MedTechs to the rescue?

How cooperation with MedTechs can help hospitals steer their way out of crisis

Roland Berger
MedTech@Hospital
study 2022

Roland Berger

The 2022 edition of Roland Berger's highly regarded annual study is now out. The fruit of a June survey of 600 large hospitals, it encapsulates the mood, fears and expectations of managing directors and medical directors, and also explores the potential role of medical technology companies (MedTechs) going forward.

Right now, the mood is not bright, with many respondents describing the economic situation of hospitals as alarming. Historically, hospitals have never been economically weaker. Their expectations are now lower than even in the disastrous previous year, with further deterioration projected over the next five years.

Cost-cutting measures are already on the drawing board, of course, and hospitals are desperate for fair cooperation models with MedTechs as one way to help them rein in spiraling costs. Staff shortages make matters worse, above all creating the need for logistical and maintenance support services. However, financial constraints dominate the selection of medical technology and will force hospitals to streamline their portfolios. Yet even in this bleak situation, hospitals remain reluctant to engage in strategic partnerships and risk-sharing models. In response, MedTechs must consider modularizing their service offerings.

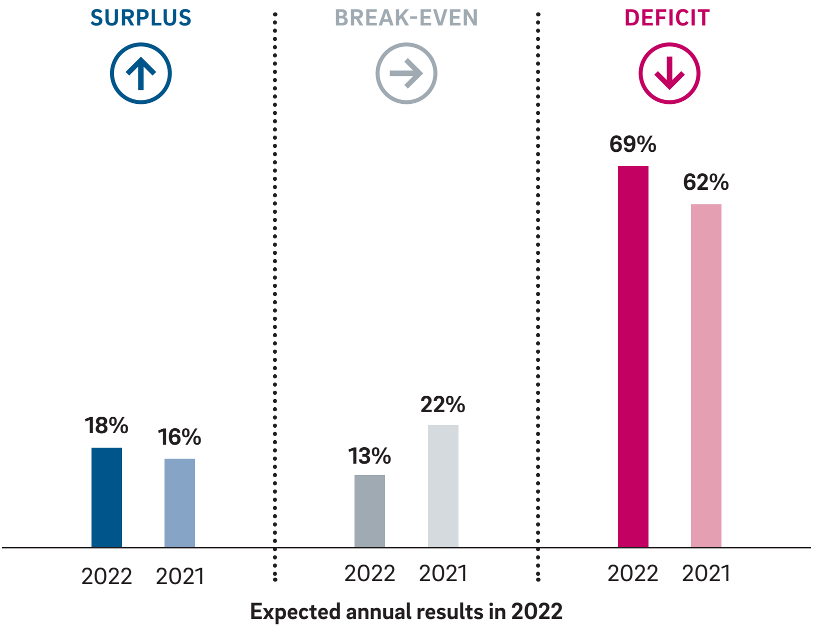
Cover photo Randy Faris/Getty Images

Current market situation: Deficits abound, with worse to come

Painfully aware of the bleak economic outlook they face, hospitals are desperate to cut costs and return to healthier performance. Their efforts to do so will inevitably affect their suppliers in general and MedTechs in particular. Based on a large-scale survey, this paper examines how both sides might weather the current crisis by adapting their approach to cooperation and partnership.

Hospitals' projected economic performance in fiscal 2022

Deficits widely anticipated as costs rise and conditions worsen



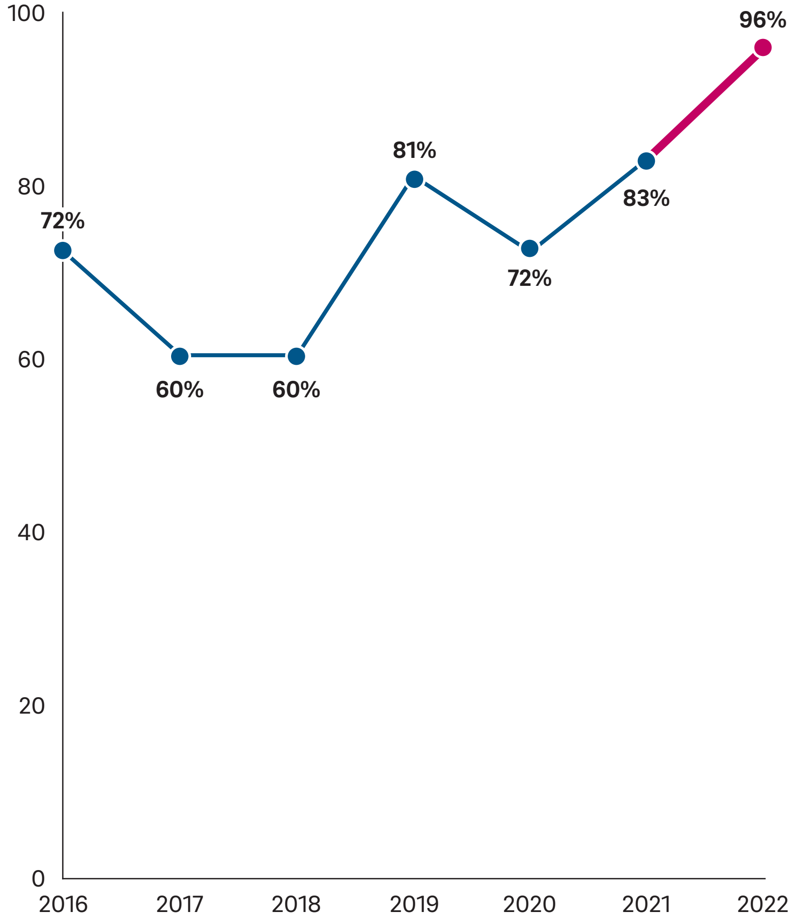
Over two-thirds (69%) of the hospitals surveyed expect to end fiscal 2022 in the red. Less than one in five (18%) claim to be reporting a surplus this year. The hospital market as a whole is suffering from sustained uncertainty about how the Covid-19 pandemic may continue to unfold, the limited continuation of government compensation payments and an acute shortage of staff. High inflation and rising energy costs in particular further complicate the situation.

Source: Roland Berger

Respondents' view of economic developments in the years ahead

Deterioration expected almost across the board

How do you estimate the development of the economic situation of hospitals in the next 5 years? [% of mentions]



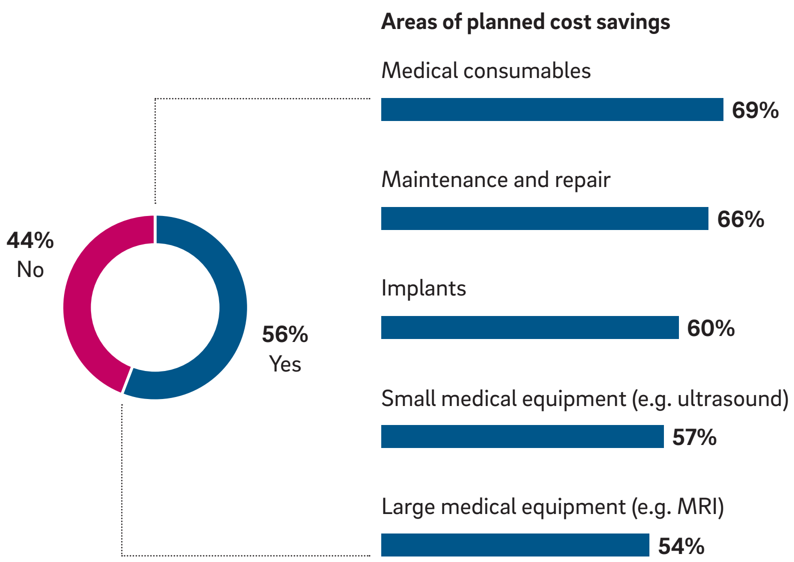
Asked about their expectations beyond the end of this year, almost every hospital – 96% in all – believe that the economic situation for German hospitals will deteriorate further over the next five years. Financial pressure in particular is clearly growing across the German hospital community.

Source: Roland Berger

MedTechs also affected as hospitals cut costs

Consumables seen as the main – but not only – source of savings

Do you plan to realize cost savings in the area of medical technology? In which areas do you plan to realize the savings? [% of mentions][1]



1 Multiple answers possible

Well over half (56%) of the hospitals surveyed have concrete plans to cut back their spending on medical technology. Nearly 70% see potential for savings in medical consumables – possibly by streamlining their portfolios and/or signing up to group purchasing organizations (GPOs).

Maintenance and repair is another area that promises to yield considerable savings. On the other hand, as hospitals strive to overcome serious investment backlogs, capital goods expenditure is being spared the red pen wherever possible.

MedTechs will naturally also be hit hard by these cutbacks and need to quickly come up with crisis response plans of their own.

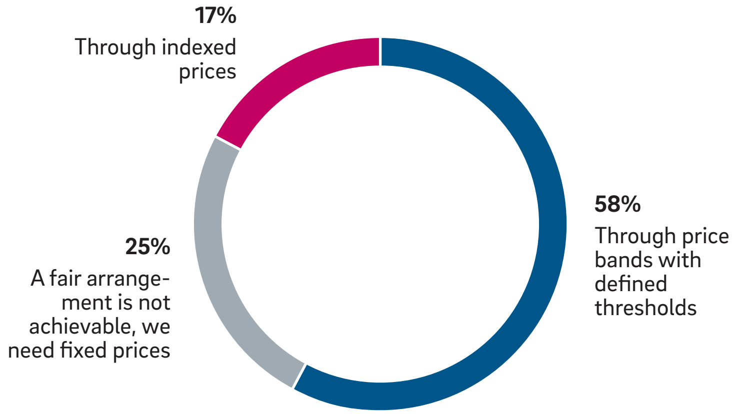
Source: Roland Berger

Most hospitals accept the need for fair arrangements to deal with rising prices

MedTechs must nevertheless brace themselves for higher costs overall

In your view, how can the handling of cost increases be regulated "fairly" between MedTechs and hospitals? [% of mentions][1]

Measures to deal fairly with cost increases



1 Multiple answers possible

> *"Unforeseen rises in material costs and strained supply chains present the industry with huge challenges. An open debate about passing on a fair share of these costs to customers is essential."*
>
> **German Medical Technology Association**

As purchase prices spiral upward, it is becoming increasingly important for hospitals to hedge against the resultant financial risks. More than half of respondents (58%) are open to introducing price bands with fixed thresholds as a fair way to share the burden of higher costs. 17% identify indexed prices as the fairest solution. By contrast, a quarter of the hospitals surveyed believe there is no alternative to fixed prices.

Despite hospitals' general willingness to explore fair sharing options, medical technology companies must prepare for their own costs and margins to come under pressure as cost-cutting measures are worked out in practice while raw material and supply chain costs continue to skyrocket.

Source: Roland Berger

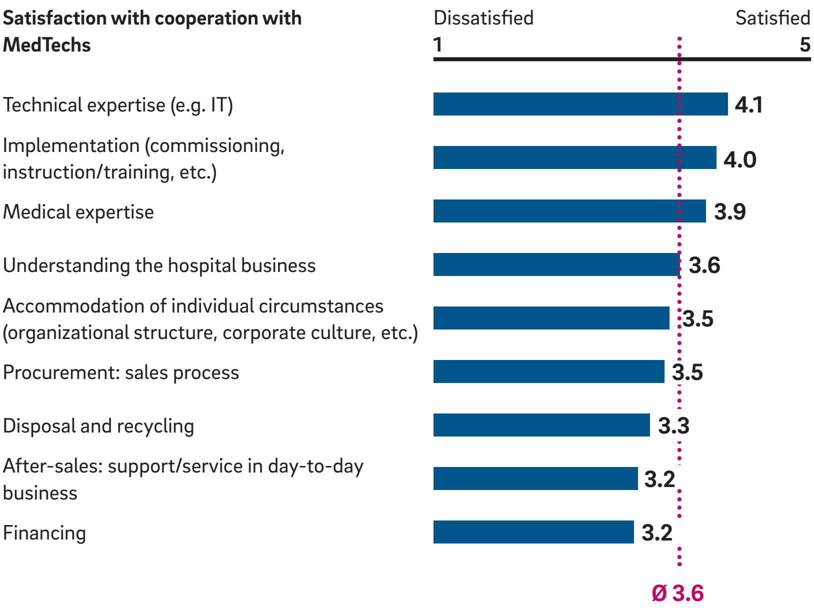
Great expectations: Testing the limits of cooperation between hospitals and MedTechs

Cooperation between hospitals and MedTechs is nothing new. However, rising prices and staff shortages have plunged the market into turmoil and are forcing hospitals to reconsider what services they source from which partners and on what terms. The economic difficulties faced by hospitals today could make a serious dent in the outlook for MedTechs, too. Or alternatively, those players could seize the opportunities thrown up by these threats and forge closer and more profitable bonds with their clients in the hospital space. This section examines a market in flux and highlights where both risks and opportunities can be found.

Hospitals are generally upbeat about the state of their cooperation with MedTechs...

...though there is clearly room for improvement in several areas

How satisfied are you with your cooperation with MedTechs in the following areas? [% of mentions]



Source: Roland Berger

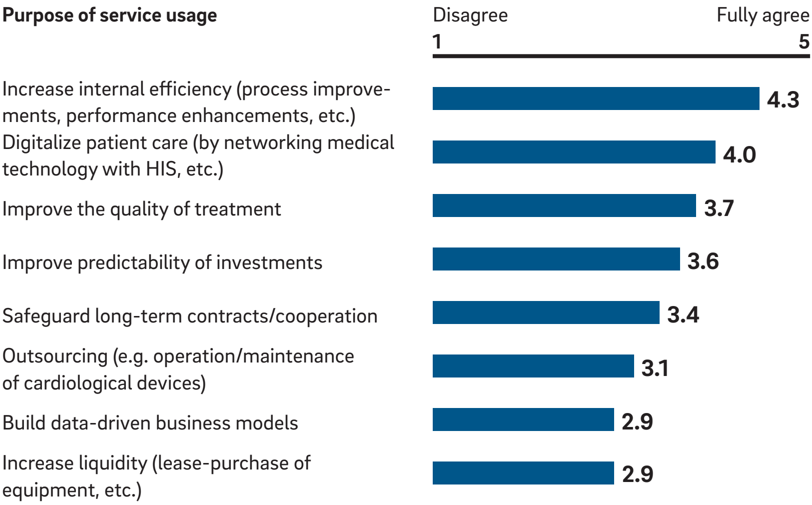
Over many years, hospitals have come to deeply value the technical expertise provided by MedTechs, as well as their support in implementing new systems. On the downside, they are noticeably less satisfied with the after-sales service they receive and are less happy the area of financing. MedTechs could target a wider range of better services in these areas to set themselves apart and potentially attract more (and more profitable) hospital business.

> *"Perceptions of after-sales performance are very far apart: Hospitals clearly see a need for improvement, whereas MedTechs regard this whole area as a strong point. The industry really needs to take a closer look."*
>
> **German Medical Technology Association**

Hospitals cooperate with MedTechs to access a range of services

Increasing internal efficiency is usually the primary goal

For what purpose do you access medical technology services? [% of mentions]



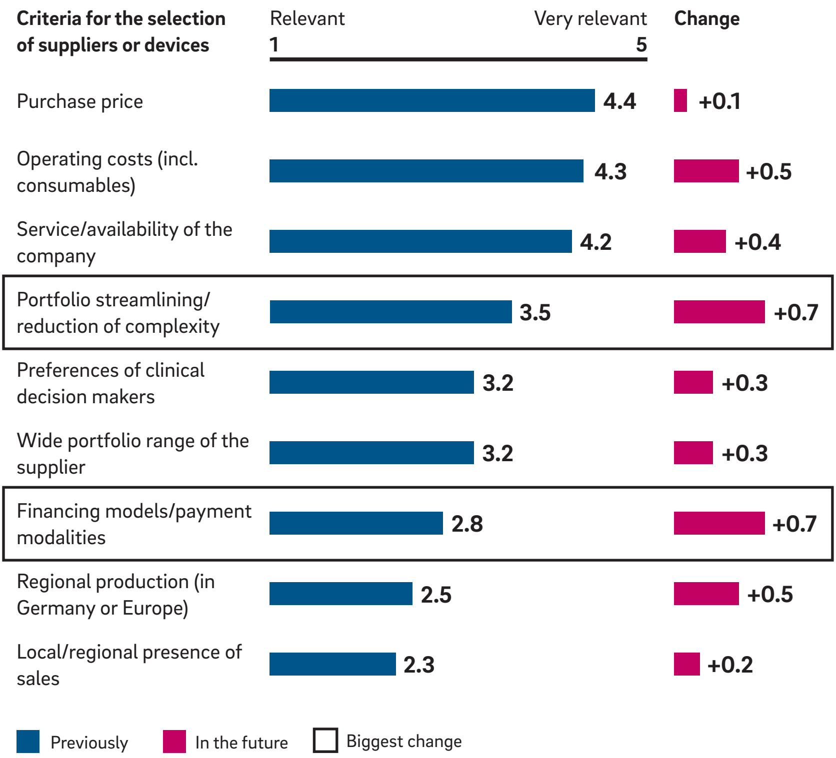
Buying in services from outside companies gives hospitals the chance to optimize their internal efficiency. Especially as staff shortages become more acute, the digitalization of patient care likewise boosts efficiency and streamlines hospital operations. Interestingly though, few hospitals consider using external services to increase liquidity, despite the financial difficulties and liquidity bottlenecks that confront them today.

Source: Roland Berger

Financial criteria dominate hospitals' selection of medical technology

Plans also exist to streamline supplier portfolios as another way to save money

How important are the following criteria to you when selecting a provider/device? Where applicable, how is this weighting currently changing? [% of mentions]



In the current climate of rising economic pressure, it is only logical that purchase prices and operating costs are growing in importance as the most relevant decision criteria when hospitals purchase services and/or devices. In the same vein, hospitals are planning to make cost structures more flexible and reap the benefit of scale effects by streamlining their supplier portfolios and outsourcing attractive financing models (biggest change: +0.7). As always, there will be winners and losers as these measures unfold: Both effects will step up the pressure on the costs and margins of MedTechs, but they will also create significant opportunities for those companies that succeed in turning these developments to their own benefit.

Source: Roland Berger

Hospitals are open to using external services – especially external logistics and maintenance services...

...and plan to do more of the same going forward

What type of services from MedTechs do you already use or would you like to use in the future? [% of mentions]

Subject	Example	Intended use[1]	Change compared to status quo
Support services	Active or predictive maintenance of medical device	87%	+20%
Logistics/ warehousing support	Consignment stock or shelf service with direct delivery at the point of consumption	83%	+10%
Financial services	Pay-per-use models or leasing/rental models	55%	+13%
Support with data collection	Support with the integration and further use of data from medical technology in the ERP system	48%	+22%
Transfer of equipment park responsibility to manufacturers	Technology partnerships with comprehensive services	42%	+19%
Fully integrated solutions (clinical and non-clinical)	Lab lines operated externally from end to end but fully integrated in process flows	32%	+20%

1 Cumulative: Already in use and currently not in use but planned for the future

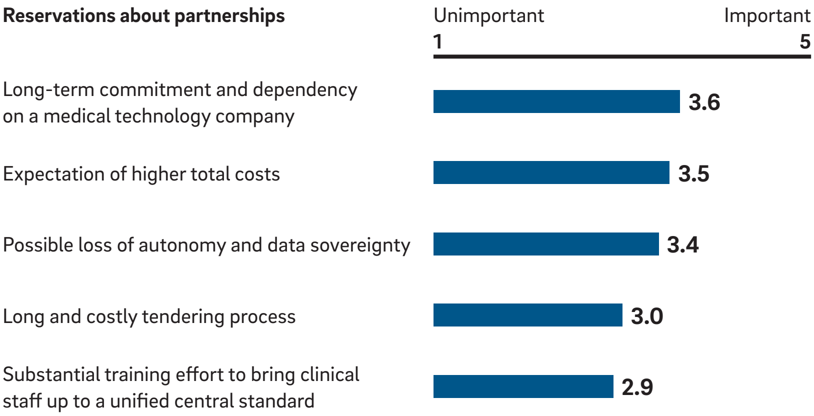
A lack of suitable personnel capacity is once again a factor in hospitals' decisions to seek outside operational support. This is most clearly apparent in secondary activities such as support services (used or planned by 87% of hospitals in areas such as maintenance) and logistics/warehousing services (used or planned by 83%). Looking ahead, a large proportion of the hospitals surveyed currently have no plans to transfer responsibility for their full equipment park to medical technology manufacturers, nor do they show much interest in outsourcing fully integrated solutions. This leads us to conclude that, in the present uncertain climate, hospitals are generally looking for incremental changes and improvements rather than step-change decisions. MedTechs should reflect this desire by modularizing their support offerings.

Source: Roland Berger

Cooperation? Yes.
Strategic partnership? Under certain conditions...

Hospitals continue to shy away from long-term commitments and dependencies

What reservations do you have about strategic partnerships?
[% of mentions]



As much as they welcome the support of medical technology providers in many areas, many hospitals still worry that external partners could take over more and more links in the clinical value chain and either make themselves irreplaceable or even become de facto competitors. Similar (though slightly less pronounced) concerns surround the possibility of long-term commitments leading to higher overall costs and a potential loss of autonomy on data security.

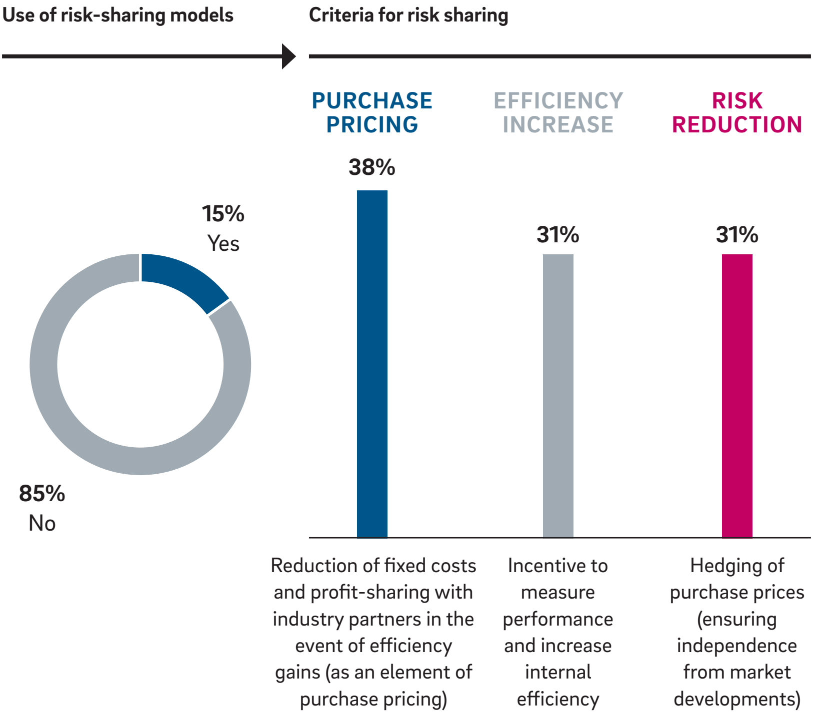
In their own best interests, MedTechs would be well advised to develop more modular partnership models and emphasize cost benefits as their USP for the customer.

Source: Roland Berger

Few hospitals want to share risks with MedTechs

Those that do mainly cite purchase pricing as the key criterion

Do you already use risk-sharing models[1] with MedTechs? What was the decisive criterion for risk sharing?[2] [% of mentions]



1 Financial participation of the contractual partners in the economic success/failure
2 Multiple answers possible

Only 15% of respondent hospitals said they use risk-sharing models with MedTechs. Those that choose this option do so primarily (38%) to reduce their fixed cost base, though they are also keen to link financial burdens to economic performance. Another large group of those hospitals that do operate risk-sharing models (31%) harness the resultant transparency in order to increase efficiency and optimize internal processes. A growing number of hospitals (currently 31%) also seek primarily to hedge market risks. Where risk-sharing models apply, they are usually subsumed under wider strategic partnerships between hospitals and MedTechs.

Source: Roland Berger

How can MedTechs respond? Four recommendations

Based on our wide-ranging survey and the findings outlined above, Roland Berger sees four key areas in which MedTechs can respond to the current crisis in the hospital market, providing hospitals with timely assistance and themselves with the opportunity for much-needed business gains.

1 Modularize cooperation models and deliver transparent cost benefits

Modular cooperation models backed by flexible and transparent cost structures will go a long way toward overcoming hospitals' principal reservations about partnering with MedTechs.

2 Establish risk-sharing models in a time of crisis

In the current market climate, hospitals are understandably and increasingly price sensitive. Yet while they obviously need to hedge purchase prices, they are also open to other ways of sharing risks. Especially in a time of crisis, offers of transparent and modular risk-sharing solutions could again give MedTechs (and their hospital customers) a crucial competitive advantage.

3 Respond to hospitals' portfolio streamlining moves and deliver economies of scale

MedTechs should react promptly as hospitals announce their intent to streamline product portfolios. Proactive positioning that promises key customers valuable economies of scale can quickly transform what may have seemed like a threat into a lucrative opportunity.

4 Ramp up support services in after-sales and day-to-day operations

Valuable competitive advantages can be secured if MedTechs expand the support services they provide in these two areas in particular. Up to now, players in the industry have often tended to overlook this segment. As hospitals reach out for more outside assistance, however, its importance is now poised to grow.

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