Analyzing the Medtech Industry: A Predictive Tool in Healthcare

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R egular readers of American Health & Drug Benefits know that I like to peruse the literature from consulting companies and industry-related think tanks. A recent report from PricewaterhouseCoopers (PwC)—Operating Performance in the Medtech Industry: Trends and Imperatives1—really caught my eye.

We would likely all agree that the medical technology industry faces challenges on multiple fronts. We are still digging out of a recession, which has only increased the emphasis on cost containment as it relates to healthcare spending. According to PwC’s report, “high growth and profitability [in the Medtech industry] have given way to slower growth and flat profits, and total shareholder returns for Medtech companies have been declining over the last few years.”

In an effort to objectively evaluate different types of Medtech companies and to assess their strategies moving forward, PwC created a tool called Operating Performance Index (OPI). According to the report from PwC, the OPI “incorporates key operational drivers that can be analyzed using publicly reported data.” The OPI metric takes into account certain primary measures, such as revenue growth rate, operating profit, and invested capital productivity. Secondary measures include, among other things, labor productivity, growth margin, and inventory management. A more detailed discussion of the OPI is included in the full PwC report.

The objective of the OPI is to enable astute observers to better understand the entire Medtech industry and all of its segments. PwC defines the following topics as the core areas within the industry—in vitro diagnostics, medical consumables, medical equipment, implantable devices, and diversified life sciences companies.

Using the OPI, PwC researchers examined operating performance across the entire Medtech industry from 2005 to 2011. Several key trends have emerged from this analysis:

1. The highest performing segments in the industry are in vitro diagnostics, implantable devices, and diversified life sciences companies. In fact, in vitro diagnostics have steadily improved to become the leading segment within the Medtech industry.

2. Although there was wide variation in growth rates among the various segments before the 2008 recession, all 5 segments have since converged around single-digit growth rates.

3. The implantable devices segment has shown maturation of the cardiology and orthopedic implant markets. In addition, significant changes have been taking place in purchasing dynamics and buyer behavior.

4. Operating performance in medical consumables has consistently lagged behind the rest of the industry. According to the PwC analysis, “the segment also ranks among the lowest in several dimensions of overall efficiency, exhibiting, for example, the lowest gross margins, poor inventory management, low asset productivity, and labor productivity that is significantly lower than that for other segments.”

5. The diversified life sciences segment has been relatively stable over the years compared with other segments, likely because of its diverse product portfolio.

Assuming that the OPI is an effective tool to analyze the Medtech industry across these 5 segments, what advice does PwC have for this entire sector moving forward? The following discussion outlines what I consider to be the 4 take-home messages from the report.

Take-Home Messages from PwC’s Report
A Clarion Call for Broader Innovation

PwC says that “in the future, Medtech companies will need to take a broader view of innovation. With the growing emphasis of healthcare costs and quality, new product innovation may become less important than, for example, clinical effectiveness, improved patient outcomes, and/or improved healthcare efficiency.” I surely would agree with this assessment. Innovative companies, such as Endo Health Solutions and others that have been mentioned in my previous columns, are attempting this integrative strategy with an emphasis on quality.

Move Up the Productivity Curve

PwC notes that with “increasing pricing pressures, slowing growth, and threats to profitability such as the impending medical device excise tax in the United
States, it is imperative for Medtech companies to keep taking cost out of [its] operations."

Transform the So-Called Go-To Market Model

This means that the ecosystem is changing. Medical device buyers are consolidating and the influence of physician preference is waning. As a result, these factors create new decision makers and new types of buying criteria. I interpret this transformed "go-to market model" as meaning recognition of the growth of integrated delivery systems, accountable care organizations, patient-centered medical homes, and the like. As the healthcare market evolves, strategies in going to market must also change.

Revitalize Growth Strategies for the Future

PwC notes that Medtech companies must explore new avenues for growth, including emerging markets. Companies should also consider what they call "inorganic" growth strategies. Although traditional acquisition and integration strategies are common, more creative strategies may include codevelopment through partnerships and alliances, and a variety of out-licensing approaches.

Returning to the primary OPI metrics of revenue growth, operating profit and invested capital productivity, if one assesses these core characteristics in any new Medtech segment company, astute observers could better predict a firm’s short- and long-term performances.

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It would be an interesting exercise to use the OPI tool to assess your organization. Are you willing to compare yourself to the best in breed in each of the 5 Medtech industry segments to see how you stack up? Obviously, there are many wonderful companies in each of these segments already. The OPI tool is very impressive: I believe that PwC has hit on another clever way to help us better understand rapidly evolving markets, such as the Medtech industry.

As always, I am very interested in your views. You can reach me at david.nash@jefferson.edu, or via my blog at http://nashhealthpolicy.blogspot.com.

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