

Six Key Buyer Trends

Reshaping MedTech
Selling and Pricing

Model N

The Evolving MedTech Supply Ecosystem

It is estimated that the global spend for medical devices and diagnostics will approach \$500B by 2020.¹

With this amount of spend and the pressure to reduce costs, many start-ups, new competitors and existing players such as group purchasing organizations (GPOs) are working to help hospitals and other providers take costs-out and bring value-in.

A more sophisticated buyer along with an evolving supply ecosystem means significant pressures on MedTech companies.

We explore six key buyer trends and discuss the implications for MedTech companies.



Six Key Buying Trends

- 1 Use of price and value transparency to drive costs-out and value-in**
- 2 Increased use of generic supplies or "good enough" solutions**
- 3 Unbundling of supplier solutions**
- 4 Growth in customer self-contracting and regional buying**
- 5 Outcomes and performance-based contracting**
- 6 Growth in device formularies**

¹ <http://www.meddeviceonline.com/doc/report-by-global-medtech-market-worth-billion-medtronic-top-device-maker-0001>

Trend #1 Price and Value Transparency

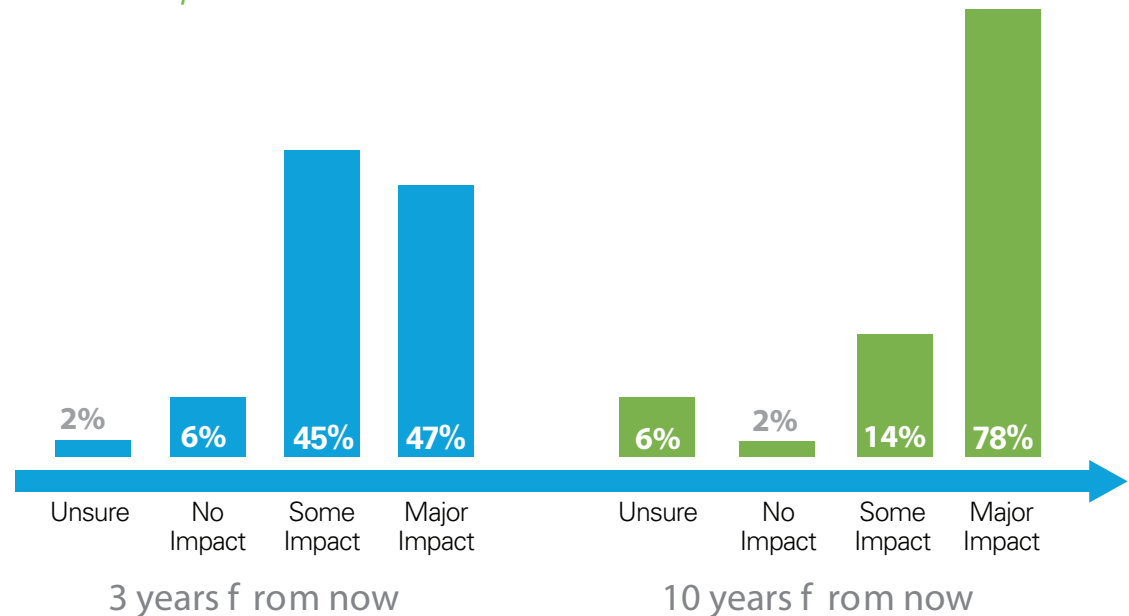


Transparency

Big data along with cloud-based procurement and benchmarking solutions are enabling buyers to have deep insights into market prices and the value of competing suppliers' solutions.

77% of MedTech respondents in our survey believe that price and value transparency will have a significant impact on price erosion and customer relationships

How Will Price and Value Transparency Impact Your Business?



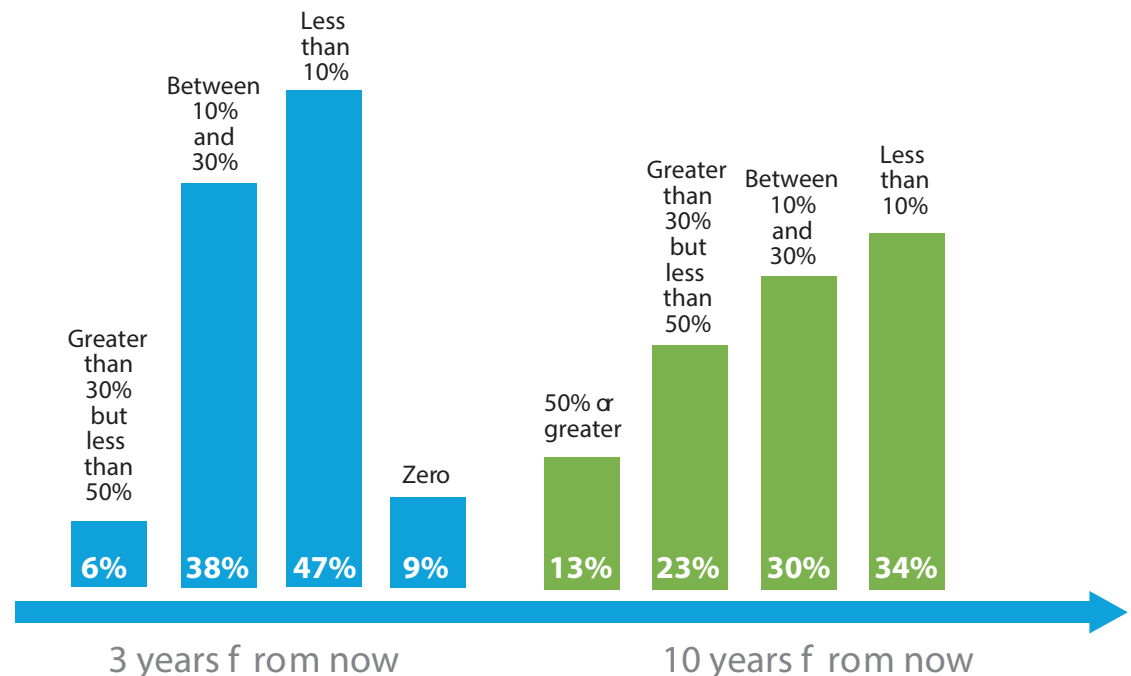
Trend #2 Generic Supplies and Commoditization



Generic Supplies

Cost pressures are forcing buyers to reconsider the buying criteria for supplies. This along with the growing influence of economic buyers are changing purchasing. Generic devices and “good enough” solutions are gaining a foothold in parts of MedTech.

Expected market share of generic supplies...



Majority (>50%) believe Generics won't expand market share beyond **10% in 3 years**, but almost one-third believe that Generic market share could be greater than **30-50% market share in 10 years**

Trend #3 Unbundling of Supplier Solutions



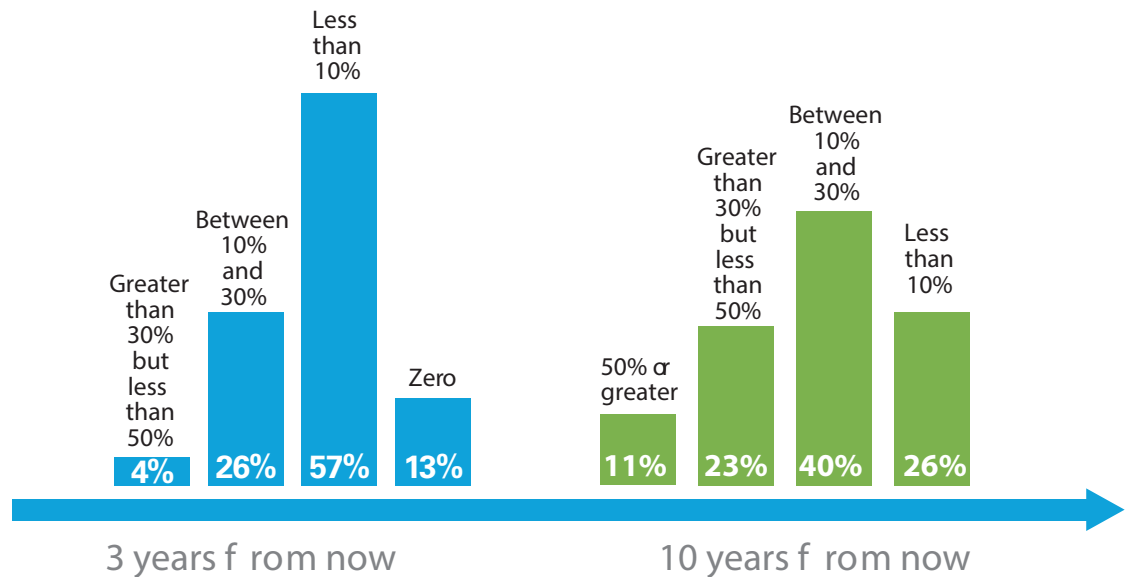
Unbundling

In many industries, sophisticated buyers try to find creative ways to save money. One approach is “to unbundle” a supplier’s solution and look for ways to save money on the components of the solution. Unbundling the sales and clinical support from the device (“rep-less” sales) is a growing trend for parts of MedTech.

Expected market share of “rep-less” medical sales model



More than half expect Market Share of rep-less medical sales model to be insignificant in **3 years**, but **3/4** believe it to become relevant in **10 years**



Trend #4 Customer Self-Contracting and Regional Buying



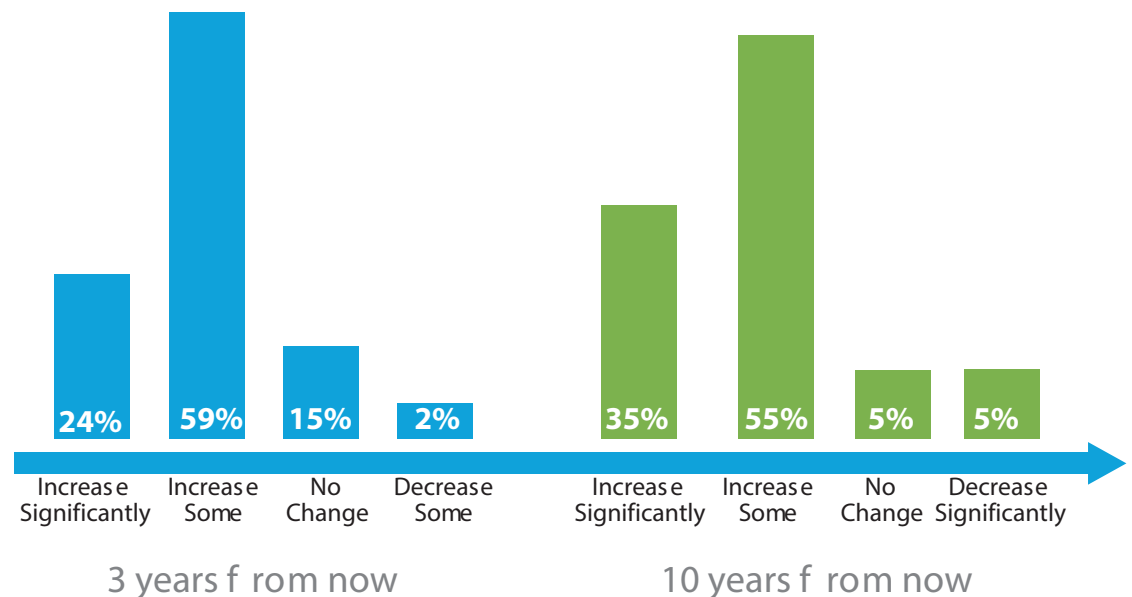
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Regional Buying and Self-Contracting

Consolidation of customers, growth in cloud-based procurement solutions, and the need to better meet local needs is driving purchasing away from national GPOs to regional buying and self-contracting models.

Almost **85%** expect regional buying groups to increase in the next **3 years** More than **1/3rd** expect regional buying groups to increase significantly in the next **10 years**

Expected use of regional buying groups



Trend #5 Outcomes and Performance-Based Contracting

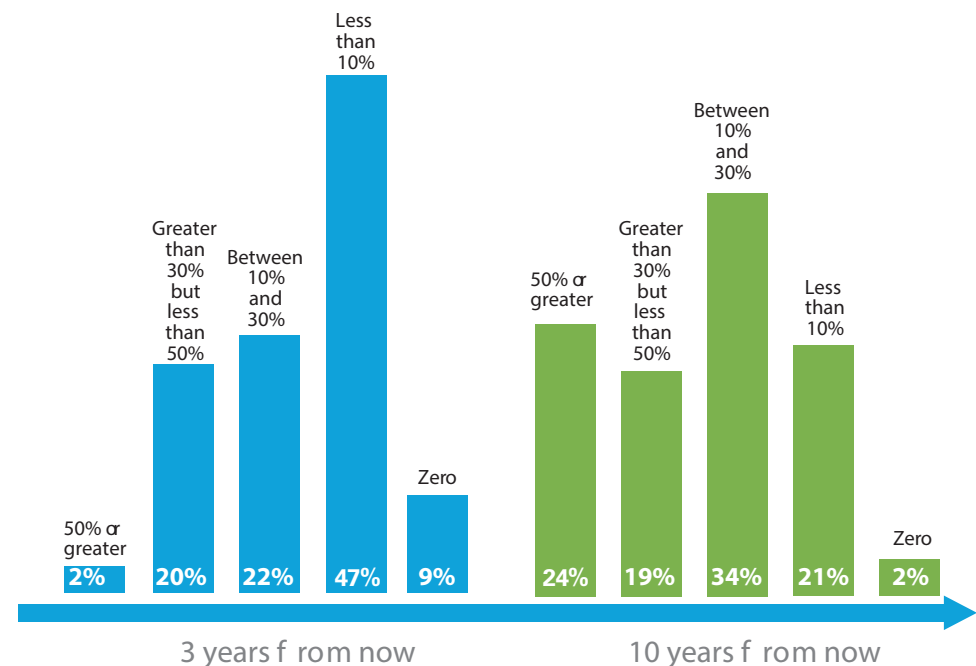


Outcomes and Performance-Based Contracting

As buyers become more sophisticated, they will increasingly require suppliers to guarantee performance, put value at-risk or tie pricing to the outcomes delivered.

Outcomes or performance-based contracting will account for what percentage of revenue?

More than **50%** think Outcomes or performance-based contracting will be minimal in the next **3 years** BUT **Almost half** expect Outcomes or performance-based to be greater than **30%** of contracts in **10 years**, and almost 1/4th expect it to be more than **50%** in **10 years**



Trend #6 Growth in device formularies



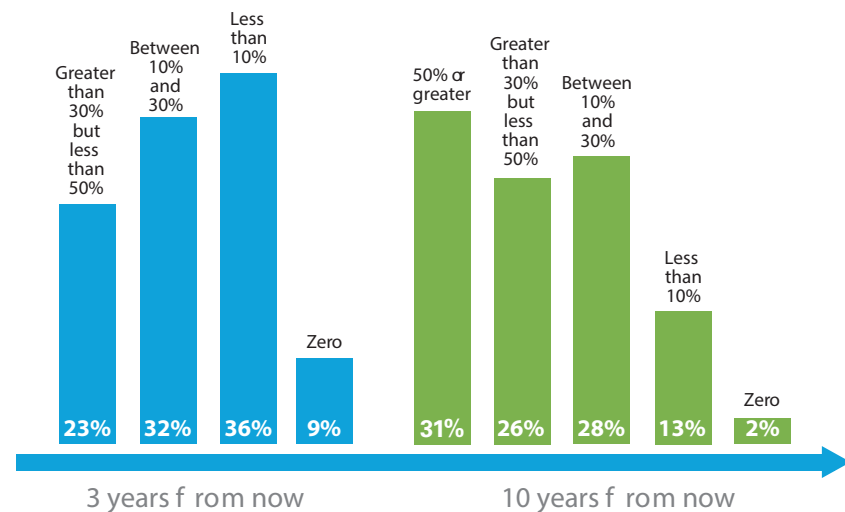
Device formularies

Smart buyers are increasingly turning to “formularies” to guide which device or supply to use for a given treatment pathway. These formularies are normally evidence-based and used to optimize costs and outcomes.

Almost a half of respondents expect a minimal % of purchasing to be guided by formularies in the next **3 years** but...

...**more than half** of respondents believe that device formularies will guide a substantial portion of purchasing in the next **10 years**

Percentage of purchasing that will be guided by formularies



Future Outlook

The medical devices and diagnostics industry (MedTech) is an exciting and important industry. Countless lives have been improved or saved by the availability of important solutions to help skilled clinicians care for patients.

The industry, however, is at a crossroads. With almost \$500B in annual spend and pressure for providers to reduce costs, improve outcomes, and enhance quality, many parts of the industry are squarely “in the sights” of cost reduction efforts.



It's clear from the survey of MedTech industry participants that they expect:

- *Continued change in how their customers evaluate, choose, and purchase supplies*
- *Increased complexity due to new contracting models, unbundling, and customer formularies*
- *Acceleration of transparency with a real impact on customer relationships and price erosion*

MedTech Survey: Six Key Buyer Trends Reshaping Selling and Pricing Strategy

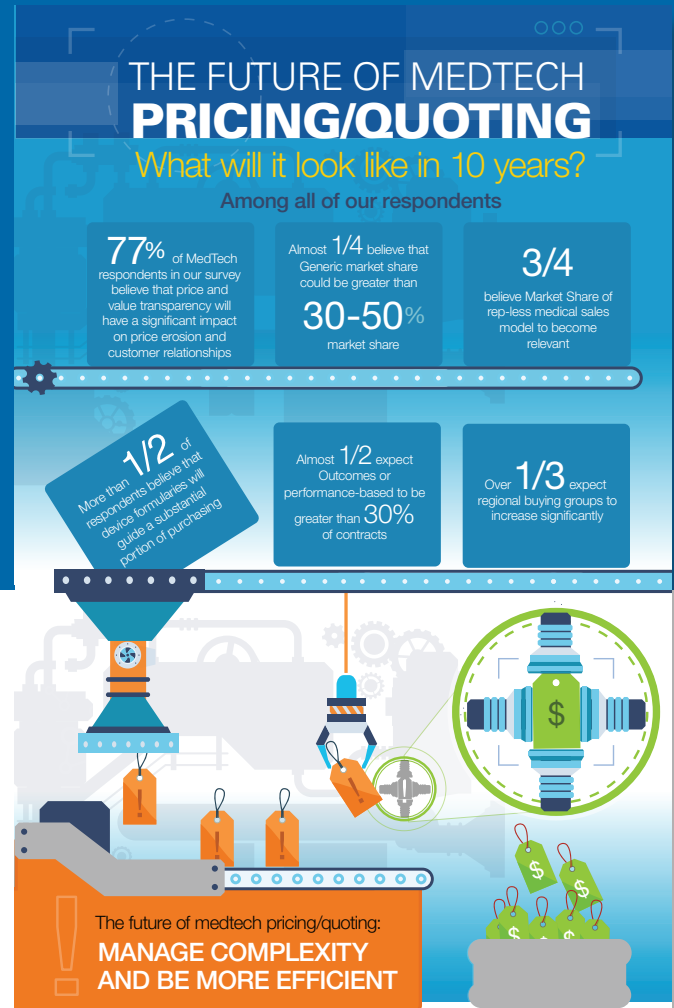
Best Practices

MedTech companies that are prepared for this changing market, usually focus on six key areas:

- Get clear on their pricing strategy and gain control of discounting
- Develop an offering strategy to provide good, better, best solutions along with unbundled service offerings
- Enable sales to efficiently and effectively manage customer quotes
- Provide negotiation training and tools to support negotiations with difficult buyers
- Invest in quantifying their value and using it to educate customers on the value delivered
- Prepare new customer engagement and contacting models to collaborate with customers on achieving outcomes

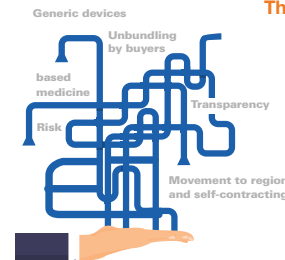


The Future of MedTech Pricing/Quoting: Infographic



Are Companies Prepared?

The market is getting much more complex...



BUT CURRENT PRACTICES APPEAR TO BE SUB-OPTIMAL

40% + of respondents are still running quoting, deal analytics and contract compliance on spreadsheets

learn more about **Revy CPQ**

MedTech Survey: Six Key Buyer Trends Reshaping Selling and Pricing Strategy

About This Survey

Model N partnered with Chris Provines, healthcare value selling and pricing expert, to conduct a survey of MedTech executives. The Survey included 50 MedTech participants.

Participants represented all parts of the industry including:

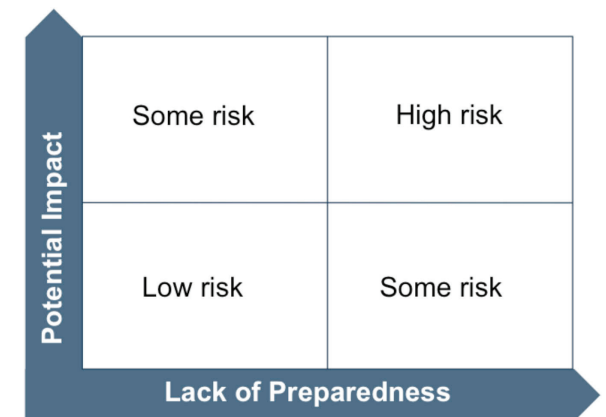
- All major segments of the MedTech industry
- All key functions – sales, marketing, corporate accounts, pricing and market access, contract administration and general management
- Businesses ranging from less than \$100 million in revenue to businesses with greater than \$5 billion in revenue
- Global survey participants



How To Use This Survey

Each of the buying trends described in this report may have a different impact on various segments of the MedTech industry. For example, the “rep-less” sales model may have a different impact on the orthopedics segment as compared to the In Vitro diagnostics segment.

The key is to take each of the major buying trends, and understand the potential impact and assess your preparedness.



For a detailed report of the survey findings or to discuss the survey in greater detail, please contact your Model N sales representative or contact Model N at sales@modeln.com | +(1).650.610.4600