

Solution selling

Bringing the myth down to business reality

A Deloitte Point of View
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On the journey from volume to value

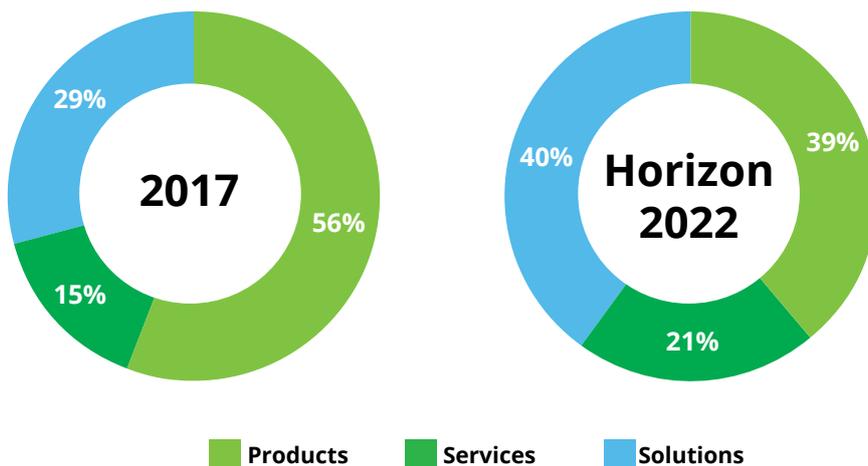
Over the last decade, governments have consistently increased financial pressure on the healthcare sector, resulting in healthcare providers (HCP) extraordinary focus on cost containment. In response to this ongoing pressure, combined with a changing consumer landscape, companies in the Life Science industry are going through a transformational phase where the most successful ones drastically revisit their value proposition and Go-to-Market strategies.

We can see a shift from selling products and services to delivering measurable results to customers, also referred to as the “output economy”.

As customers' expectations and modus operandi evolve, successful companies also morph and adapt their offering, redesign commercial and customer service departments so that they can reach all decision makers in this reshaped economic environment.

As this pressure is more likely to continue to increase, HCP and payers are now looking for more powerful levers to remove unnecessary costs from the value chain. A clear illustration is the value-based procurement process where organisations move beyond traditional product procurement, to embracing value-based models, as illustrated in figure 1.

Figure 1
% of products, services and solutions as a total of the procurement budget*



How to eat the Value-based Procurement elephant? A Deloitte point of view. © Deloitte 2018

In response to this accelerating trend, Medtech companies not only need to demonstrate the value of their products and services to a diverse group of stakeholders, but they must also, satisfy differing interests.

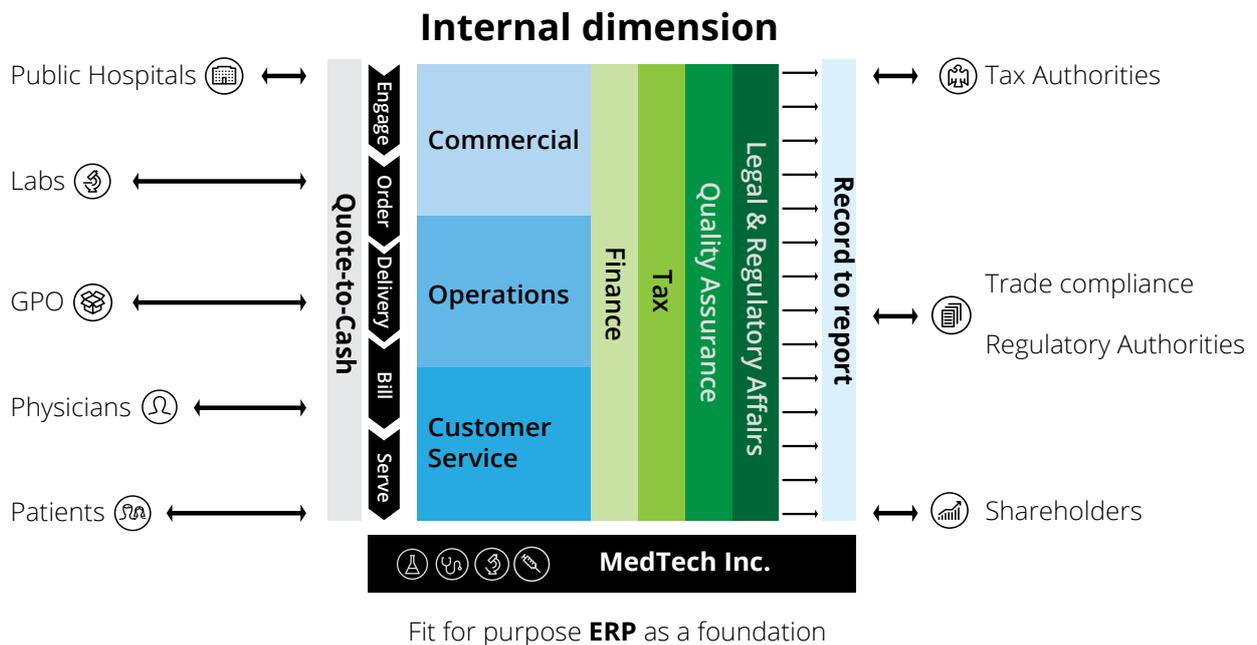
Therefore, Medtech companies scramble to meet HCPs' needs and start to offer solutions by creating holistic (care) platforms that evolve from a device-specific focus to managing patients in the broader hospital setting and in some cases across the care continuum. Such platforms of care aim at assisting providers and payers with one of their most pressing issues: the efficient delivery of high-quality, cost effective care.

Figure 2 - A simple framework to define "Solutions"



Bringing innovative value propositions to the market can deeply affect Medtech companies' internal processes. Indeed, beyond the appealing strategy, lie the challenges of a successful implementation. Led by the business, the commercial revolution is inevitable but will require some fundamental groundwork to ensure that supporting processes and tools evolve in parallel and truly enable MedTech companies to execute on their ambitious strategy...

Figure 3 - Illustration of MedTech companies' landscape



Note: illustrative and non-exhaustive representation

The business leads the charge...

If articulated correctly, these holistic platforms will generate added-value for all stakeholders, from an enhanced patient experience, to the opportunity for MedTech companies to revive suffering margins and integrate further within HCP's ecosystem.

However, no matter how appealing these new business models might seem from a commercial standpoint, their potential for internal disruption should be carefully weighted.

Beyond the design of solutions that might require strategic acquisitions, which is not the subject of interest in this paper, failing to prepare sufficiently could have far-reaching consequences, ranging from mere implementation and management obstacles to financial and legal implications. For instance, processes apparently as simple as invoicing might become extremely complex (which tax rate for which part of the solution,...?), and the inability to accurately do so, could put at odd the reputation of quality and service excellence at the heart of most MedTech companies' values.

In order to mitigate risks, one would ideally opt for a top-down approach and start by gathering functional business requirements around the proposed solution, before going to the market. Detailing these requirements down to process level will support the implementation of the solution and help identify gaps within the current set-up. Once the gaps in capabilities identified, the company can develop an action plan to configure at pace, avoid any internal disruption and ensure meeting tax and regulatory requirements in complete serenity.



And the functions feel the pain...

Implementing Solution selling strategy – QtC considerations

Challenges

Adapt the internal organisation to harness the commercial power of solution selling

That could result in...

Loss of visibility on business performance, resulting in difficulty to steer the business. Decrease in services levels as too many inefficiencies in client-supplier interactions along the Quote-To-Cash process. Profitability erosion due to incorrect pricing and difficulty to track the true end-to-end cost-to-serve. Inability to efficiently implement the solution at the customer, negatively affecting brand recognition in an ecosystem where quality is critical

And be avoided by...

Adopting a top-down approach and anticipating the potential issues by gathering functional business requirements before implementing solution selling

From an ambitious commercial strategy to a challenging implementation

All interactions with the customers, i.e. HCPs, occur along the quote-to-cash ("QtC") process. From the commercial team who designs and sells the solution, to the supply chain who delivers it and customer service who supports it, each are involved to a certain degree, in the implementation.

Currently, most MedTech companies are organized around products selling and only start creating and offering value added services. However they did not organize themselves around the combination of both, and certainly not to operate around concepts as complex as e.g. outcome based pricing which is slowly getting at the top of HCP's agenda. Solution selling will affect many process steps along the quote-to-cash journey: amongst others, sales, delivery and customer service.

From a sales perspective, the complexity of a solution will force organisations to reconsider the way the sales are organised. Firstly, increased and more complex interactions with stakeholders of all level at the customer will be required to develop, sell and implement the solution. Maintaining a coherent approach throughout and working "as one" requires a new governance and might generate unforeseen challenges. Secondly, pricing a solution will be more complex, but also requires the ability to track the true end-to-end cost-to-serve of the solution

throughout its lifecycle and within the entire organization. Delivering a solution also adds some complexity as the company must develop capabilities and quite possibly some new partnerships. More advanced capabilities such as maintaining a near real time holistic view on the solution's status; new partnerships to cover activities until then far from its core offering, such as waste disposal of consumables.

Integrating customer service at the early stage of the solution design will be crucial to avoid implementation issues arising at a later one. More specifically, it is vital to develop a full understanding of the ordering and billing process of the solution, especially when associated to innovative pricing models.

Finally, selling complex solutions also increase the difficulty to track profitability at a sufficiently granular level. Due to the complexity of these business models, companies need to redefine metrics to track performance and assess which data points will become critical in building an accurate picture of the business performance. The ability to zoom in/out, and look at performance with the desired granularity remains a key element to make duly informed and considerate managerial decisions.

The taxman always finds you

Implementing Solution selling strategy – Tax considerations

Challenges	Anticipate the impact on the company's tax position
That could result in...	Additional tax costs Fines, arising from incorrect tax filling
And be avoided by...	Test proof your operating model with your tax experts... Include them early to shape the model in a tax efficient way

The switch to selling solutions will certainly affect the tax position of the companies. From a tax perspective, moving to solution selling would require a review of the existing tax and transfer pricing internal policies but it can also result in opportunities.

Medtech companies that are shifting from the sale of product to the offering of solutions, often change their focus to the development of software and technology solutions. This change in focus might result in the shift of the value drivers of the business. The OECD Transfer Pricing Guidelines require an allocation of profit to value creation, based on principles of coherence, transparency and substance. Therefore, the entity that performs the functions and controls the risks related to the development of new technological solutions must be remunerated on an arm`s length basis.

Providing holistic on-site solutions to clients may include local deployment which may create, under certain circumstances, a tax presence for corporate income tax purposes.

Products, services and technology are often taxed differently. The new flow of transactions must be correctly classified in order to avoid double taxation and/or other tax leakage. This holds true specifically for VAT. The difference between 'a supply of goods' and the 'provision of services' will also impact the place where VAT has to be paid, where VAT needs to be accounted for, how

it is reported and what VAT rate should be applied. For medicinal products for example, reduced VAT rates could apply whereas for services standard VAT rates mostly are applicable. Bearing in mind that some customers may have no or a limited opportunity to recover input VAT (i.e. hospitals), a holistic service approach subject to a higher VAT rate may trigger an additional cost for clients. This could in itself impact the client's buying power, ultimately resulting in price and margin pressure.

The potential changes in the supply chain (due to new partnerships or globalization) could lead to changes in the VAT treatment of invoices (both AR & AP and their underlying indirect tax reporting) and may trigger additional VAT (registration) and customs obligations (i.e. duties, who act as importer of record, royalties and licensing).

The potential application of VAT exemptions to the new solutions should be looked at carefully as they may differ between the EU Member States. They could affect recovery of input VAT and trigger potential negative revisions on historic investments made.

Finally, careful consideration of tax aspects is key to preserve the company`s value creation strategy. Tax obligations should be assessed in a timely - early - and diligent manner to ensure that the benefits are not counterbalanced by additional tax costs.

Don't let the legal framework break your commercial strategy

Implementing Solution selling strategy – Legal considerations

Challenges

Remaining compliant, taking global, regional and local legal constraints into considerations, while developing solutions

That could result in...

Disputes with contractors and/or fines imposed by authorities

And be avoided by...

An efficient and careful contract drafting, thorough analysis of the solution implications

It is well-known that the life sciences industry is heavily regulated. So any outcome or value-based contract will need to fit well within the MedTech legal framework. Market access rules particularly are relevant as these types of contracts are at the heart of pricing and reimbursement decisions. Decisions are taken by national competent authorities, rather than at EU level. Subsequently a check will be needed if and to which extent the concerned jurisdiction actually allows medical devices to be in scope of outcome or value-based contracts.

When designing a value-based contract, pay close attention to the following legal parameters:

- **Pricing regulations:** how does the arrangement fit within the legally mandated reimbursement model of the health system. The basic idea behind value-based agreements is that in function of the results at the “point of verification”, the initial price and reimbursement conditions will be affected. Is this immediate? With retroactive effect?
- **Contractual best practices:** while certain terms and conditions could be prescribed by law, value-based arrangements are complex, and parties will need to carefully construe and define key concepts such as ‘price and reimbursement basis’, ‘value’, ‘patient population’, ‘outcome measurement’. There should also be a clear definition of responsibilities between parties, possible involvement of external independent experts to verify outcomes, contract duration and possible extension, etc.
- **Privacy and data protection:** these contracts require a significant amount of data analytics, including real world evidence. Appropriate safeguards for patient privacy and data protection should be put in place, in line with mandatory legal standards such as the EU GDPR.

- **Off-label use:** medical devices may only be promoted in reference of their intended purpose and may not indicate any markings or information which may be misleading. MedTech companies should thus always include an accurate overview of the design of the economic analysis of the proposed value-based contract so payors make an informed decision. Additionally, communication of healthcare economic information is typically only allowed to certain audiences.
- **Partnerships:** Bringing solutions to the market may involve partnering with third parties to fill possible capability or service gaps. The legal implications of such partnership need to be carefully evaluated, in particular given the risk-sharing characteristics of several arrangements. For instance, employee lending could be prohibited in certain countries, whilst subcontracting is only allowed if strict conditions are met and substantially documented.
- **Transparency and anti-kickback statutes:** several countries have so-called anti-kickback statutes (sometimes called sunshine acts or more general anti-corruption laws) prohibiting offering or receiving remuneration (broadly defined) to induce or reward referrals for items (incl. medical devices) or services paid for by healthcare systems. Certain arrangements – like value-based contracts – may well be exempted or fall under a safe harbor, but a case-by-case analysis is needed to avoid allegations that an arrangement (e.g. whereby manufacturer accepts risk for treatment failure and thus the healthcare system only pays in case of positive treatment outcomes) is viewed as remuneration offered to encourage the health system to favorably cover the manufacturer's product.
- **Competition laws:** MedTech companies with significant market shares should avoid anti-competitive practices such as tying, loyalty rebates, below cost-pricing, etc.

Can tech save the day?

Implementing Solution selling strategy – Tech considerations

Challenges

Ensure that the ERP is a supporting and enabling tool, not diverting you from your core business, i.e. selling and delivering the solution

That could result in...

An organisation being unable to implement the solutions it sells...

And be avoided by...

Replacement of the classical ERP system with software that supports solution based selling (future proof, agile, user-friendly,...)

Can your current ERP deal with it?

Selling tailor-made solutions to the customer would need to embrace the 4.0 customers' expectations... Reduced time-to-market, simplified sales process, improved customer experience, personalized pricing and loyalty offers, enhanced acquisition and retention mechanisms are some of the elements where the corporate world are putting their focus on nowadays.

Our experience has shown that classic ERP systems are not designed to cope with the more complex requirements associated with solution selling. To meet the dynamic character of these requirements, the technology systems supporting this new solution should offer different capabilities and functionalities in comparison to the more traditional product-based systems.

Core systems need to trigger activities in various applications. This implies that every process initiated by the customer, needs to be linked to various other

applications efficiently and effectively for the sales process to be successful. Subscription is the heart of the selling process allowing multiple follow-on activities such as delivery of the product, provisioning to a network system, creation of the invoice based on the signed agreement (one-time fees, recurring fees, pay as you go) etc... In addition, the system should also be able to introduce new technology developments to improve current processes such as the use of the Internet of Things ("IoT") to fetch usage-based data or blockchain capabilities, all adding value to the system architecture as a whole.

The customer experience should be at the core of everything we do. A user-friendly and intuitive ordering process is the start for every selling process. Removing the complexity of layered interaction with customers and an easy to use customer portal provides transparent and consistent information on the existing customer's contract base.

In a nutshell

“Bringing innovative solutions to the market could generate substantial benefits for MedTech companies who, by doing so, manage to integrate deeper in the HCP’s ecosystem as a partner of value. However, it is not a journey to embark on lightly. While the development of the solutions is fast-paced, failing to anticipate the possible impacts on legal and tax requirements as well as internal processes and systems could limit the efficient commercialization and reduce the value offered. Beyond, efficiently bringing solution to the market will require more than product, services supported by a contract... The role of data is ever increasing and here again will be central to a successful commercialization.

Finally, taking the time to carefully consider the different facets through a collaborative, cross-functional and holistic approach, will allow to underpin the required changes.”

Striking the difficult – yet manageable – balance right between MedTech innovation & healthcare spend on the one hand and compliance (in a highly regulated landscape) on the other hand is key. To that end, compliance officers and legal counsel are essential to successful value base health care contractual development and implementation. “

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