

Contents

Future of Business Interaction	01
Introduction	01
Our methodology and the scope of the study	01
Business interactions throughout the Quote-to-Cash process	02
Major pain points	02
Key barriers to improved daily interaction	04
Digital maturity and digital openness	05
Drivers affecting change in the future	06
How to win	08
Looking ahead – who will lead the change?	10
Summary	11

Future of Business Interaction

Introduction

Today, digitalisation is provoking constant change in healthcare. Technologies and solutions such as wearables, Connected Care, the Internet of medical things (IoMT), and artificial intelligence (AI) are steadily gaining acceptance. And yet novel solutions to improve business interactions in healthcare have so far failed to be applied broadly and remain quite exceptional.

In areas outside healthcare, the way customers interact with companies has become digital to a large extent. Just think of companies like Amazon, Uber, Apple, or IKEA which have transformed the customer and user experience and created new expectations in business interaction. Selling, ordering, billing, payment, or tracking shipments is available at everyone's fingertips and 24/7.

Our observations, experiences and the results of the study we have conducted show something quite different when looking at interactions between MedTech companies, private and public hospitals and Group Purchasing Organisations (GPOs): a strong relationship-driven marketplace with powerful field sales organisations that keep old structures in place and characterised by a one-size-fits-all approach, with complex rebate models and bundles. Of course, the intention is to satisfy customer needs. But these models are too often offline and not fully compatible with downstream steps in the process and IT systems. They are therefore a root cause of much of the daily pain in back offices and negatively affect business relationships and the customer experience.

The larger MedTech companies, in particular, sell their innovative products in the same way as their larger portfolio of less differentiated or even commoditised products in complex processes, using large, expensive field sales organisations and with little guarantee of long-term business.

Factors such as cost and price pressures have strengthened the role of GPOs and tenders in Europe over the past several years. Innovative models such as value-based healthcare and value-based procurement must provide proof that they have had a positive impact on patient outcome in order to receive full payment. Consolidation of the MedTech industry has led to IT integration efforts that have created heterogeneous infrastructures and volatile global supply chains. A reflection of this is an increasing number of product stock-outs, and delayed orders which have become an everyday reality. These factors add to the complexity and inefficiency of transactions.

Equally, a lack of funding and delayed investment in the provider landscape have also blocked major improvements in existing interfaces such as Electronic Data Interchange (EDI) and platforms such as that provided by Global Healthcare Exchange (GHX).

This is particularly problematic, as providers are tending to focus their digital-related investments on improvements in the areas of care delivery and patient management.

All the above means that both top and bottom-lines are affected, through lost sales, contractual penalties, and frequent mistakes in the many steps of an often manual process. As a result, transaction costs are high on both sides, buying volume/value is of low reliability for the industry, and outcome commitment is also rather the exception, with efforts still dependent on non-standardised processes. And, perhaps worse, all this negatively affects the customer experience and satisfaction.

The current configuration of the industry is frustrating for all stakeholders, as it does not deliver value to a system that continuously struggles for funding and faces ever-growing business constraints, such as rising price pressures, increased regulation and more competition.

With this study, we shine a spotlight on the challenges in business interactions today. We aim to drive forward the discussion among stakeholders so as to find solutions that can be applied broadly, yielding benefits for all parties involved. To put it simple, we seek to answer the question of what it takes to make doing business with MedTech companies 'easy' for their customers.

Our Europe-wide study has identified the most frequent pain points and barriers to business interaction in the industry, and potential integrated solutions to overcome them. Moreover, our study participants indicated that improving business interactions could lead to savings of up to 25 per cent on Selling, General & Administrative (SG&A) costs and to revenue growth of up to 20 per cent. This should be a strong incentive to find new solutions, and also to continue and strengthen ongoing initiatives by countries, regulatory bodies, industry associations, individual companies, private and public providers, and GPOs.

Our methodology and the scope of the study

This report is the result of primary research as well as extensive experience supporting MedTech companies and healthcare providers in strategic and operational transformations across Europe.

The primary research component consists of benchmarking interviews in 2017-18 with representatives of the MedTech industry (i.e. senior management in sales, customer service, the supply chain and IT), GPOs and private and public healthcare providers (i.e. senior hospital management, procurement specialists, and medical staff) across European countries. Interim results were presented at the MedTech Forum in Brussels in February 2018.

The purpose of the study is to bring the topic of transforming business interactions on to leaders' desks. The study will be updated annually to help guide the process.

Business interactions throughout the Quote-to-Cash process

Major pain points

Friction in business interactions affects businesses every day. The symptoms can be observed at every step of the Quote-to-Cash process, from discovery to after-sales services, and are not specific to product categories, such as consumables, devices, or investment products.

When asked, interview participants reported that the major issues for MedTech companies were (see Figure 1):

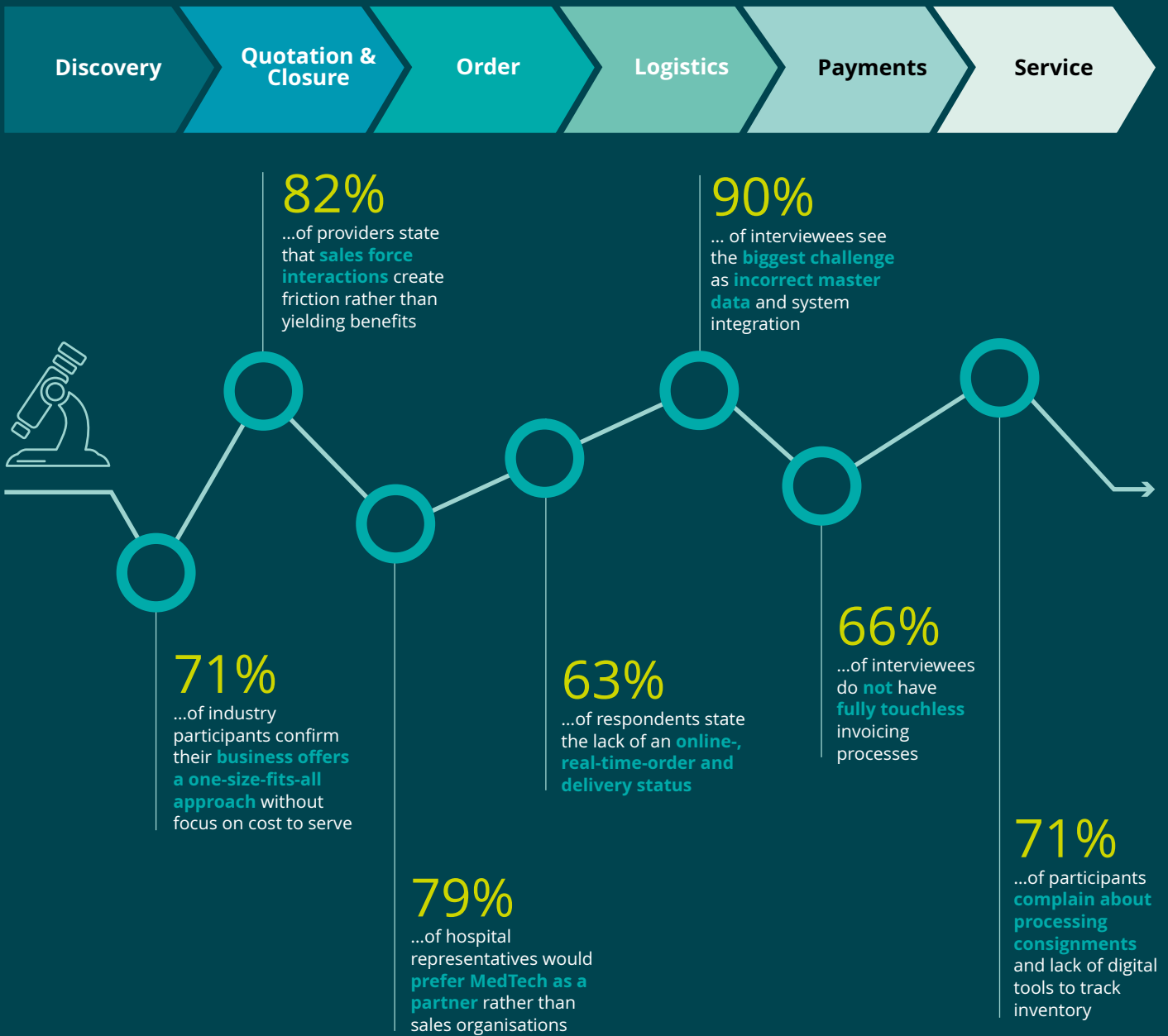
- In the view of 90 per cent of interviewees, operating on the basis of incorrect master data is the number one cause of flawed interactions, resulting in incorrect offers, incorrect invoices, wrong shipments, etc. To a great extent, this is also the view of stakeholders from hospitals. The frequently used model of cost-driven near-shore/offshore shared service centres amplifies the problem. Their often narrow focus on standardisation does not adequately reflect the complexity of actual business requirements and therefore does not achieve the level of automation that is aspired to. Equally, the number of non-digital and non-standardised decentralised order entries necessitates manual correction and adds to the scope for errors in the data.
- For 71 per cent of interviewees the lack of customer segmentation and the attendant market approach are a major problem. Each business in a company needs to employ a dedicated field sales force, often duplicating efforts for single accounts with a high-cost, one-size-fits-all approach. In particular, digital channels are often outdated and/or have limited connection to back-end systems, leaving them constantly underutilised.
- For 63 per cent of interviewees the absence of an online or real-time order and delivery status constantly creates a need for communication with or about the customer, both internally and externally. Equally, individual pricing and contracting schemes lead to high error rates and disputes over the correct price levels and rebates. This affects sales, as well as customer service, as missing products lead to complaints and contractual penalties from customers.

Hospital stakeholders had a different perspective (see Figure 1):

- In the view of 82 per cent the high number of visiting industry representatives disrupts the hospital routine without adding value for patients. Multiple calls and visits to the same group of people by the same company are viewed to yield little or no value-add. Providers contacted said they want a pertinent and focused meeting with the product specialist, not a lengthy relationship-building session. They also find it frustrating to be given as many as 30 different contact options for one company, yet often none that will take comprehensive responsibility for issues and requests.
- For 79 per cent of interviewees, providers seek MedTech companies as partners rather than sales organisations; that is, they wish to form a close relationship and align supply and demand needs more seamlessly. This includes further integration of systems so as to exchange information, place orders, and review existing contracts more easily. At present the situation is almost the opposite of this. Communication on back orders is scarce, shipments arrive in the wrong locations or the wrong quantities, and invoices frequently do not reflect the agreed rebates. But to identify and contact a responsible person to resolve particular issues on the supplier side can be cumbersome.
- It is the opinion of 71 per cent that management of consignment stock creates a large amount of duplicated work for healthcare professionals, obliging them to document usage, and for the hospital administration, which needs to dispute incorrect invoices. This is an issue which is equally relevant for MedTech companies as no satisfactory digital solutions are integrated into companies' order management process, leading to frequent errors and stock discrepancies.

Figure 1. Major pain points in the Quote-to-Cash process

Study participants share a common perspective on major issues. Providers often question the value of a sales force. Incorrect master data is industry's main issue.



Key barriers to improved daily interaction
If the pain points are so evident and solutions outside the industry are available, what is preventing substantial improvements in business interactions?

Figure 2 depicts the key barriers mentioned by the MedTech companies and providers. The top barrier for the MedTech companies is a commonly perceived lack of management attention to the need to enhance systems and manage master data in line with their value to the company. Some participants stress that the value added by data is not apparent enough – and the commercial side, especially, does not recognise the benefits, both from a financial perspective and with regards to the customer experience. Interviewees frequently stated that these problems, together with insufficient data governance and the pressure of quarterly reviews stalled any advance towards more digital services. Providers, on the other hand, state that the right technology is not yet available. This fuels the challenges of complexity. A multitude of supplier-specific platforms, a lack of standards, and insufficient interfaces to exchange data are only some of the missing pieces for hospitals.

A major hurdle for both groups is the high investment needed to improve digital infrastructures within their own organisation as well as provide the relevant interfaces.

For the MedTech industry this involves mainly additional integration between systems and the upgrading of existing systems, according

to the results of the study. This is commonly evidenced by an ‘Excel-Tool mentality’ within the organisation, bridging and working around IT infrastructure, and data integration shortcomings, and frequent weak points using ad hoc fixes, and thereby generate decentralised product and supply chain information.

For public providers in particular catching up with digital standards in the first place is the problem. Study participants stressed the big investment backlog in IT solutions and low overall digital maturity. Moreover, hospitals prioritise other IT projects, such as electronic patient records or electronic patient flow management as they have the greater impact on their operations. In addition, the number of platforms for business interactions is large, given the variety of categories which a hospital sources, aside from MedTech products.

The level of complexity is another shared barrier for the MedTech industry and providers, barring them from improving their business interactions.

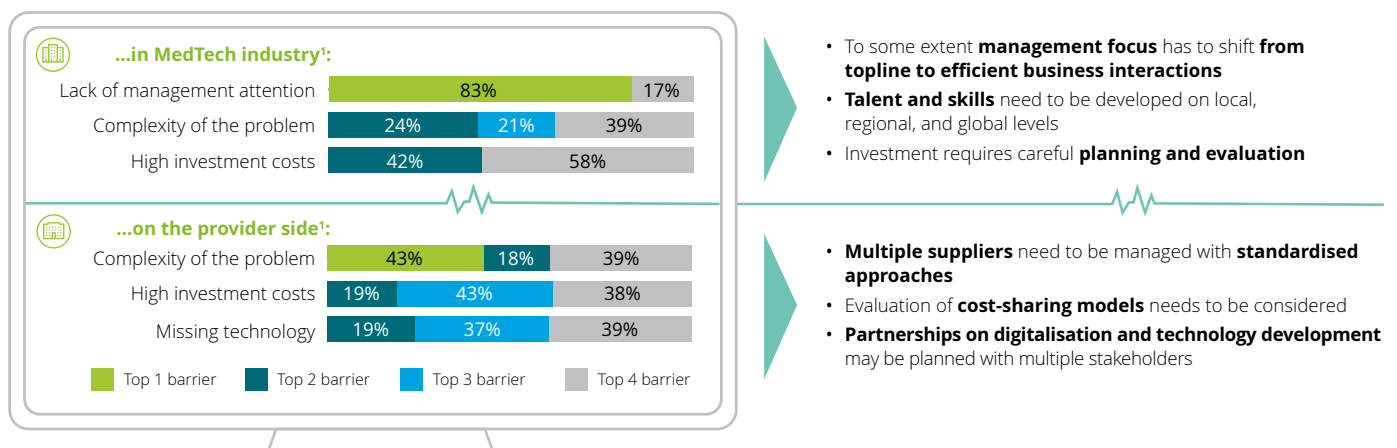
Many MedTech companies lack system integration following frequent acquisitions. Another problem is weak or missing governance structures for data management.

Providers frequently start with a lack of skilled employees experienced in digitalisation. Thus unable to grasp the challenges across functions, product categories, hospital processes, and how they might be addressed by digital solutions.

Figure 2. Key barriers to improvement

Both the industry and providers in Europe are willing to improve business interactions but face substantial barriers

Key barriers to improvements, as rated by the interview partners are...



Note: Regulatory challenges and missing support from industry/provider side were considered not in the top 3 barriers, (1) % of interviewees who ranked the barriers accordingly

Digital maturity and digital openness

Our study shows that MedTech companies are open to innovation in interactions with their customers.

Participants stated that a change in the business model is considered valuable (see Figure 3), especially when combined with an appropriate segmentation. Interviewees mentioned a number of pilot programmes and trial settings, for example remote sales, integration of Operating Room planning and sterilisation, touchless orders, which they launched with specific customer segments, or in certain geographic regions and/or parts of their portfolio in order to drive sales and optimise service costs.

On the other hand, MedTech companies consider themselves rather average in terms of overall digital maturity compared to their direct competitors. Stakeholders reported that, apart from key barriers, the success of pilots and trials is often difficult to measure, therefore preventing broad roll-out and the upgrading of overall systems. No leading company was identified as shaping the market or taking the lead in transition.

Providers are more conservative when discussing opportunities to exchange data and integrate systems (see Figure 3). Many participants attributed this to a lack of partnership in relationships with MedTech companies. Another reason was sensitivity about data security and whether the industry would be able to handle that data while respecting patients' interests. Those participants who were more open to integration still rate their hospital as reluctant as they would not have the right technology and infrastructure at hand, yet.

Overall, hospital respondents consider their digital maturity rather low across Europe. When asked, hospital stakeholders perceive themselves as having below-average digital capabilities compared to their peers. When asked for Best-in-Class examples, interviewees frequently mentioned private hospital chains or larger university hospitals as they were more able to leverage solutions across multiple hospitals or receive better funding.

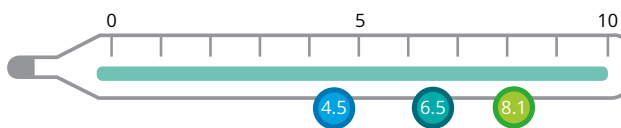
For smaller and remotely located hospitals the situation and outlook appears worse. As interviews showed, stakeholders hardly see the case for improving interactions and are focused only on medical needs and challenges.

Figure 3. Digital maturity among the players

While MedTech companies are more open to digitalisation than providers, it is still uncertain who will drive change in this field

Digital openness (on a scale from 1 to 10)

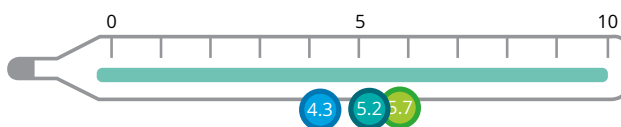
Completely reluctant to share data with business



Change business model, moving to completely touchless processes

Digital maturity (on a scale from 1 to 10)

Lagging behind competitors and not considering digitalisation as a strategic priority



Building best-in-class readiness, capabilities, and infrastructure toward digitalisation

- Interviewees are **open to digitalisation**, but reality and **digital maturity are lagging behind**
- MedTech companies and providers are **willing to leverage digitalisation** as a key enabler to efficient business interactions
- MedTech is **uncertain who will lead future change**: MedTech vs public/private providers vs GPOs vs regulators

● MedTech ● Provider ● Average MedTech and provider

Note: Based on interview results

Drivers affecting change in the future

On a broader level the study identified a number of drivers affecting the future of business interactions.

Among the drivers, the direction of travel can be described with more certainty (see Figure 4):

- continuing consolidation of the market for MedTech companies
- continuing consolidation and internationalization of hospitals
- continued improvement in operational excellence in hospitals and MedTech companies
- increasing relevance of data and data analytics with regard to buying behaviour, demand patterns, services, and service offerings, etc.

The study also identified a number of drivers as being rather uncertain. For those drivers the direction of travel was described differently by stakeholders and study participants. Hence their impact and influence on the environment remain opaque. Key uncertainties are (see Figure 4):

- the development of common data standards and transaction platforms. Will there be a single platform and common set of standards across the portfolio and across Europe? This is highly dependent on topics such as EU regulation, data privacy, and the willingness of players to partner within the market

- the use of power to influence transactions. The question is whether the market will focus on full transparency on net price per product or consider the total cost of ownership. This again is highly dependent on factors such as the public health budget and investment in infrastructure, the future role of (pan-European) private hospital chains and GPOs, and the degree of customisation of healthcare services
- thirdly, the emergence of aggregators, which is strongly connected to integration along the healthcare value chain, portfolio aggregation, and the role of outsourcing partners.

These uncertain parameters are likely to determine the direction towards a future scenario. Will there be 'paralysis', and a focus on cost-cutting, process optimisation and transactional partnerships, or will new business models and partnerships emerge that operate on a single platform with a pan-European standard, a forward looking solution, knocking on heaven's door (see Figure 5)?

Both, MedTech companies and providers should monitor these developments and adapt their strategies accordingly when the direction of travel changes.

Figure 4. Drivers affecting the future of business interaction – Extract

We need to monitor the uncertain drivers that affect the development of business interactions to understand which future we are heading towards

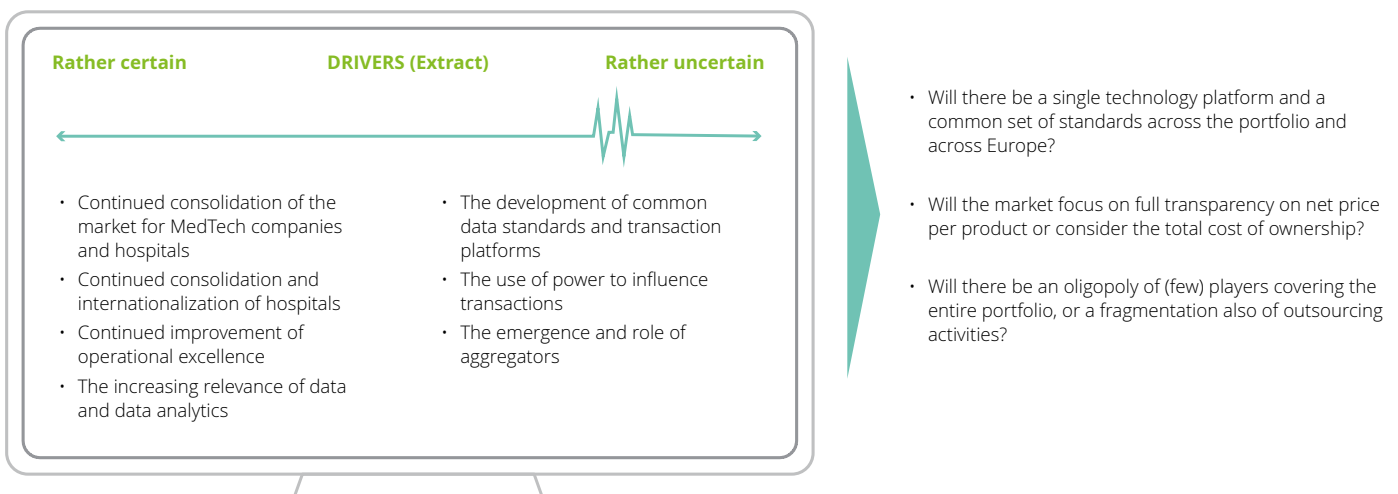
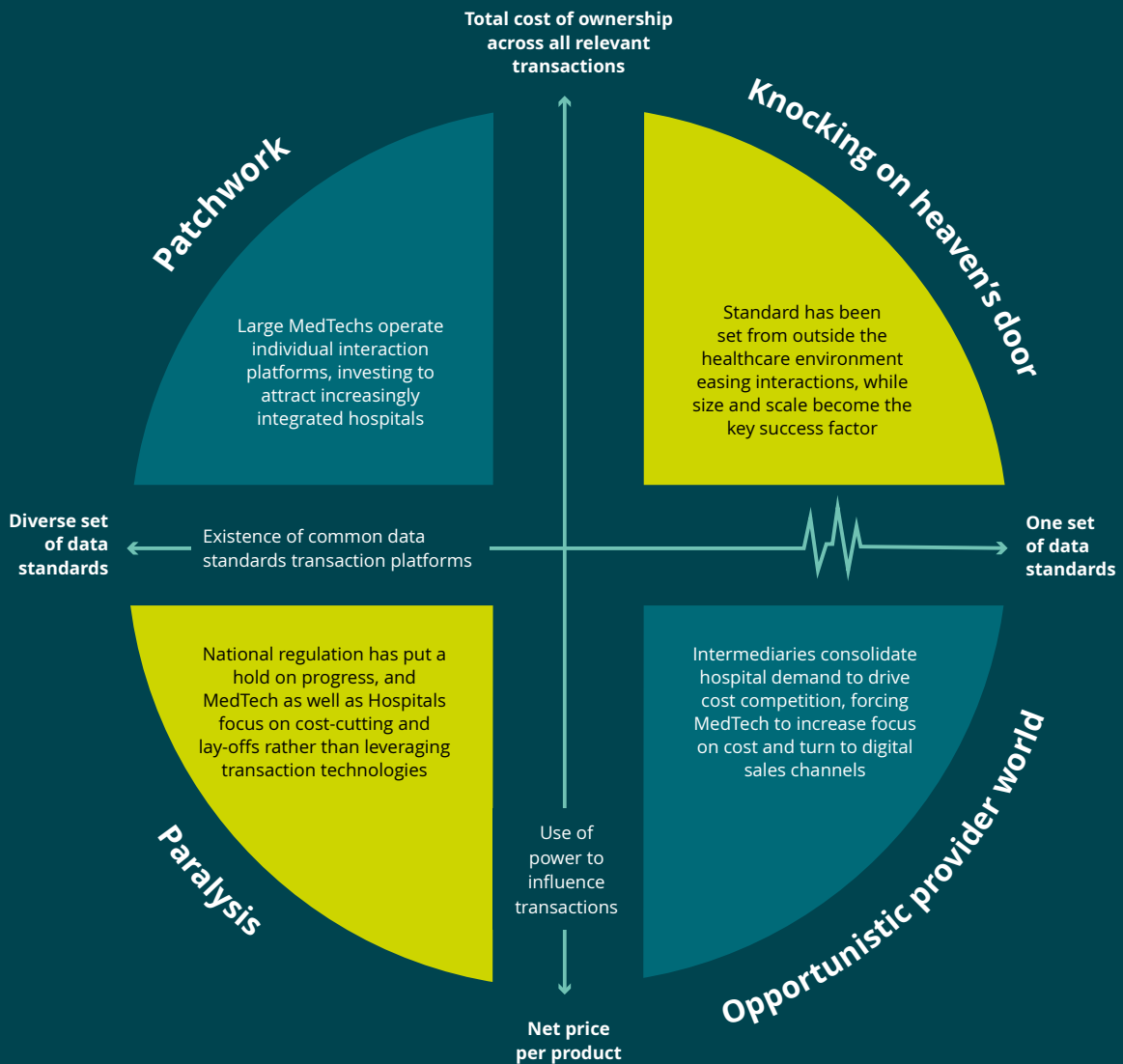


Figure 5. Future of Business Interaction Scenarios/High level narratives

Building on our study results, we went into a scenario process to go beyond the short and mid-term impact and identify what is relevant for MedTech by 2030



How to win

Considering the multitude of pain points, the variety of barriers, and the different degrees of digital openness, the study participants indicated substantial improvement potential of 25 per cent in the bottom line and revenue increase of 20 per cent (see Figure 6) for stakeholders.

To ensure that the impact on the bottom line is positive, an aligned and harmonised data structure is needed. It significantly reduces the risk of errors along the Quote-to-Cash process and is a precondition for process automation. It also increases the transparency of transaction costs, and thus provides insights about the root causes of inefficiency.

Common standards and product codes will also make digital interfaces to hospitals more effective and ultimately allow for truly end-to-end touchless ordering.

An improvement in digital standards will allow robotics and automatic solutions to be applied more broadly and be less error-prone. The resources freed can be redirected to improve customer satisfaction further.

These improvement efforts should all aim to make interactions robust, reliable and transparent. To realise an increase in share of wallet, additional means are required in order to make doing business 'easy' with MedTech companies for hospitals.

For MedTech companies this means moving away from the classic one-size-fits-all approach and turning to more innovative and segmented sales models with an increased focus on the customer experience, exploiting the potential of master data management. In turn, this implies centralising customer information and applying data analytics to understand customers' demands, buying patterns and expectations better. MedTech companies will also need to segment customers meaningfully and actionable in order to adapt their product and service offerings accordingly.

Organisational structure will also need to change, and more direct, digital channels will need to be introduced, together with adequate governance models to maintain quality, drive standards, and maintain management focus.

Investment should be made following a clear strategy and use cases, that is, a plan as to what interaction is targeted, what information is needed, where it can be obtained, and – most importantly of all – the added value business case behind it. This needs to be agreed and aligned with sales, but also with support functions, to ensure an end-to-end perspective and prevent problems further downstream.

Finally MedTech companies should strive to shift their relationships towards true partnerships. On the one hand this involves more transparency with regard to data, prices, stock levels, procedures, etc.

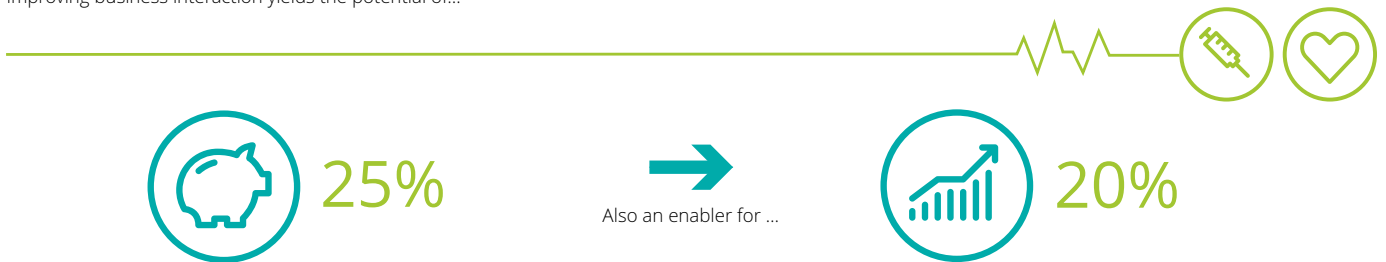
Moreover it involves contracting on a long-term basis, sharing risks, and looking jointly for potential improvements. It will also involve acting as one company, with a small number of contact points, handling customer requests across business units and divisions.

Through the increased use of digital channels efficient segment-specific go-to-market models, e.g., digitally enabled remote sales forces, can be employed.

The study shows that these ideas and solutions are not entirely new. Examples of pilot schemes and other efforts emerged in our interviews. However, these solutions largely remained isolated and companies struggle to apply them on a broader scale.

Figure 6. Potential to improve bottom-line and top-line

According to study participants, improving business interaction yields the potential of...



SG&A savings

- e.g., **harmonised and aligned data structures** and master data using a single, **online platform/pool** for exchange will lead to **fewer** error rates through increased transparency and simplification
- **reduced workload and increased customer satisfaction** through improved quote-to-cash process efficiency and more electronically-managed transactions
- **reduced organisational complexity** through better integration of sales force and its sizing

Revenue growth via increased share of wallet

- e.g., moving **from a classic sales approach** (e.g. more sales reps, more products) **to innovative sales models** (e.g. consignment strategy, provider relationship data base) with the objective to improve customer experience
- **provide differentiated services** aligned with providers' demand, e.g. remote sales and services
- **acting as partners** (provider and industry) on the basis of transparency and trust

2018 Monitor Deloitte

Looking ahead – who will lead the change?

It is at present unclear who will lead the process of changing business interactions. Industry organisations, regulatory bodies, industry players, healthcare providers and GPOs are taking more or less broad approaches and actions. So far, no single solution has emerged, either to improve or disrupt the future of business interactions.

A number of different conclusions can be drawn from the study regarding the position of stakeholders, existing barriers, and the drivers affecting the way business is done today:

For **major MedTech companies** a potential way forward is likely to be through formation of a consortium. As with the efforts leading to the GHX platform, the companies may have sufficient market power and portfolio breadth to align standards across the MedTech product categories and forge a single technology platform. Moreover, they may be in a position to fund investment in infrastructure, both on the industry and the provider sides. Equally importantly, they may wield a sufficient combined market presence across Europe and globally to deal with regional differences, thus removing complexity and providing sufficient funding. This would allow MedTech companies actively to shape change and maintain some bargaining power over hospitals.

For **leading providers**, on the other hand, the growing private hospital chains are already driving a change in the way transactions are done today. They quickly add acquired hospitals to their systems and enable them to operate more digitally. The emergence of pan-European private hospital groups is likewise putting providers in a similar position to the industry: they can introduce or demand new selling and value-based care models in order to examine more closely the total cost of ownership.

Together with wholesaler networks, providers have another option to increase their reach and bundle interfaces outside the individual hospital. This would again increase pressure on the industry to provide further transparency.

Leading GPOs, meanwhile, have been a driver behind digital platforms and data exchange. Given the number of hospitals contracted, these platforms provide benefits for them as well as for the providers. But increasing competition between GPOs has stalled the progress, according to our study participants. Their focus on isolated solutions and defending their business from rivals is making it more and more difficult for customers, both in hospitals and the industry.

It also appears possible that more or less independent **Third Parties** will be able to offer simpler solutions that bundle MedTech products with other products frequently sourced by hospitals.

Other factors that may drive change need to be considered as well when looking into the future. The direction of value-based care, the number of platforms, and the level of competition and consolidation will also determine the speed and type of shift to expect.

Summary

Business interactions between MedTech companies and providers are affected by a number of flaws in the Quote-to-Cash process. Neither have adopted digital solutions for efficiency increase nor leveraged innovative interaction models to improve customer experience. The industry's go-to-market models are still characterised by strong field sales organisations and a one-size-fits-all sales approach. Providers are lagging behind significantly in digitalisation and infrastructure.

The potential for improvement is therefore substantial, as companies could realise significant efficiency gains and revenue growth by improving their interaction models.

However, high effort is required to overcome existing barriers and implement innovative selling approaches. A directive for change needs to be supported by top management and embedded in the company's strategy.

Implementation will require changes at multiple organisational and functional levels. Management must ensure that siloed solutions and pilots are rolled out on a large scale and have a chance of becoming standard.

Change will be driven not only by the industry. There are a number of drivers that will have an effect on the transition such as the availability of pan-European data standards, the variety of platforms, and the future role of GPOs.

It is at present unclear who will lead the change and who will emerge as winners in the race. The industry needs to be prepared and should offer solutions in order to stay ahead and lead the way towards a promising future with benefits for all stakeholders.

Figure 7. Summary

Business interactions can be improved through an enhanced customer experience and digitalisation to secure profitable growth for all stakeholders



2018 Monitor Deloitte

Contacts

Authors

Michael Dohrmann

Partner, Germany
Lead of the Deloitte's
EMEA Center of Practice
for MedTech
+49 (0)89 29036 7638
mdohrmann@deloitte.de

Florian Klein

Director, Germany
Lead of the Center for
the Long View
+49 (0)69 9713 7386
fklein@deloitte.de

Koen Segers

Director, Belgium
Life Sciences and Healthcare
+32 (0)2800 2373
kosegers@deloitte.com

Georg Selle

Senior Manager, Germany
Life Sciences and Healthcare
+49 (0)151 5800 2615
gselle@deloitte.de

Christian Bjerrekaer

Senior Manager, Denmark
+45 (0)5080 3333
cbjerrekaer@deloitte.dk

Gonzalo Casino Fernandez

Director, Spain
+34 (0)9 3253 3695
gcasinofernandez@deloitte.es

Alexander Mirow

Partner, France
+33 (0)1 5837 9609
amirow@deloitte.fr

Federico Rigato

Senior Manager, Italy
+39 (0)02 8332 3218
frigato@deloitte.it

Hanno Ronte

Partner, United Kingdom
+44 (0)20 7007 2540
hronte@deloitte.co.uk

Ibo Teuber

Director, Germany
+49 (0)89 29036 7839
iteuber@deloitte.de

Gabriele Vanoli

Partner, Switzerland
+41 (0)58 279 9161
gvanoli@deloitte.ch

Acknowledgements

Special thanks to all interview participants for their time and insights on this topic.



Deloitte Consulting GmbH ("Deloitte") as the responsible entity with respect to the German Data Protection Act and, to the extent legally permitted, its affiliated companies and its legal practice (Deloitte Legal Rechtsanwaltsgesellschaft mbH) use your data for individual contractual relationships as well as for own marketing purposes. You may object to the use of your data for marketing purposes at any time by sending a notice to Deloitte, Business Development, Kurfürstendamm 23, 10719 Berlin or kontakt@deloitte.de. This will incur no additional costs beyond the usual tariffs.

This communication contains general information only not suitable for addressing the particular circumstances of any individual case and is not intended to be used as a basis for commercial decisions or decisions of any other kind. None of Deloitte Consulting GmbH or Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/de/ueberUns for a more detailed description of DTTL and its member firms.

Deloitte provides audit, risk advisory, tax, financial advisory and consulting services to public and private clients spanning multiple industries; legal advisory services in Germany are provided by Deloitte Legal. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 264,000 professionals are committed to making an impact that matters.

Issued 5/2018

Designed and produced by Deloitte CoRe Creative Services, London. 127233