# **Navigating the Risks of Digital Innovation** in the Medical Technology Industry

White Paper

MedTech **Industry**

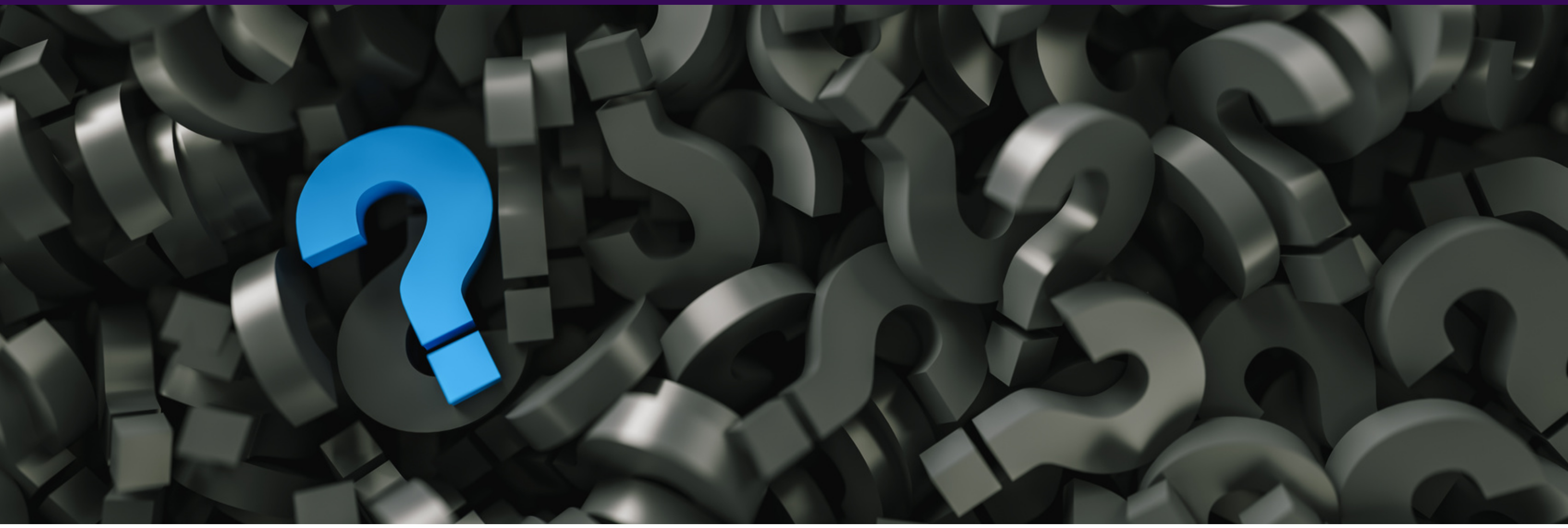
# Introduction

For years, healthcare has been behind other industries in making investments in digital technology. However, several factors, such as the COVID-19 pandemic, increased costs of production, regulatory pressures, and changing patient expectations, have led to a surge in investment in digital technology.

The medical device industry has an opportunity to influence and benefit from these investments, and many executives are making significant investments in digital innovation. A McKinsey survey of 35 MedTech executives from global companies, conducted before the pandemic, found that while digital health solutions represented, on average, 10 percent of their companies' revenue, they expected that figure to reach up to 50 percent within five years.

Such investments in digital health solutions can help in controlling spiraling healthcare costs, which are projected to reach $14.5 trillion by 2030, almost double the spending in 2020. However, the acceleration of digital technology could save up to $3 trillion by 2030.

While there are tremendous opportunities, the path forward also brings significant risks. Companies must understand the market well to determine what type of innovation is most needed and how to deliver that innovation to the market in a model that works for healthcare organizations. Medical device organizations that win will be able to design, develop, and deliver on the digital requirements that healthcare organizations are demanding.



# What Questions Should You Be Asking?

OSG Analytics specializes in helping medical device companies identify what is most important to their customers across the entire product and business lifecycle. Based on the extensive work that OSG has done in the medical device industry, we've identified the risks to digital innovation and have compiled a list of essential questions to consider when investing in digital innovation.

## 1. Is your customer ready for digital?

Just because you can "go digital" doesn't necessarily mean you should go digital. MedTech companies must understand whether their customers have the infrastructure and skills to adopt a digital solution. For example, in a study that OSG conducted for one customer across acute therapies, they discovered that their customers were not ready for a digital-only solution in the short term. Instead, the customer saw a digital solution coupled with consulting support as more attractive. The customer had a longer-term vision of moving to an all-digital solution but needed to do so gradually. Understanding this allowed the company to achieve higher levels of adoption by offering a digital solution combined with consulting support. This led to greater adoption but also provided additional revenue opportunities for the client.

## 2. Your devices are digitally enabled, but can they deliver value?

A slightly different question is to ask what value a digital solution brings to a customer. In the example discussed above, OSG found that the incremental capabilities made possible by connectivity did not always translate to incremental value. OSG evaluated several different areas of potential innovation. By measuring customer preference, OSG was able to show where the connectivity delivered that value, and where the basic device functionality was already delivering sufficiently. It also clearly showed where there was hesitation toward total automation or digitization.

While more advanced features and automation may be interesting, if they do not deliver incremental value or drive outcomes that are measurable and observable for customers, there would be no point in including them in your solution.

In summary, in the above example, when considering the customer's readiness and willingness to adopt innovation, a moderate amount of innovation combined with consulting support provided the most significant value to the customer and would lead to the highest level of adoption.

## 3. Do all stakeholders have similar needs?

To successfully commercialize new digital innovations, companies must understand what is important to different stakeholders. OSG's research found that executives and clinicians have very different points of view in how they think about the digital world. In one study, OSG used predictive modeling to examine the level of interest in digital innovation across multiple feature categories and stakeholder groups. We were able to identify changes in adoption within each stakeholder group based on the level of innovation. In general, clinicians tend to seek more guidance and consulting support, while executives see value in support tools that make therapies more accessible and decrease healthcare costs to the patient. This critical distinction must be considered when marketing to different stakeholders.

While considering the drivers of adoption, it is also important to understand the specific barriers to adopting a digital solution and how to overcome these. The exercise may come down to identifying those “super users” who may serve as a community of influencers who can bring others along to adopt new technologies. These “super users” can be external to your customers or internal consultants and influencers.

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## 4. How do markets differ in what matters most to your customers?

It is essential to consider what's important to stakeholders and how these drivers differ across geographies in global markets. Markets are often at different levels of maturity, and your customers and their patients may have different needs. Additionally, reimbursement models between public and private sectors, procurement, and bidding procedures, as well as the role of regulatory bodies need to be considered. For example, a study that OSG conducted for an ophthalmic company found subtle differences in what was most important to healthcare providers in each country. In the U.S., improving the procedure and reducing adverse events were the top two needs of any digital innovation. However, improving patient satisfaction was number one and 69% more important in Italy than the average across all markets. These markets vary by how much patients pay for these procedures and the portion covered by the public health system and private insurance.

It's also critical to understand what is not essential to different segments or geographies, preventing launching innovations that may not be of value or messages that do not resonate. For example, in the ophthalmic study, brand trust was the number one factor in China but much less critical in the U.S. and some European countries. Insights such as this were helpful for shaping the manufacturer's investment in brand awareness versus product development, depending on the geographical market's priorities.

## 5. How should you monetize your business model?

Introducing digital can sometimes create new choices in how organizations sell their solutions. For example, should they offer a CapEx model for customers to buy all at once, or do they use an OpEx subscription model, so that customers can pay smaller amounts regularly without the need to own the product? How do they price their offerings? Do they price separately for software? How much is the customer willing to pay? How does this impact the customer's business and profitability, at a time post-COVID where cost reduction and improving patient satisfaction are as important as retaining talent and improving the efficiencies of workflow?

Qualitative interviews that OSG conducted with senior executives, including CFOs, CNOs, and CIOs, showcases how different stakeholders have different needs. Most were looking for a combination of CapEx and OpEx solutions. One CFO commented, "I prefer to buy the hardware and subscribe to everything else." However, a minority were enthusiastic about a full OpEx model to reduce large one-time capital expenses.

In another OSG study, the customer needed to understand the impact of different pricing strategies for capital equipment that included potentially differentiating software. This software gave the company a competitive advantage over similar offerings, but they needed to test if the inclusion and price of the software were significant factors in the customers' decision-making process. The study revealed minor price sensitivity towards capital costs, suggesting they could maximize pricing for capital investments. However, customers were not open to paying separately for software. Pricing the software separately would have, in that instance, led to customer attrition and lower revenue over time. Additional but critical nuances were uncovered between new and existing customers around the business model that would work best for them.

Both studies demonstrate the distinction and complexity of digital business models. CapEx, OpEx, software, and subscription costs must all be considered, and driving specific outcomes must be clearly understood. Getting your business model wrong can be the difference between a successful or failed launch of new digital innovation.

## Conclusion and Next Steps

In summary, while the transformation of healthcare towards digital solutions brings many opportunities to Medical Technology organizations, there is a tremendous risk of not getting it right. Providing too much or too little innovation, not pricing your offering correctly, thinking that the same message will resonate across different stakeholders and markets and roles, or not identifying those key “super users” to drive adoption are all ingredients in a recipe for failure.

OSG's expertise can help mitigate the risk and identify opportunities to maximize both revenue and patient impact. To learn more about how OSG’s technology and analytics can help build strategies and drive customer engagement, visit our website, osganalytics.com.

### References

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# About the Authors

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Ed is the Vice President of Strategic Value and Industry Enablement at OSG. Prior to joining OSG, Ed spent seven years in Strategic Value Enablement at Pega Systems, Cornerstone OnDemand, and Oracle, where he partnered with sales leaders to help organizations identify, quantify, and realize business value from software investments. Prior to that, Ed was the Vice President of Business Development at Right Management where he helped organizations align and develop their talent with the organization's strategic goals. Ed is a certified Executive Coach and had his own Executive Coaching practice for eleven years, helping business executives develop their leadership skills and grow their businesses. Ed earned his bachelor's degree with a concentration in Marketing at Bryant University. He also earned his MBA from the University of Notre Dame. Ed has a passion for health and nutrition, enjoys jogging, and has a Nutrition Science certification from Stanford University.

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Cory Nordstrom is a Vice President of Client Solutions at Optimal Strategix Group. Prior to OSG, Cory worked at Veeva Systems, as a global account executive for their industry cloud solutions, providing data, software, services, and an extensive ecosystem of partners to support the most critical functions from R&D through commercial that are specifically designed for Medical Device and Diagnostic companies. Before Veeva Systems, Cory was a territory manager at Axonics Modulation Technologies, Inc. and Medtronic. While at Medtronic, he earned a Master of Science in Applied Analytics from Columbia University. Before his professional career, Cory served in the US Air Force as a Healthcare Administrator for 6 years, following earning his MBA and BS in Business Management from Liberty University. In his free time, Cory enjoys trail running, golfing, and spending time with his family at his home near St Paul, MN.

## David Levine - MedTech Leadership at OSG

David J. Levine is a Vice President of Client Solutions at OSG where he works closely with Fortune 500 clients to answer their most challenging business questions through custom-designed market research and other fact-based approaches. While he covers the full range of clients and projects at OSG, he has developed considerable expertise in medical devices and is the go-to leader in pricing strategy. David has an MBA from the Leonard M. Stern School of Business at New York University, where he specialized in Marketing and Finance. During business school, he interned in Brand Management for Novartis Consumer Health, where he worked on marketing the Excedrin brand. Prior to Stern, he spent three years working intensely with an entrepreneur/inventor to bring his first line of products from concept to market, which involved solving a number of engineering challenges, sourcing a supply chain, and developing the visual identity of the brand. David attended Johns Hopkins University, receiving a Bachelor of Arts in both Psychology and Film and Media Studies, and became a member of the Phi Beta Kappa honors society. At Stern, he was awarded the United Parcel GBA Scholarship and received Teaching Fellowships for both undergraduate and MBA marketing courses.

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OSG is a global technology and analytics provider that delivers outcomes on customer engagement to Fortune 500 clients with the help of leading analytical technologies and world-class global resources. OSG uniquely combines historical data with the future needs of patients, physicians, consumers, or customers of our clients by going beyond the "who" and the "what" and understanding the "how" and "why" behind their decision-making. OSG focuses on the 3E's, Behavioral Expectations, Superior Experiences, Guaranteed Engagement, to help drive growth through customer-centricity.

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