MEDTECH INSIGHT
CITELINE COMMERCIAL

29 Nov 2018 | **Analysis**

Winning the Medtech Vs. Tech Battle: Five Lessons Learned From Tech's Success

by Brian Chapman

As medtech companies are fighting to protect their turf from innovative tech companies making their way into the traditional health-care space, there's also some important lessons to be learned from these newcomers. Raluca Cenusa and Brian Chapman of global sales and marketing consulting firm ZS Associates explain how medtech companies can use tech strategies to their advantage in building long-term relationships with customers, add value for customers, and use their accumulated wealth of patient data to build a treasure trove. This is the second installment of a three-part guest commentary series from ZS focusing on "defense strategies" to keep their tech rivals at bay.

Tech companies are beating medtech companies at their own game. New tech players are entering the digital health space in droves, and digital-health investment is at an all-time high. Of course, medtech companies have a lot going for them as they work to protect their territory in the medical device space and to gain new ground in digital health.

In our last article *(Also see "Winning the Medtech Vs. Tech Battle: Five Ways To Keep Tech Competitors at Bay" - Medtech Insight, 31 Oct, 2018.)*, we wrote about five key advantages medtech companies hold over tech players large and small: trust, clinical excellence, regulatory know-how, reimbursement pathways and clinical practice integration.

There are also some important lessons traditional medtech companies can learn from tech companies without losing their inherent strengths. Here are five lessons from tech companies' success.

1. Customer-Centric Approach

Medtech's customer has traditionally been the clinician. However, this is quickly shifting to new stakeholders with a focus on the patient. The buzz around "patient centricity" isn't new, but the application of patient (or customer) centricity in medtech isn't fully realized. Too often, the strategy for medtech companies has been to use patient engagement as a means of getting to the doctor to drive incremental product share.

By contrast, consumer technology companies put customer centricity at the core of their business, ensuring that it encompasses everything –from their product development process to their go-to-market approach. This approach has successfully transformed the banking, retail, and mobility industries into customer-centric industries. The health-care industry is poised for a similar transformation.

About The Authors

Raluca Cenusa (Raluca.cenusa@zs.com) is a manager in ZS's medtech practice who works with clients on issues including opportunity assessment, go-to-market strategy, marketing strategy and commercial organization design. Raluca has considerable expertise leveraging customer insights to inform commercial strategy topics such as product launch (devices and apps), market development and pricing.

Brian Chapman (brian.chapman@zs.com) is a principal in ZS's Zurich office who leads the medical products and services team. Having spent nearly 15 years at ZS, Brian has deep expertise with global issues such as portfolio strategy, new product launch strategy, value proposition development, organizational design and sales force effectiveness.

Quest Diagnostics Inc. has started to think the consumer-tech way. The second-largest clinical laboratory company in the US has figured out the value of making health care more accessible by allowing patients to order their own tests without a physician's involvement.

They've also followed competitor LabCorp in making test results available through the *Apple Health Record* app, empowering patients to be more involved in their health-care decisions and in discussions with health-care providers.

Recent research from NTT Data Services has found that 59% of US consumers expect their health-care digital customer experience to be similar to retail. Medtech needs to harness the health outcomes data mine that they're sitting on to answer consumers' growing need for and expectation of easier-to-use, cross-platform, personalized medicine.

2. Focusing on Consumers, Not Patients

Medtech companies provide technology to clinicians to care for patients within the health-care system. Meanwhile, tech companies bring health offerings directly to consumers, often outside of the traditional health-care system. This is an important distinction.

Take the example of a patient with a mild, lingering health concern. The concern isn't pressing enough to necessarily go see a doctor, with all that it entails—co-pays, appointments, expensive diagnostics, abbreviated consultations, and unclear results. Sometimes it isn't worth going through all these steps, especially when you can just go to the store and potentially get some answers without the hassle of going through the "system."

Some of the most appealing aspects of the new consumer health tech companies such as *Apple Inc.* and Bose is the fact that these companies are presenting over-the-counter medical technology to consumers who may not relish the idea of becoming patients just yet.

Medtech companies could take a cue from tech companies' focus on consumers by finding ways to engage and empower their customers, and by enhancing or adapting their portfolios around offerings that enable wellness and prevention.

3. Invest In Customer Lifetime Value

Direct relationships between medtech companies and patients are rare.

Many patients don't know the brand of their stent, let alone the specifications or functionality of the device. Who can imagine purchasing a phone or television with a similar disregard for performance specs or model numbers?

A large part of this difference is accounted for by the fact that medtech companies typically think of patient value as a one-time affair, with device purchases usually falling under a diagnostic-related group (DRG), a patient classification system that standardizes prospective payment to hospitals and encourages cost containment initiatives, or fee-for-service models. Tech companies, however, view their clients as a source of long-term value.

Consumer tech companies also know that value differs by customer segment, and they understand the importance of focusing on the high-value customer segments. Rather than focusing on a product, the emphasis is on understanding what you can do for the high-value customers, how to enhance their experience, and how to find more customers like them.

A medtech example that shows the shift from one-time value to longer-term value is *CR Bard*

Inc.'s acquisition of Liberator Medical in 2015. (Also see "Liberator Buy Gives Bard Direct-To-Consumer Access" - Medtech Insight, 23 Nov, 2015.) Liberator Medical is a direct-to-consumer distributor of durable medical equipment such as urological catheters, ostomy and diabetic supplies. Through this acquisition, Bard can forge a more intimate relationship with its customers, and can extract additional value from this relationship through loyalty, favorable switching, enhanced persistence, and the potential to sell additional products or provide related education.

Medtech companies need to do more to move beyond the one-time transactional nature and instead create ongoing relationships with patients to provide services and extract lifetime value.

4. Innovate Quickly, Continuously

Compared to the legendary length of drug approvals that keep innovation from the market for a decade after concept, medtech appears fast. But medtech still pales in comparison to the innovative speed of tech companies.

Your *iPhone* hardware changes every year with upgrades and new features, and the software updates every couple of months. Uber seemingly presents its users with a new logo, wholly changed app layout, and new features overnight, and users don't even think twice about it.

At any given time, Facebook is testing new potential improvements directly with existing customers. Of course, this type of macro and micro innovation is much harder to achieve in the medtech space, given the regulatory environment and the potential impact of mistakes, but there are lessons to be learned.

First, medtech companies should invest more in insights. Too many innovations today are aimed at upgrading features, or winning preference instead of creating real value. Too many innovations are done "because we can," instead of with a clear idea of the value. Many medtech innovations start either by asking a clinical user what they would like to see in a product or they invent first and try to assign value later.

A more disciplined approach to customer insights, driven by the needs and preferences of a more robust set of stakeholders, would vastly improve the innovation cycle.

Second, medtech should try to add innovations to their offerings that are outside of the regulatory framework. Business model innovation – questioning how products are bought and paid for, how services are incorporated, how products can be more easily used, or outcomes improved – can all be important sources of innovation. These micro-innovations, often led by key account managers and field personnel on the front lines, can be much better supported and made analogous to how tech companies are constantly "tweaking the algorithm."

5. Extract Value From Data

Tech companies have figured out that data is often more valuable than the technology itself, and data is at the center of consumer tech companies' strategies. It's monetized and used to enhance their value propositions and to get closer to consumers.

Take the example of Google; the company's first-order purpose was to help users search the Web. After this, came optimized searches, using the data that they'd acquired to strengthen their original value proposition. Track that progress to today when predictive analytics are used to guess what you want before you even search for it. Google isn't simply providing a search capability. It's using the data created to constantly improve the product.

Compare that to a typical medtech diagnostics company. There's a similar first-order purpose to that of Google: to "search" for results through laboratory testing. Instead of just relying on this input/output approach to the task, these organizations could use the data that they're gathering from the millions of diagnostic tests conducted every year to develop panels of results and provide new insights. Diagnostics companies can use accumulated test results in correlation to develop new offerings and dramatically cut the time to market and cost.

Of course, what really makes Google special is that the company has found a way to leverage the data that it's gathering from, and serving up to, users to add value to customers, and that Google searches are free.

What if some application of the data collected by an *in vitro* diagnostics test made the result free? We have a long way to go before medtech moves from "data as a strategic asset" to "data as currency," but some first steps are to look beyond the product and its original intended use, and to extract value from the data collected. Infrastructure changes are needed, along with the know-how to set up, manage and extract insights from the data. Could a medtech company someday have as many data scientists as they have engineers?

As medtech companies proceed farther into the digital health space, the industry has a set of inherent advantages that need to be emphasized in the showdown with new tech entrants. But medtech companies can also learn important lessons from their tech opponents about patient centricity, customer insights, long-range investment, innovation, and respect for data, speeding the industry's upgrade to "medtech 2.0."

[Editor's note: *Look for the next installment in this series focusing on digital health, the current landscape and the future in December.*]