

A woman is lying in a medical scanner, possibly an MRI or CT machine. The scene is illuminated with a strong blue light. Several bright red laser lines are projected across the woman's face and neck, creating a futuristic and high-tech atmosphere. The text is overlaid on the top half of the image.

Priorities reshuffled. How Covid-19 and public funding are shaping hospitals' investments in medical technology

Roland Berger
MedTech@Hospital
study 2021

Roland
Berger 

The annual Roland Berger MedTech@Hospital study investigates the ever-changing relationship between hospitals and MedTech (medical technology) companies. For this year's study we asked executives of the 600 largest hospitals in Germany about factors driving hospital spending and current trends. Our key finding? Hospitals' priorities have changed – and MedTech companies need to adjust their offering accordingly.

Driving new priorities are two key factors. First, the Hospital Future Act ("Krankenhauszukunftsgesetz" or KHZG), passed by the German Bundestag in 2020, means that federal and state governments can now allocate funds totaling EUR 4.3 billion to hospitals that invest in digitalization, IT security and emergency care. The second factor is, of course, Covid-19 itself, which, when it first appeared, led to massive investments in equipment, such as ventilation systems. This stage has now passed and hospitals are reprioritizing other areas, such as technology and digital upgrades aimed at improving processes.

The good news is that MedTech firms can leverage this potential. As hospitals invest more in highly specialized and digital products, niche technology firms must be sure to carefully segment their customers. In response to the limited funds available for new investments, MedTech players should offer more flexible financing, leasing and usage-based models. They should also offer predictive and analytics-driven solutions for hospital maintenance and services. And they must engage with the new focus on sustainability – a priority for 90 percent of the hospitals surveyed.

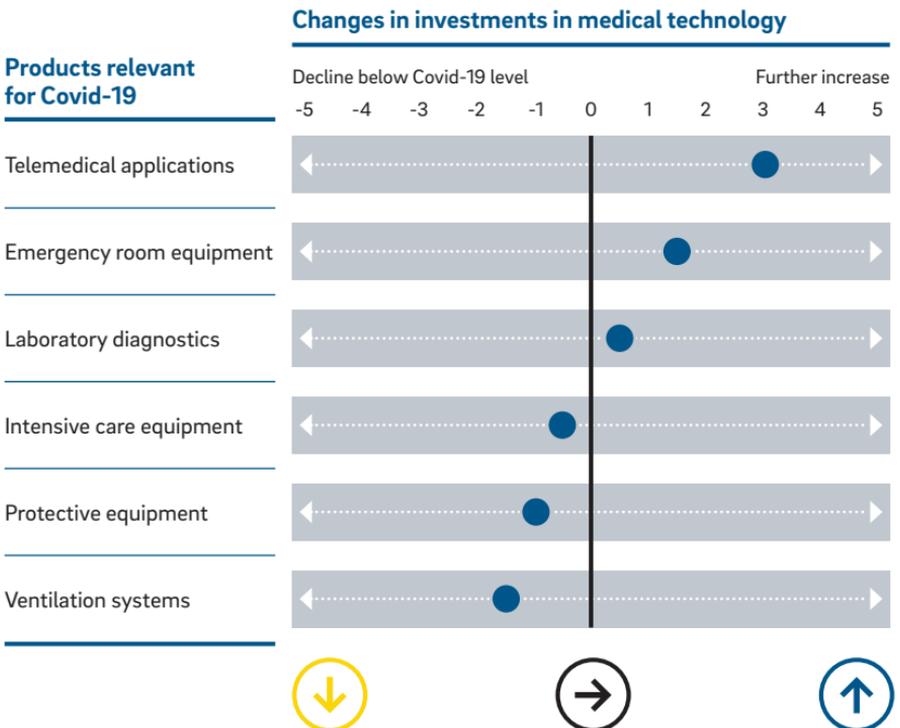
1 Covid-19 and the KHZG

German hospitals are investing in digital and IT

The short-term increase of hospital investments in medical technology driven by Covid-19 is coming to an end

The Covid-19 pandemic boosted investments in medical technology by hospitals. However, as predicted in last year's MedTech@Hospital study, this effect was a short-term one. Thus, when asked what investments they were planning this year and in the coming years, the hospitals in our survey foresaw a decline in priority areas during the Covid-19 crisis, such as intensive care equipment, protective equipment and ventilation systems. Instead, they plan to spend more on areas where pent-up demand exists due to underinvestment in previous years. At the top of their agenda are, naturally enough, areas eligible for KHZG funding, such as telemedical applications and emergency room equipment.

To what extent do you plan to invest in products relevant for Covid-19 in the current and coming years?
 [Avg. no. of mentions]

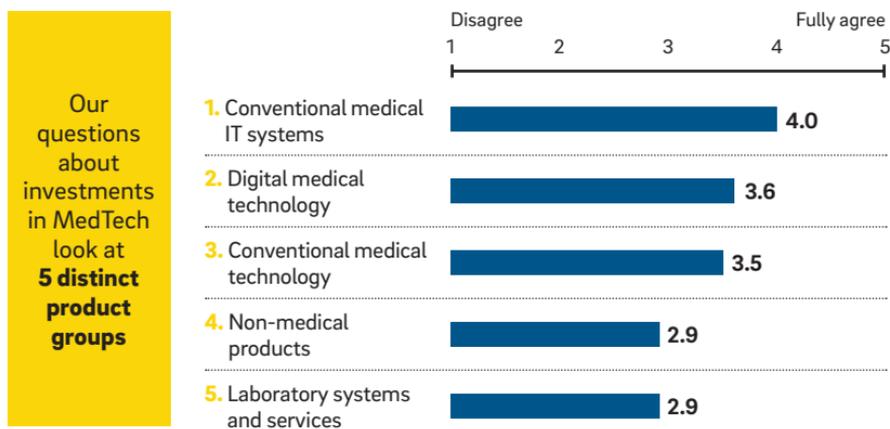


Source: Roland Berger

Conventional medical IT systems are the top investment priority for hospitals

The major factor driving hospitals' purchasing strategies in the coming years will be the KHZG legislation and its funding goals. Right at the top of the investment agenda are "conventional" medical IT systems, a category that includes the majority of products funded by the KHZG, from patient portals and hospital information systems to digital medication management and interoperability solutions. Investments in digital medical technology will also be a priority, including surgery robots, digital pathology and medical collaboration solutions. A third priority area for the hospitals in our survey was conventional medical technology, covering areas such as imaging systems, surgery and operating rooms, function diagnosis systems and patient monitoring systems.

In which product groups do you plan to increase investments in the coming years? [Avg. no. of mentions]



Our questions about investments in MedTech look at 5 distinct product groups

PRODUCT GROUPS

Conventional medical IT systems

- Patient portals
- Hospital information systems
- Clinical IT (radiology, cardiology, intensive care)
- Dashboards for optimizing commercial performance and capacity utilization
- Digital medication management and documentation
- Interoperability solutions
- Digital inventory management solutions

Digital medical technology

- Surgery robots
- Telematic infrastructure
- Systems for clinical decision support
- Digital pathology
- Medical collaboration solutions (e.g. tumor boards)

Conventional medical technology

- Imaging systems
- Surgery and operating rooms
- Intensive care equipment
- Patient monitoring systems
- Diagnosis systems
- Sterile utility supply

Non-medical products

- Patient positioning systems
- Medical carts
- Room setup (e.g. beds, furnishings)
- Logistics systems

Laboratory systems and services

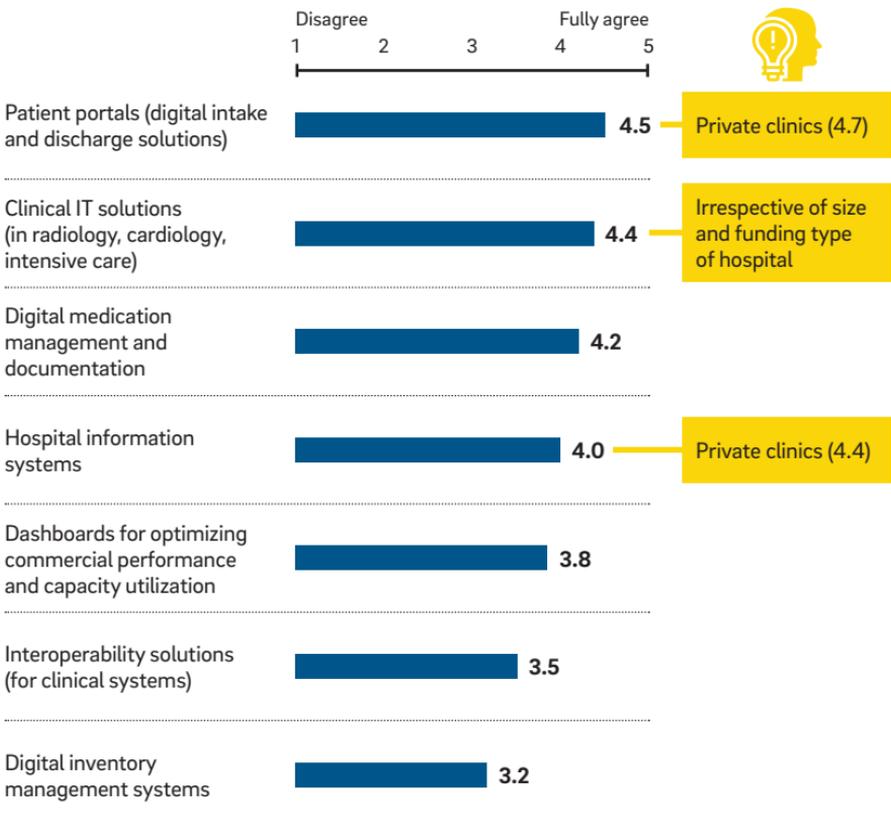
- Laboratory information systems
- Laboratory diagnostic systems
- Laboratory services

Source: Roland Berger

Hospitals focus strongly on conventional medical IT systems that enhance workflows

Conventional medical IT systems support the optimization of hospital workflows by providing efficiency gains. They are an interesting investment opportunity for hospitals as they help improve financial outcomes, speed up the process of digitalization and put hospitals in a stronger position to deal with future governmental demands. Patient portals, for example, are prioritized by hospitals of all sizes, especially larger hospitals and privately-owned hospitals. All types of hospitals focus on established clinical IT systems, which play a vital role in improving diagnostic and treatment quality. And digital medication management enables hospitals to reduce their bureaucratic burden significantly, while at the same time increasing medication continuity and safety for patients.

In which products in the group "Conventional medical IT systems" do you plan to increase investments in the coming years? [Avg. no. of mentions]

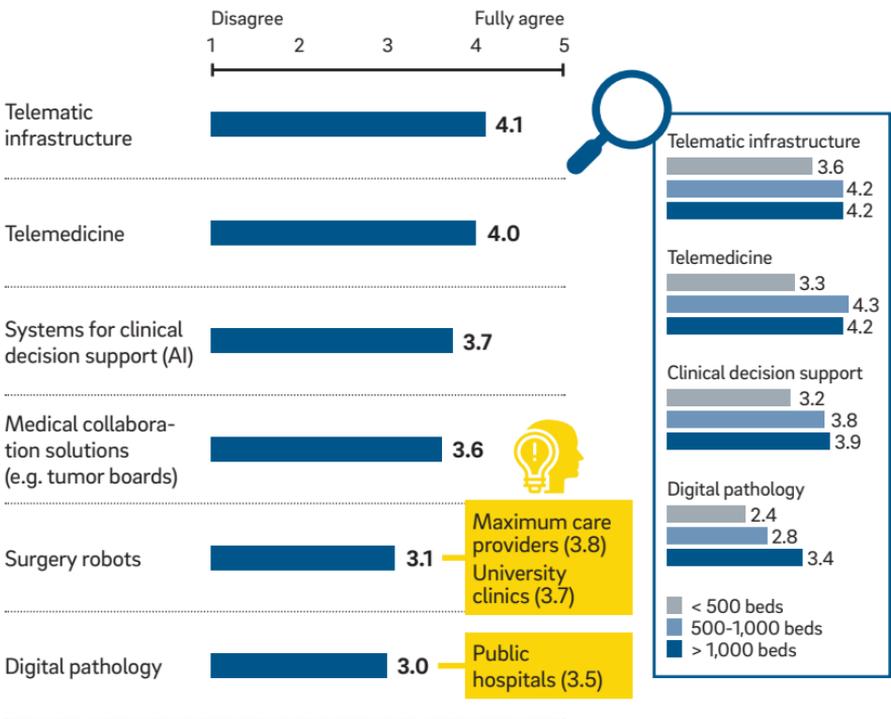


Source: Roland Berger

Larger hospitals in particular plan to invest in digital medical technology solutions, especially telematics and telemedicine

For larger hospitals, a major future focus of investment is digital medicine technology, especially in the area of telematic infrastructure and telemedicine. Interestingly, the survey revealed that maximum care providers and university hospitals are particularly keen to invest in surgery robots, while for other types of providers this is less of a priority. This is partly because smaller hospitals struggle to utilize surgical robots due to a lack of both demand (patients) and supply (medical personnel to operate the robots). Large hospitals, especially large public hospitals (hospitals run by local or federal state authorities, including university hospitals), also have a strong investment focus on digital pathology.

In which products in the group "Digital medical technology" do you plan to increase investments in the coming years? [Avg. no. of mentions]

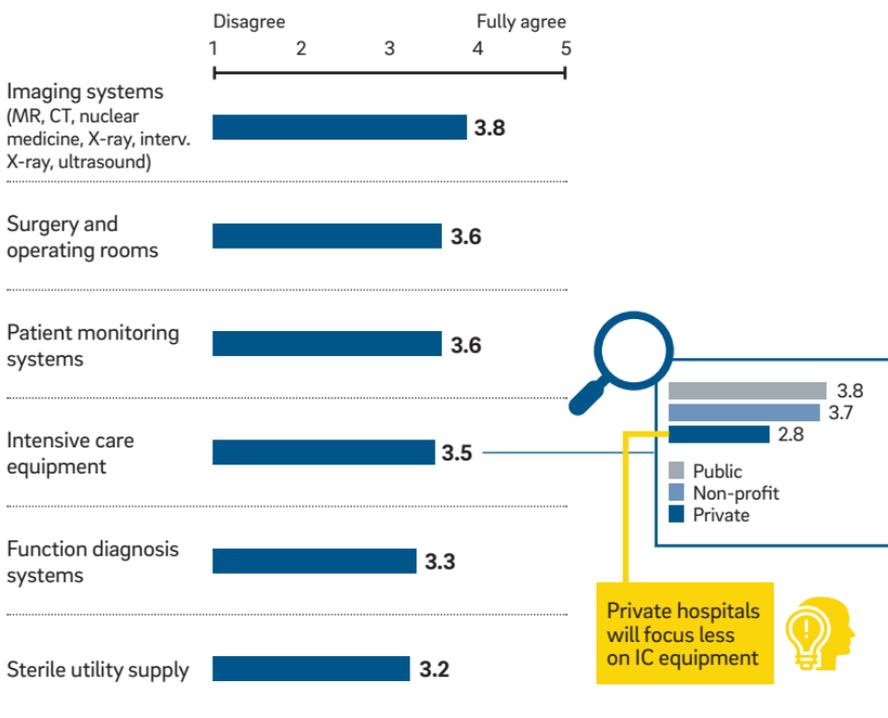


Source: Roland Berger

Hospitals invest in conventional medical technology to maintain and improve their core capabilities

Conventional medical technology, which enables hospitals to maintain and improve their core clinical capabilities, remains a focus area for all types of hospitals. We could not identify any significant differences depending on the size of clinics, their revenues or their type of funding. The only exception was for intensive care equipment, which is a greater priority for public hospitals and non-profit hospitals (charitable hospitals run by churches or e.g. the German Red Cross organization) than it is for private clinics. This may be because private clinics are already well supplied with such equipment as a result of the Covid-19 pandemic, and in many cases are unable to use it to full capacity.

In which products in the group "Conventional medical IT systems" do you plan to increase investments in the coming years? [Avg. no. of mentions]

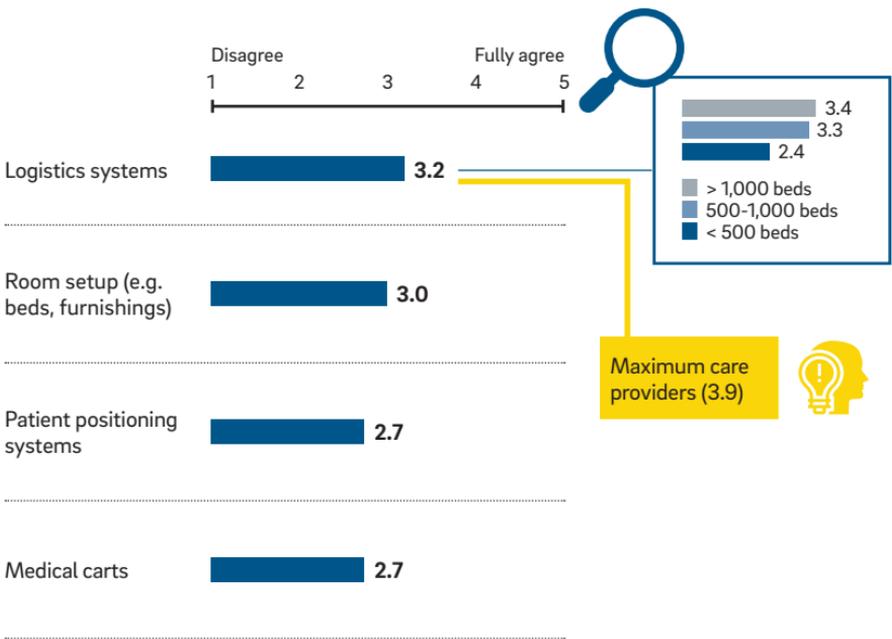


Private hospitals will focus less on IC equipment

Non-medical products, with the exception of logistics systems, are currently not a priority area for hospitals

As a result of Covid-19 and the KHZG's focus on digitalization, non-medical products such as beds, furnishings, patient positioning systems and medical carts are no longer an investment focus at hospitals. The only exception appears to be logistics systems, which are still a focus area for larger hospitals, especially maximum care providers.

In which products in the group "Non-medical products" do you plan to increase investments in the coming years? [Avg. no. of mentions]

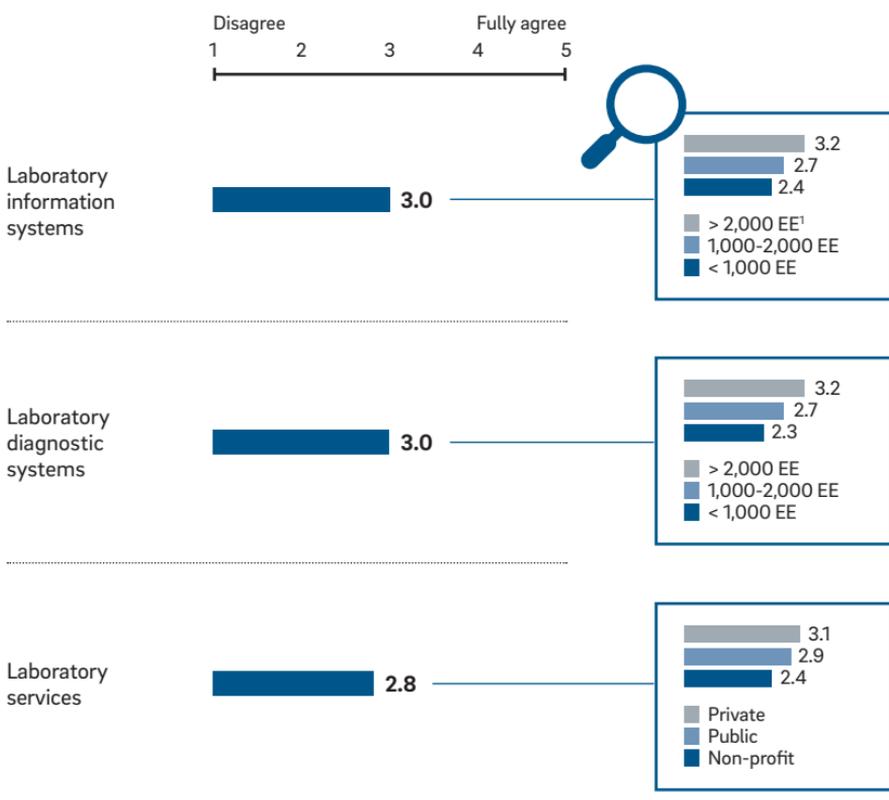


Source: Roland Berger

Investments in the laboratory domain are not a priority for hospitals in the coming years

The KHZG's focus on digitalization mean that hospitals are not planning to prioritize investments in laboratory systems and services in the coming years. The only exceptions are major hospitals with large workforces, which are planning to invest in laboratory information and diagnostic systems, and private clinics – but not non-profit hospitals – which are still looking at purchasing laboratory services.

In which products in the group "Laboratory systems and services" do you plan to increase investments in the coming years? [Avg. no. of mentions]



¹ EE = employees

Source: Roland Berger

2 Business opportunities

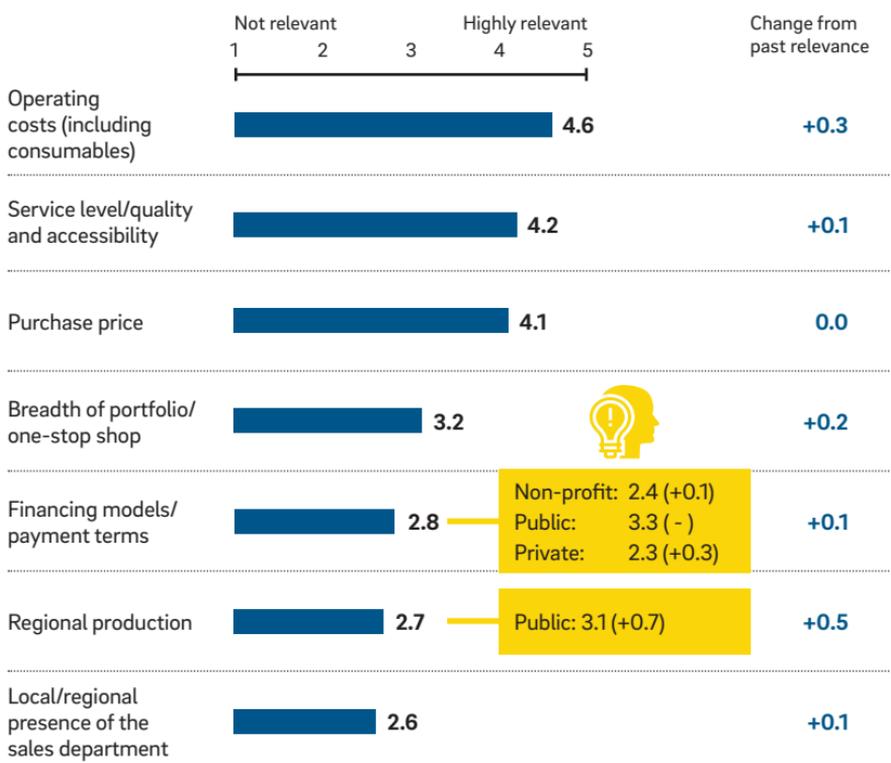
**Hospitals are looking
for cost-effective products
and services**

Hospitals choose MedTech providers based on factors such as operating costs, service and purchase price

When deciding how to position themselves, MedTech companies must be sure to fully understand the criteria used by hospitals to select products. Our survey reveals that the key factors here are operating costs, service level/quality, and purchase price. Regional production is also becoming increasingly important as a criterion in purchase decisions, no doubt as a result of the Covid-19 pandemic – a trend already noted in last year's MedTech@Hospital study. Sustainability may also play a role in the procurement process.

How important will the following criteria be in your future selection of MedTech providers? How does this differ from the past? [Avg. no. of mentions]

Hospitals' criteria for choosing MedTech providers



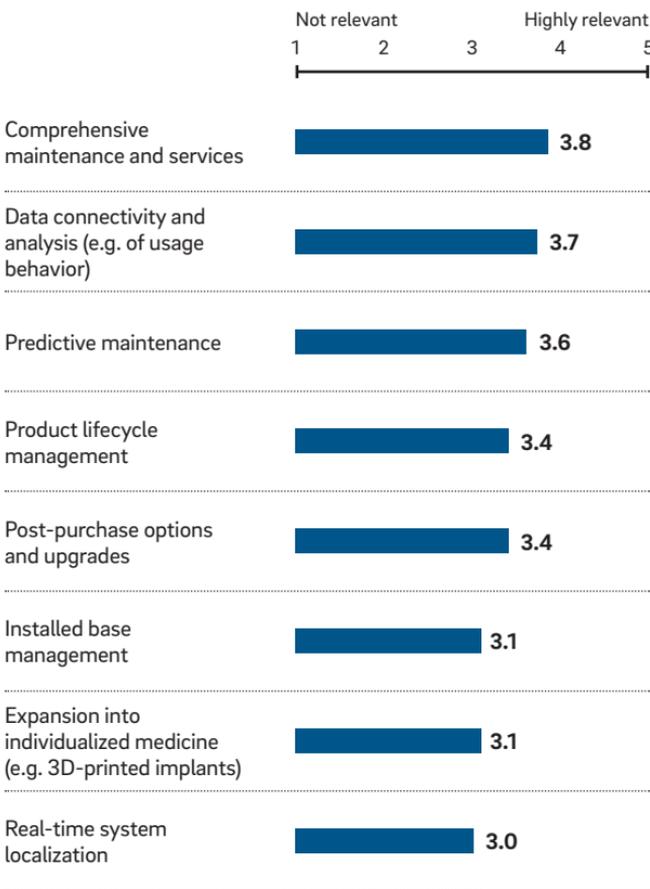
Source: Roland Berger

Hospitals of all sizes and care levels put comprehensive maintenance and services, plus data analytics, top of their agenda

In the drive to keep down operating costs, hospitals are increasingly keen to delegate maintenance and services for their installed base to MedTech companies and other third parties. Comprehensive – ideally predictive – maintenance and services are at the top of their agenda in terms of what they expect from MedTech providers, followed by data connectivity and usage analysis to improve workflows.

How relevant for your hospital are the following services provided by MedTech companies? [Avg. no. of mentions]

Services that hospitals expect from the MedTech industry



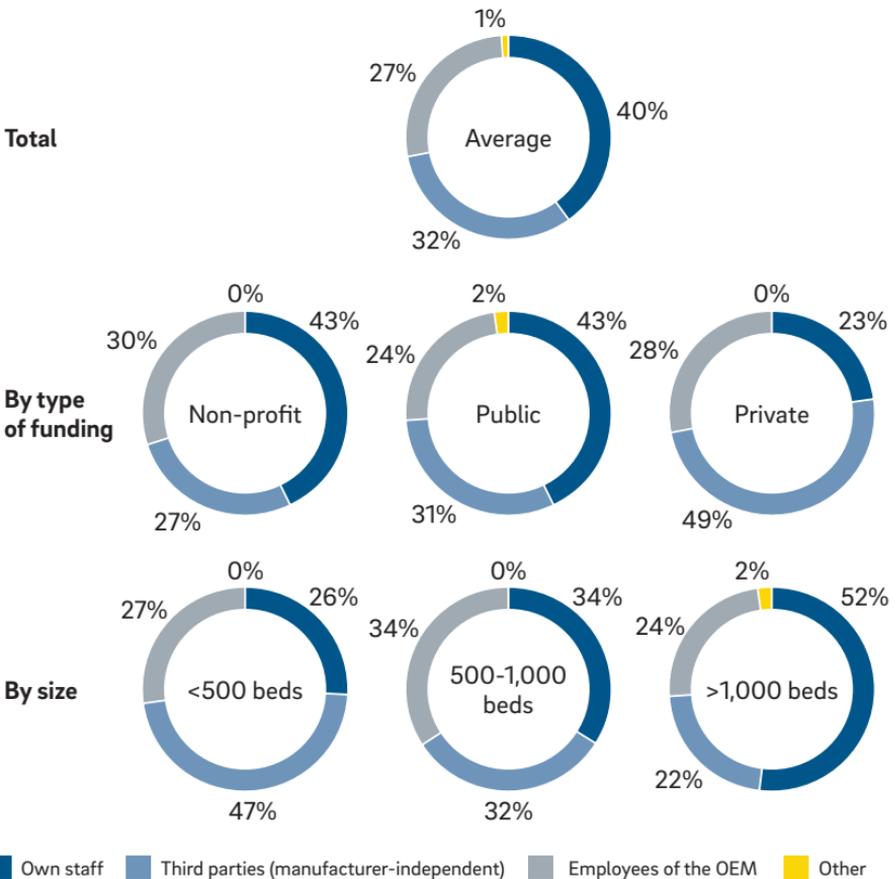
Private hospitals rank product life-cycle mgmt. (2.8) and real-time system localization (2.5) significantly lower than other hospitals

Source: Roland Berger

Most hospitals, particularly small and private institutions, outsource maintenance services to OEMs or third parties

Maintenance of hospital medical equipment is most frequently outsourced and performed by OEMs (27 percent of respondents) or third parties (32 percent), giving a total of 59 percent using outsourcing. The survey revealed considerable differences here, depending on how hospitals were funded. Thus, while the numbers for non-profit and public hospitals are close to the averages given above, as many as 77 percent of private institutions delegate maintenance services to OEMs or third parties. Similar differences are found between hospitals of different sizes, with 74 percent of small hospitals delegating services to third parties and OEMs.

Who currently maintains your medical technology equipment? [Percentage of mentions]

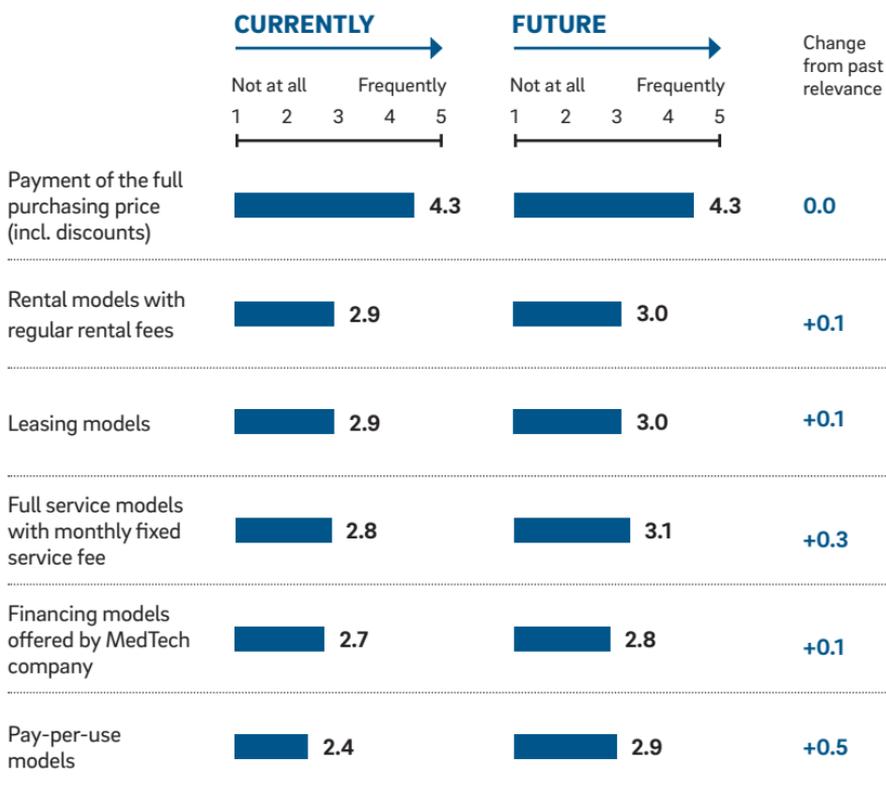


Source: Roland Berger

Hospitals require more and more flexibility around payment models

Though payment of the full purchase price is still the most common method, the attractiveness of pay-per-use models and of full service models with monthly service fees is increasing significantly. We predict that this tendency towards more flexible payment methods will continue to grow. It is a win-win situation for hospitals and MedTech players. In times of financial pressure, hospitals can preserve their liquidity by stretching the payment period. MedTech companies, on the other hand, could profit from this trend by offering more flexible payment models. For example, a full service model with monthly fixed service fee guarantees continuous contact with the client and creates a steady stream of revenues.

When purchasing with own funds, to what extent do you use the following financing options?
[Avg. no. of mentions]



Source: Roland Berger

3 A green future

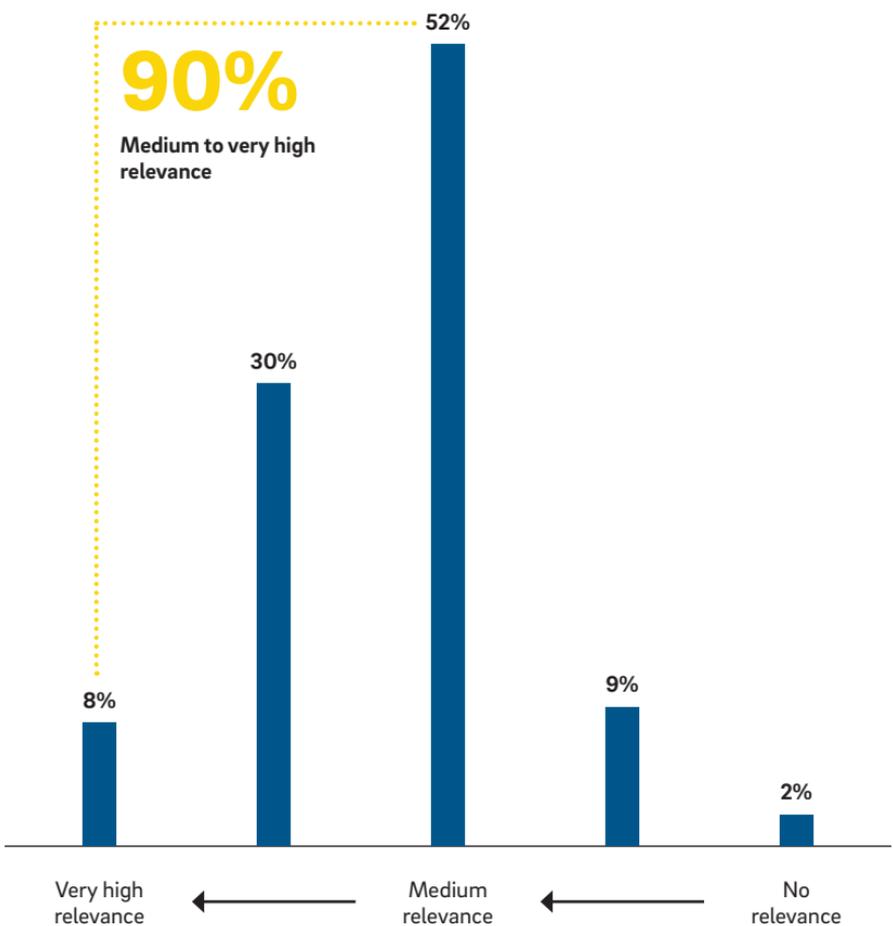
Sustainability matters

Sustainability is a relevant factor in purchasing decisions

For hospitals, the future is unquestionably green. Sustainability is increasingly important for clinics of all types, with as many as 90 percent of the hospital executives we surveyed saying that it was of medium to very high relevance for their purchasing processes. MedTech companies need to be aware of this growing focus on sustainability and reflect it in their development, sales and lifecycle approaches. They can do this by including end-of-lifecycle measures in their initial offer or making their carbon footprint transparent during the purchasing process, for example.

What role does sustainability play in your purchasing process? [Percentage of mentions]

Relevance of sustainability in investment decisions



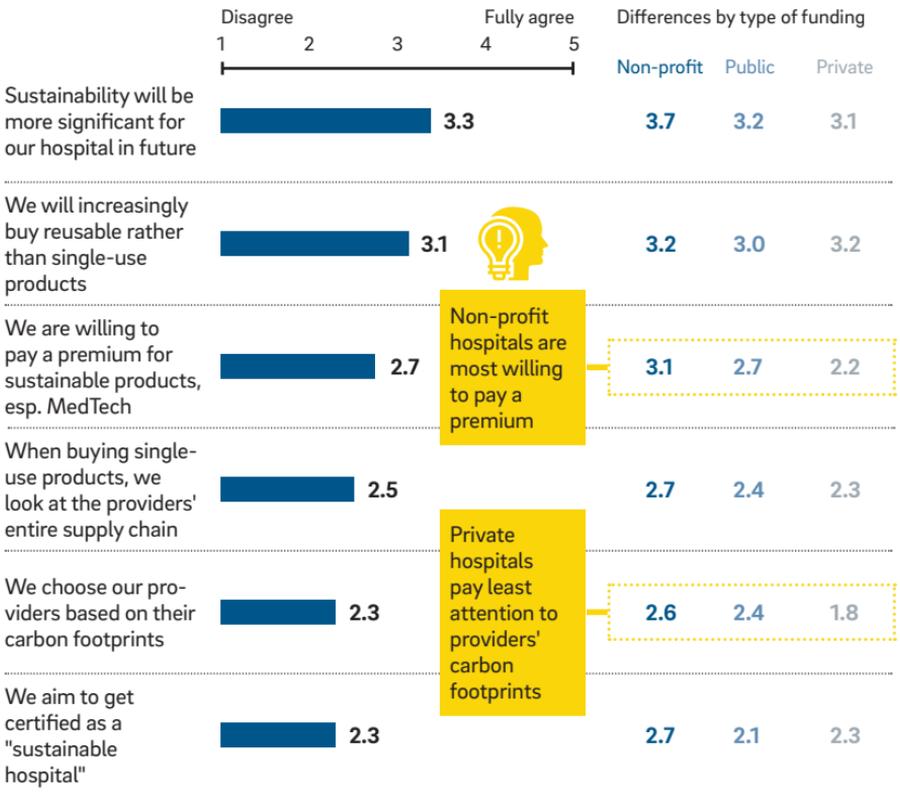
Source: Roland Berger

Sustainability is growing in importance, but hospitals' willingness and ability to pay extra for it is not keeping pace

Not only that, hospitals say that sustainability will continue to grow in importance going forward. Their engagement with the topic will increase as a result – for example, they plan to buy reusable rather than single-use products. However, their willingness and ability to pay a premium for sustainability is limited. We also see differences depending on how hospitals are funded. Thus, hospitals in the non-profit sector pay the most attention to sustainability, while those in the private sector are both the least willing to pay a price premium for sustainability and the least likely to take suppliers' carbon footprints into account during the purchasing process.

Which of the following statements about sustainability do you agree with? [Avg. no. of mentions]

General engagement with sustainability



Source: Roland Berger

The upshot for MedTech companies

Driven by the ongoing Covid-19 pandemic and new legislation such as the KHZG, hospitals' priorities have shifted substantially. MedTech companies need to understand this changing landscape and adapt the focus of their product position and service offering accordingly – after all, the priorities, needs and concerns of clinics is what informs their purchasing decisions, from choice of seller to choice of product or service agreement. With this in mind, we offer the following recommendations to players in the MedTech industry.

Three recommendations



→ **Understand your customers and their challenges**

The first rule of marketing is Know Thy Customer, and this couldn't be truer for MedTech firms. Players must understand what it is that drives hospitals' purchasing decisions, which criteria they employ and which solutions they require. They must also take into account their clients' size, type of funding, medical portfolio and the region they operate in. On this basis they can then define a distinctive offering that is flexible and can be adapted in line with customer needs – offering more affordable devices to hospitals with limited finances and more sophisticated products to university hospitals, for example. Companies can also use the funds available under new legislation such as the KHZG as a way to access new accounts and departments, backing this up with a robust strategy for developing IT and digital customers beyond initial sales.



Offer flexibility

Today, hospitals of all types and sizes are looking for flexibility in response to their limited financial resources. MedTech players can offer flexible financing models and options for reducing hospitals' operating costs. Shared-risk options, for example, will enable hospitals to meet the demand for new technology while relieving some of the financial strain on them. Players should also strive to establish long-term partnerships with hospitals, allowing hospitals to focus on their core activities and overcome challenges such as their lack of experts in technical areas. MedTech companies can also offer to take over responsibility for maintenance and services.



Think ahead on sustainability

MedTech companies need to mirror the concerns of hospitals and make sustainability a priority now. Indeed, they can use a focus on sustainability to stand out from their competitors, enabling them to stabilize price points. Getting ahead of the game on sustainability should include assessing their current sustainability footprint, defining a strategy for improving that footprint and setting out sustainability goals. They should then mention these goals frequently in their external communications. For products that are particularly important for hospitals, they should also investigate local production options to ensure uninterrupted supply.

Your contacts

Authors



Dr. med. Peter Magunia
Senior Partner
Healthcare
peter.magunia@rolandberger.com
+49 160 744-3587



Janes Grotelüschen
Principal
Healthcare
janes.grotelueschen@rolandberger.com
+49 160 744-8542



Christoph Schmid
Senior Project Manager
Healthcare
christoph.schmid@rolandberger.com
+49 160 744-8416



Johannes Golüke
Project Manager
Healthcare
johannes.golueke@rolandberger.com
+49 160 744-2264

Experts



Oliver Rong
Senior Partner
Healthcare
oliver.rong@rolandberger.com
+49 160 744-4423



Dr. Thilo Kaltenbach
Senior Partner
LifeScience
thilo.kaltenbach@rolandberger.com
+49 160 744-8651



Morris Hosseini, Ph.D.
Senior Partner
LifeScience
morris.hosseini@rolandberger.com
+49 160 744-8497

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Roland Berger GmbH
Sederanger 1
80538 Munich
Germany
+49 89 9230-0

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