

SELLING DEVICES AND DIAGNOSTICS:

# The world is changing

**Results from a recent survey of medical executives**

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**Analysed by Baba Awopetu, Marketing Manager, Stryker**

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Few would disagree that the global healthcare environment is in the midst of some of the most radical change it has seen in recent times. Like all aspects of healthcare, the medical device industry is facing an ever dynamic landscape in which to do business. To meet the challenge, the industry too must adapt and change.

But change is good, because while change does not guarantee improvement, certainly without change there is no improvement. The question is: what is changing and how should the industry respond? The answer is certainly not by burying its head in sand.

An August 2008 survey of more than 150 senior executives with commercial responsibility from various medical device and diagnostics companies was conducted by MDDexec, a new organization focused on bringing insights to medical device and diagnostics companies. The survey confirms the need for change but also offers solutions to mitigate threats and capitalize on opportunities.

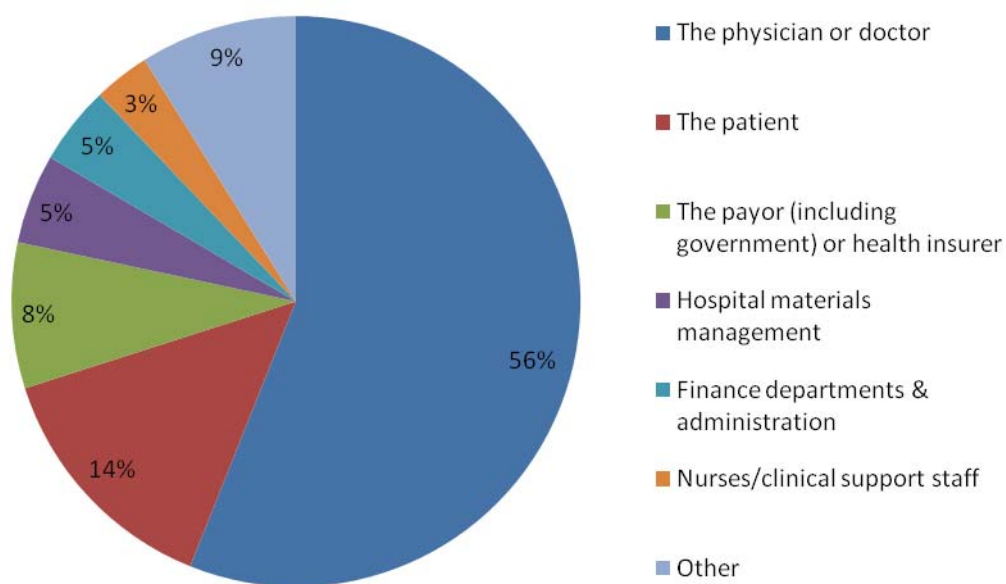
## The surveyed audience

More than 75% of survey respondents classified themselves as being in the medical device and equipment industry, with the remainder evenly spread among related industries such as diagnostic imaging, in-vitro diagnostics and medical supplies (no vendors or consultants were interviewed). Therefore, the findings are certainly representative of the industry at large. In addition, geographical participation was evenly split, with the majority of respondents having responsibility for North America, in most cases in addition to European and Asia/Pacific responsibility. More than 80% of participants were either leaders of strategic planning or a contributor to their organization's strategic planning process. Overall, there were 101 Directors/VP's, 39 Marketing Managers and 14 Brand Managers.

## New customers

The medical device industry prides itself on being customer focused, although with all the changes going on, one of the first challenges is deciphering who exactly the customer is. Once this is defined, we can concern ourselves with vital issues of value propositions and communication.

Despite evidence of an expanding customer base, a shift in buying power and increasing patient influence, 57% of survey participants continue to view the physician as the most important customer. So while the decision-making landscape is changing, the physician still appears to be the key customer for the industry. That said, many observers report that physicians, while still very important customers, are slipping in overall importance and will continue to see their historically strong grip on decision-making power erode in the future.



So who are the emerging customer groups? According to survey respondents, patients are the most important of the emerging groups at 14%, while payer/health insurers, hospital management and finance departments account for 8%, 5%, and 4% respectively. It is apparent that patients and financiers are growing in influence, but the physician remains a key focus.

The challenge for the industry moving forward is to figure out how to meet the needs of an increasingly diverse collection of customers, while not losing this focus on the physician. Most believe the secret to winning in the short term continues to lie in meeting physician needs, but as time progresses ignoring other customers will be disastrous. An increased emphasis on patients will be important, since all of the customer groups ultimately should focus on serving patients.

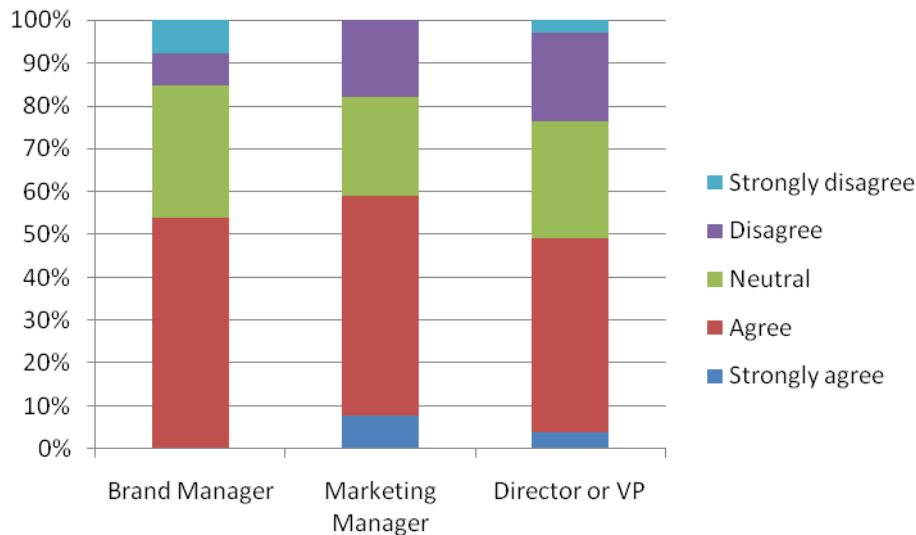
It is encouraging to see that the industry is managing the paradox of dealing with emerging stakeholders, while acknowledging that the physician remains a priority. The industry must continue its trend of segmenting and targeting its customers. Moving forward, it must “divide to rule” – a “one size fits all” approach will not suffice. In the

end, it will be important to segment the market and target sales and marketing efforts along key decision making junctions in the market map.

Administrator/financier groups are also emerging as a force. How prepared is the industry for this group? Is it taking genuine, practical steps to refocus its resources on these economic decision makers? We'll see later.

## Future economic performance

**Survey query: “Will the medical device & diagnostics industries, broadly speaking, buck any economic downturn and return above-average growth & profitability over the next two years?”**



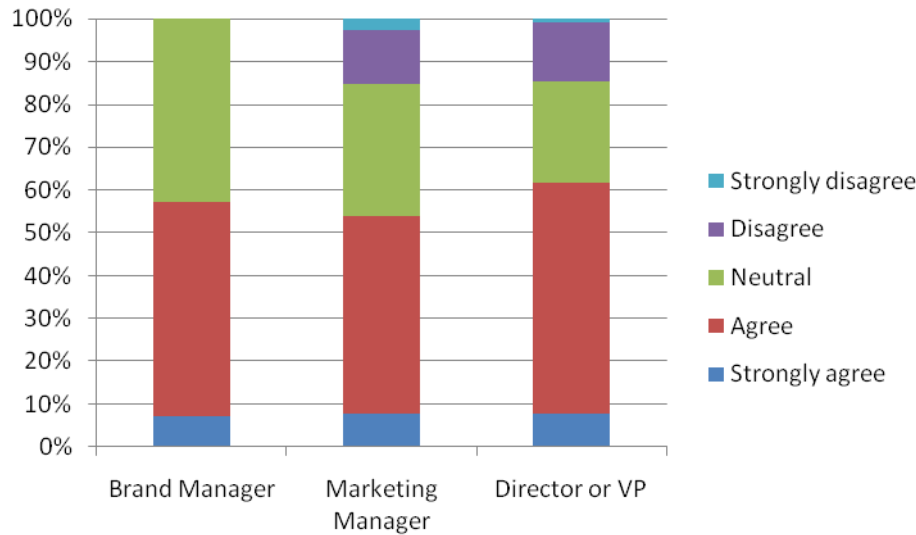
What is the prognosis for the immediate future? The medical device sector historically has delivered strong financial performance on both top and bottom line. However in recent times, the sector has suffered a slowdown, albeit not as dramatic as many others. Given the current global economic downturn, questions are constantly being asked about the future performance of this historically dynamic sector.

The majority of the survey respondents (over 50%) agree or strongly agree that the sector will buck the economic downturn and deliver above average growth over the next two years. Only 20% of respondents disagreed or strongly disagreed that the industry is set for stronger performances in the near future. This split in opinions is consistent across geographies and level of seniority, but somewhat surprising given the changes in the environment and the economic slowdown.

Can we find some clues to support the optimism? The industry is slowly adopting marketing techniques like segmentation, CRM and branding. And these are helping the industry to combat pricing pressures, as it better articulates the value it offers its customers.

## Focus on the spenders

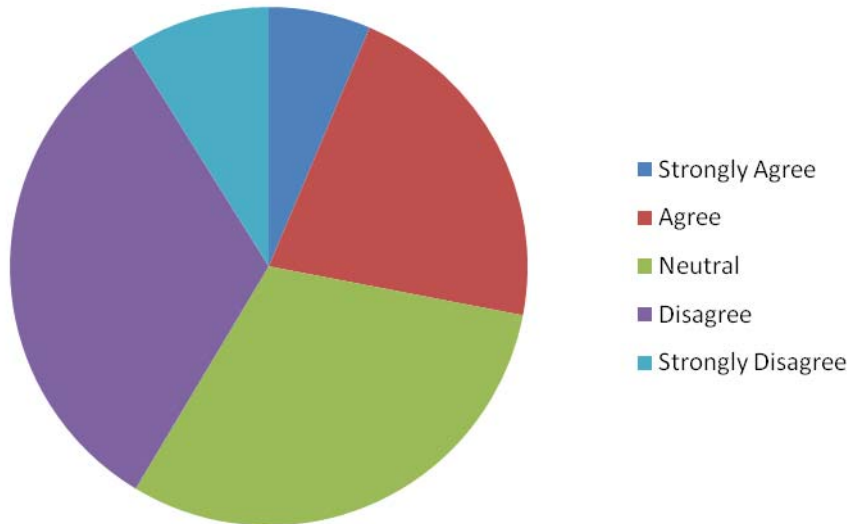
**Survey hypothesis: “Medical products companies in general are taking genuine, practical steps to refocus their energies on economic decision-makers.”**



So far so good, but how does the industry manage to serve the emerging groups of payers and administrators without taking its eyes off its very important physician customers? Less than 30% of respondents believe that a lack of focus on physicians is occurring, which suggests that companies are getting the balance right or increasing investment, rather than redeploying. It is, however, becoming more expensive to serve the industry’s customers and may become a challenge as the customer base continues to fragment. Companies will have to make tough choices and find new ways of operating or will end up spreading themselves too thinly. They must think about the importance of customer groups with thorough consideration for product lifecycle stage, sales force configuration and product category. Since many of these factors will be shifting, the focus on customer groups will also need to be flexible.

## Where should resources be placed?

**Survey hypothesis: "The resources aimed at selling to physicians and hospitals are being reduced, in favor of third party payers and managed care."**



Despite the lack of disruption in resources targeted at traditional physician customers, only a minority (25%) felt their organization is behind the game in terms of having economic value propositions. Translating clinical benefits and points of differentiation into an economic argument is fast becoming a must-have in the drive for competitive advantage. It is also becoming abundantly clear that a poorly articulated economic proposition is as bad as a poor economic value proposition to begin with.

There is a simple, but telling story which illustrates the power of a clearly articulated proposition. A blind boy sat on the steps of a building with a hat by his feet. He held up a sign which said: "I am blind, please help." There were only a few coins in the hat.

A man was walking by. He took a few coins from his pocket and dropped them into the hat. He then took the sign, turned it around, and wrote some words. He put the sign back so that everyone who walked by would see the new words.

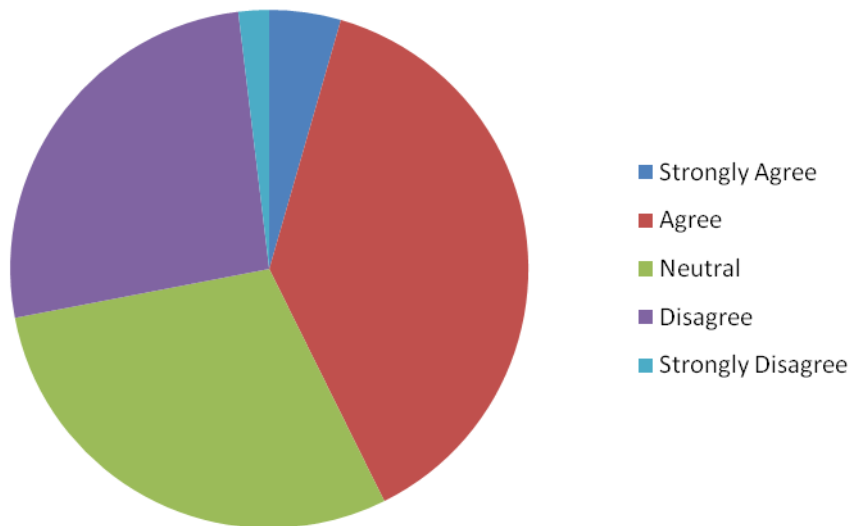
Soon the hat began to fill up. A lot more people were giving money to the blind boy. That afternoon the man who had changed the sign came to see how things were. The boy recognized his footsteps and asked, "Were you the one who changed my sign this morning? What did you write?" The man said, "I only wrote the truth. I said just what you had, but in a different way.

"What he had written was: "Today is a beautiful day and I cannot see it."

It is vital to articulate the value in our proposition accurately. Narrative branding is one of the latest trends with regards to brand building and value proposition. The stories and pictures brands provoke are vital to their success.

## Value propositions

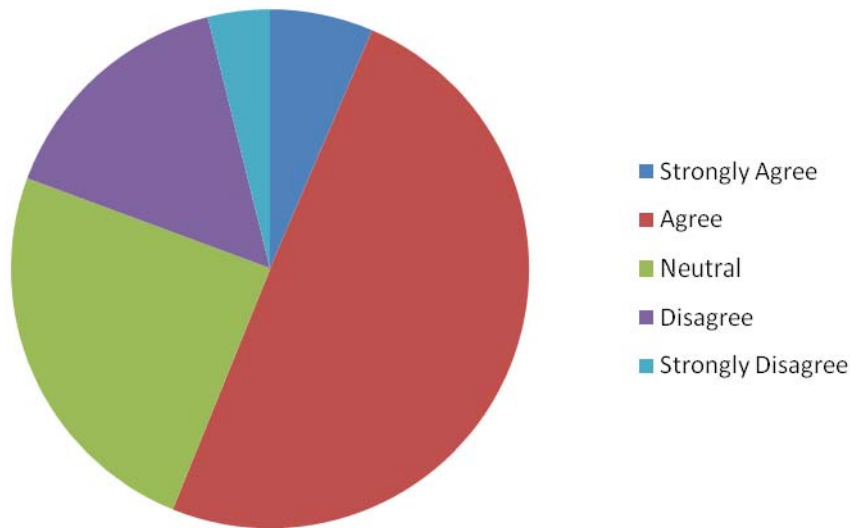
**Survey hypothesis: “Our company is ahead of the game when it comes to having clearly defined, impactful economic value propositions directed towards customers.”**



With the advent of reference pricing and hospital consolidation, weaknesses in the industry’s pricing strategies have been exposed. As a result, it is not surprising that almost 60% of respondents claim pricing and contracting are key strategies for gaining competitive advantage. For most organisations in this sector, tenders and bundle deals are as common now as price scrutiny from payers and administrators. In any case, it is difficult to conclude from the survey data whether these are defensive or offensive strategies. What is clear is that the complex world of pricing medical devices offers as many opportunities as it does threats. In reality, pricing remains one of the industry’s key mechanisms for determining income, so effective management of pricing strategies will be critical.

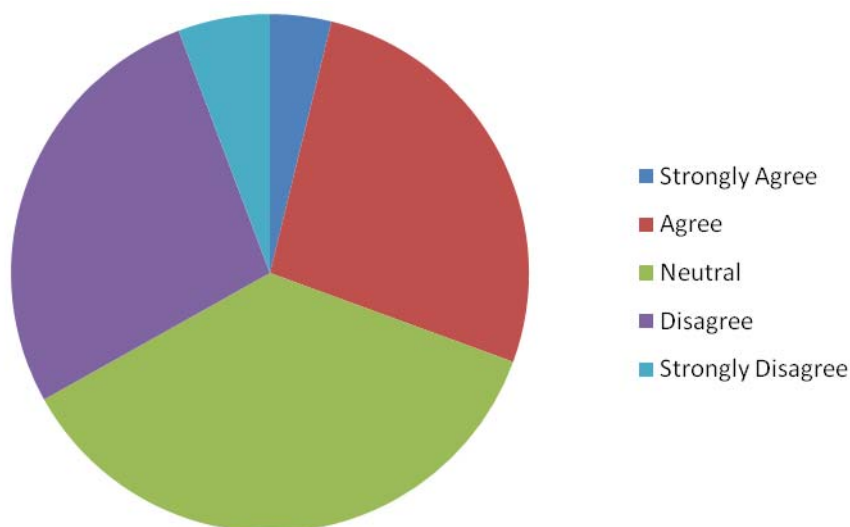
## Pricing strategy

**Survey hypothesis: “In our company, we are increasingly using pricing and contracting as a strategy to gain competitive advantage.”**



An organisation’s ability to learn is often said to be its only source of competitive advantage; it is no different for the medical device industry. The response to the survey question concerning learning was particularly positive. Only 30% of respondents felt there were enough resources available to help their drive to improve sales and marketing strategies. This reveals an underlying desire to learn and improve, as well as recognition that learning is a key source for competitive advantage. At the same time, it indicates a need for resources that will accelerate learning. Although the industry is not particularly good at cross-sharing and collaborating, there are numerous sources of innovation including academics, consultants and practitioners.

**Survey hypothesis: “There are enough resources available to me for advice on improving sales & marketing strategies in the medical devices & diagnostics arena.”**

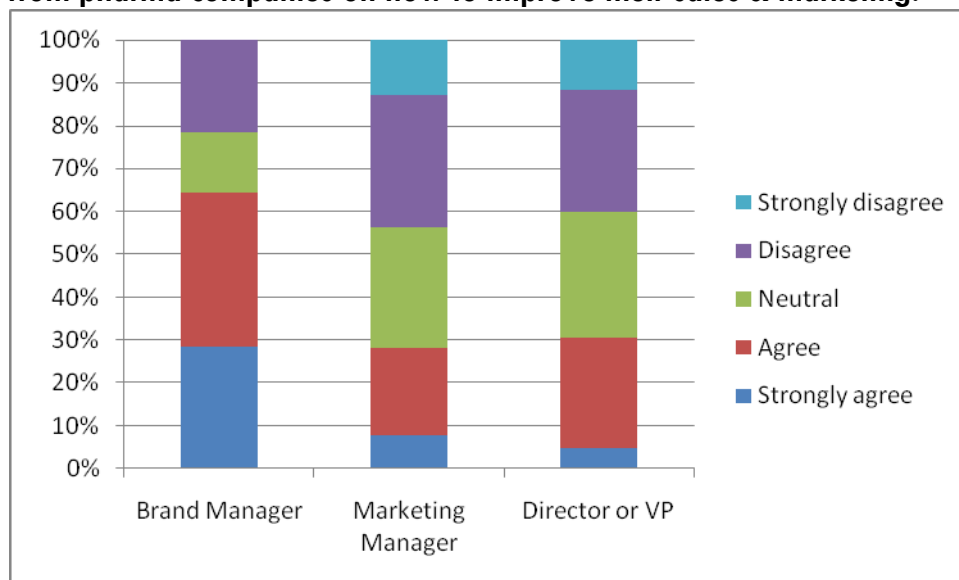


## Can the industry learn from other verticals?

Survey respondents were evenly split on whether the medical device industry could learn from pharma. The leap of faith and context issue posed by Fast Moving Consumer Goods (FMCG) is understandable, but with similar customers and environments, pharma is arguably the closest industry and despite some significant differences, there is much ground for common learning between the industries.

In fact, as well as learning from one another, there are opportunities to partner and leverage relationships and assets. Nonetheless, there are caveats; the challenge that differences in context pose cannot be underestimated and probably explains the split in responses. Although the medical device industry has a better grasp of engaging customers through its sales reps and building relationships, pharma knows how to deliver a consistent message and target customers effectively, and has more experience marketing to patients and payers. But the customer decision process varies greatly, as does the customer's engagement with the products. Pharma's physician customers never actually use the products they prescribe, while medical devices are crucial tools that doctors interact with and rely on to do their jobs each day.

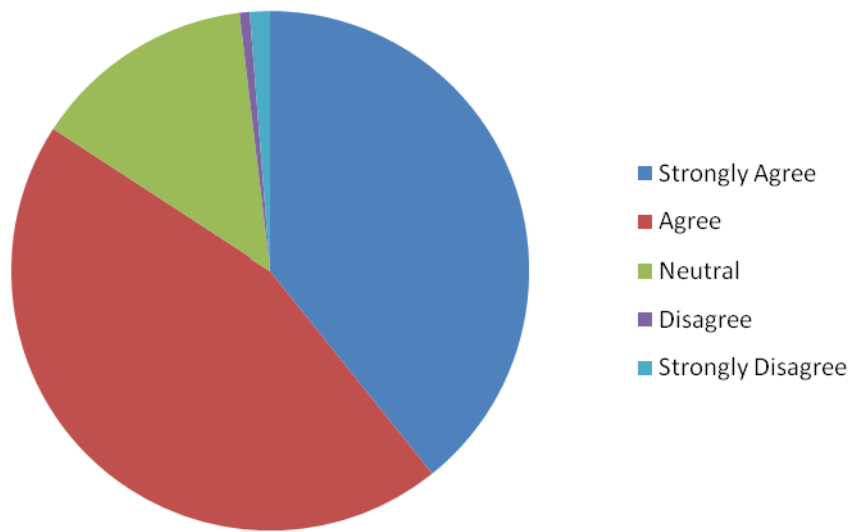
### Survey hypothesis: "Medical device & diagnostics companies have a lot to learn from pharma companies on how to improve their sales & marketing."



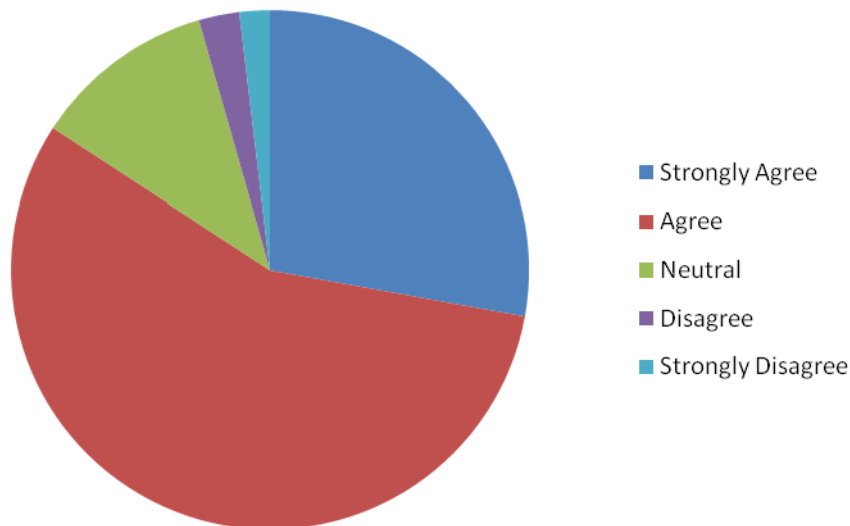
However, more than 80% of survey participants wanted to hear what their colleagues in other medical device and diagnostic companies were doing. This may be indicative of expectations of further changes in sales and marketing models, hence the heightened desire to see what "the neighbors" are doing. In fact, only 2% disagreed and were uninterested in hearing from their colleagues, yet thus far, no forum exists dedicated to the specific needs of the medical and diagnostic industries. It is also worth considering while benchmarking that competitive advantage often comes from

adopting and adapting initiatives and innovations from outside the medical device sector.

**Survey query: Interested in examples from the medical device industry?**



**Survey query: Interested in examples from other industries?**



In contrast to the split opinion on learning from pharma, more than 80% of survey participants were interested in learning from other industries as long as their sales and marketing issues are relevant to the medical device scenario. The contrast is probably born out of a number of unsuccessful attempts to adopt pharma initiatives without consideration for culture, product, mix and sales force size. In spite of all of the similarities between the industries, there are differences on these criteria.

## What other strategies are being used?

So much has been said about how the industry is adapting to stay competitive in these evolving environments. What initiatives are spearheading this drive to stay competitive? There are a number of initiatives that were mentioned repeatedly by survey respondents:

- **Direct to Patient (DTP)** – An attempt to reach out and better engage the end users of the industry’s solutions appears to be one of the most common initiatives. Patient engagement is seen as a way to counter pressures from Payers and Administrators.
- **Segmentation** – As the markets becomes increasingly complex and the need to demonstrate value heightens, many organizations are focusing on segmenting their markets more precisely. It would appear that this grandfather of marketing principles is finally being adopted in medical markets. As Ted Levitt famously said “if you are not talking segments, you are not talking markets.”
- **Health economics** – Value now has multiple meanings and marketers must balance clinical arguments with economic ones. Otherwise, carefully prepared clinical arguments will fall apart when they get to administrators and financiers. The industry is moving from “value to patients” to “value for money.”
- **Disintermediation** – The use of distributors to enter markets has been a popular strategy, however survey responses show that the industry is regaining control of activities in the market. In addition, given the recent emphasis on ethics in business, organizations are going direct to ensure business ethics are being upheld.
- **Sales force reorganization** – Numerous changes affecting the sales force were mentioned by survey participants, all connected to improving effectiveness. Redesigning compensation packages, customer targeting and key account management were some of the most common initiatives.

## Future threats and opportunities

It is said that the best way to predict the future is to create it. Generally, the future for the industry looks positive, judging by the survey responses. The Medical Device sector is expected to continue to deliver double-digit growth, even if other verticals, like pharma, have had to get used to single-digits.

**Fragmenting customer base** – The customer base is expected to continue to fragment, as administrators and financiers continue to grow in influence. Deciphering where to focus the industry's resources will be critical to success. The dangers of spreading resources too thin are obvious. There were suggestions from survey respondents that the industry will utilize the internet to reach its fragmenting customer base in a cost effective manner.

**Technology** – invention and innovation will continue to be key drivers moving forward. Innovation will be even more customer-focused in the future thanks to scrutiny by payers and the need to prove health outcomes.

**Business orientation** – What business is the industry in? Pharma has often been accused of being in the business of selling pills instead of saving lives. Such questions are now being asked of the medical device sector as it begins to balance the needs of the patient with the need for profit. Consumer focus will move beyond a slogan on websites to tangible and quantifiable results. Tomorrow's consumers will be more astute and less forgiving. Lives first, profit second will be the winning mantra in the future.

**Partnerships** – Forward vertical integration will grow as organizations take more responsibility for the success of both customers and consumers. The industry will expand partnerships with hospitals and laboratories to help them improve their practices by innovating and sharing best practices. Many think that success tomorrow will depend on successful partnerships.

## Conclusions

The medical device environment has been undergoing gradual change which is challenging the way the industry does business. Positive demographics and prevalence trends are curtailed by pricing pressure from payers. The cumulative effect of ongoing changes will leave the industry operating with a new business model focusing on new customers with an adapted value proposition. Fragmentation of the customer base has meant the physician-centric approach is losing its grip as patients and financiers demand the industry's attention. Nonetheless, the medical device business is changing slower than its neighbors in pharma.

Despite the global economic downturn however, the industry expects to cope better than most, partly due to the proactive approach to ongoing changes and the insulation customer loyalty provides. Nonetheless, the industry cannot take customers' loyalty for granted, and the stress exerted by the environment will ensure the industry becomes better aligned to its customers. The industry accepts the need to learn and is open to learning from its own colleagues as well as from other industries. As medical device companies seek the path less travelled, it is worth noting others have taken the journey before. The pharma industry has faced, and continues to face, similar challenges and offers opportunities for learning if the medical device industry can contextualise that learning.

Business process innovation appears to be as common as product innovation, while executives are adapting to an increasingly competitive environment. For example, one organization used an insight generation program, and targeted these customers accordingly to introduce an innovation into the market.

Patient first, profit second will be the mantra moving forward, as the ethical stance on the industry's operations is gathering momentum. The healthcare arena continues to be full of opportunities, however the game is changing and those that fail to adapt will wake up victims of their own inaction.

## About this Report

The MDD Exec survey of medical device executives was designed in collaboration with ZS Associates and conducted by MDD Exec in September 2008, then analyzed and written in October by Baba Awopetu, a close friend and partner of MDD Exec.

The original questionnaire is available at:  
[www.tinyurl.com/6cs4q7](http://www.tinyurl.com/6cs4q7)

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## Baba Awopetu

Baba Awopetu is a thought provoking Marketer, currently European Marketing Manager for Stryker and a visiting lecturer at The Marketer's Forum in London. He has worked in the healthcare arena in different roles for the past decade. Baba is a Chartered Marketer and holds a Postgraduate Diploma and a Masters degree in Marketing. He is a regular contributor to various marketing media and a frequent guest at sales and marketing conferences. Many of the opinions and conclusion in this report are those believed personally by Baba and do not necessarily reflect those of Stryker.

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## MDD Exec

MDD Exec was founded in 2008 to provide a community and support for senior executives looking to improve sales and marketing strategies in their companies. Providing a range of news, reports and select conferences, MDD Exec has gained strong popularity in a short amount of time. To sign up for updates, attend an event or simply to learn more, visit [www.mddexec.com](http://www.mddexec.com).

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## ZS Associates

ZS Associates is a global firm specializing in sales and marketing consulting, capability building, and outsourcing. ZS has worked with more than 700 companies over 25 years, helping them measurably improve their sales and marketing performance. The firm has significant expertise and experience in the healthcare sector, with a dedicated practice serving medical device and products companies.

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