervention that reduces readmission may be more valuable to the hospital than the device itself. Leading MD companies will use comparative effectiveness and patient flow analyses to better understand their customer’s customer, the patient, and provide services that optimize the clinical and economic effectiveness of their solutions.

Leveraging these new commercial approaches, leading MD companies are positioning themselves to effectively respond to substantial changes in the healthcare marketplace. Ongoing commercial transformation allows MD companies to become more intimate with patients, providers and payers, and to enhance their important role in healthcare innovation.

**Footnotes**


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