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Lack Of Monetization Know-How Hits Price Margins For Medtech

by Tina Tan

One in five medtech companies in Europe feel they are not capable of fully monetizing innovations they are putting out into the marketplace, according to Simon-Kucher & Partner's latest "Medtech Barometer" report. Subsequently, firms are not offsetting losses arising from persistent price erosion, and this is impacting profit growth, the survey findings suggest.

Pricing pressures persist in the medtech industry, but the biggest challenge that companies are facing is how to fully monetize new products, services or solutions that they bring to the market. As a result, firms struggle to mitigate the effects of continuous price erosion on their existing product lines and profit growth stagnates.

These are the findings from Simon-Kucher & Partners' 2017 Medtech Barometer, an annual survey of the European medtech industry about expectations for the year ahead.

Medtech Insight had an exclusive preview of the survey responses prior to the official unveiling, which is planned for March 22 at SKP's [9th European Medical Technology Strategy Forum](#) in Frankfurt, Germany. The responses came from 33 C-suite executives, functional heads and private equity investors operating in the EU medtech sector.

Outlook Positive, But Prices Down

The overall outlook of the respondents was positive for 2017, with 55% expecting business to be better this year than 2016, 36% expecting it to be the same, and only 9% expecting it to be worse than last year. Increasing penetration in developing markets and rising investments in health care due to aging populations were cited as reasons for optimism, while pressure from low-price competition and increased procurement professionalization were central concerns that clouded the 2017 outlook.

What was surprising in this year's survey findings are just how dramatic the average price drop is expected to be for 2017, compared to previous years, according to Joerg Kruetten, head of SKP's global life sciences practice.

"For the medtech industry, which is so innovation-driven, price erosion in itself is nothing traumatic," Kruetten told *Medtech Insight*. "As products mature, it is expected that they cannot command the same price range as when they first came out. That's fine and companies can still operate at a decent margin, as long as they launch new products that achieve a price premium, which then stabilizes and balances out the price erosion."

"Services, traditionally in the medtech world, are provided free of charge, and that expectation of free service continues, while product prices are going down," says Joerg Kruetten, Simon-Kucher & Partners.

In SKP's prior-year pricing surveys, respondents expected positive – albeit small – price increases, of 0.34% in 2015 and 0.35% in 2016. As Kruetten pointed out, this reflects the impact of product innovation launches to offset pricing pressures on legacy products. However, in the 2017 Medtech Barometer survey, respondents forecast that the tide will turn, expecting average prices to actually fall 0.32% in 2017.

"We were surprised to see the drastic change," said Kruetten. "It seems the price situation has got even worse; companies are not able to stabilize price to the extent that they have been able to in the past. Customers are forcing companies to lower the price on existing products, and they are not willing to pay the premium on the new product."

Challenges Of Monetizing

The key reason, it appears, is the lack of understanding among companies on how they can extract the most value from their innovations and then monetize the opportunity. Indeed, when respondents were asked to rate themselves on their competency in monetizing the potential of their new products, new services or new solutions, using a scale of one to five (one being not competent and five being very competent), the best score was a mediocre 3.06 for monetizing products. The median rating respondents gave themselves for monetizing new services was 2.52 and the median rating for monetizing new solutions was 2.45.

Kruetten explained why companies believed themselves to be best – relatively – at monetizing products, as opposed to monetizing new services or solutions. "The traditional medtech business model is very much product- and technology-centered. Many companies are more comfortable about determining a price for products than with services," he said.

"Services, traditionally in the medtech world, are provided free of charge, and that expectation of free service continues, while product prices are going down," Kruetten explained. "It is very difficult to start charging for services because customers are used to getting it for free and it is even harder to prove that providing services might lead to securing more traditional product business. Those are the key challenges in the context of service monetization.

"On the solutions side, that is a big trend right now, that companies go beyond offering pure devices, pure products. These solutions – for example, Medtronic is now offering to run cath labs as a solution for hospitals – require very comprehensive contracts. Selling these solutions and deploying them over a period of 3-4 years while making sure you are getting return on investment is a very complex and challenging undertaking."

To successfully monetize innovations goes far beyond plain product- and feature-selling, advised Kruetten. SKP has these tips to help companies realize more fully the potential of their new products, services and solutions:

- Product monetization:
 - Demonstrate and sell true added value
 - Translate added value into incremental willingness-to-pay
- Service monetization:
 - Leverage services to differentiate and drive revenues
 - Balance service investments with account profitability
- Solution monetization:
 - Drive customer lock-in and reduce "pure" price pressure through integrated and comprehensive solution offerings
 - Access new value pools and generate incremental revenue through intelligent solutions beyond pure product

A fourth element to innovation monetization that companies can capitalize on, according to SKP, is the growing trend in digitalizing healthcare. Here, the strategy and marketing consultants advise companies to use digitalization opportunities to generate added value and

drive solution offerings.

For more information about results of the Medtech Barometer and/or SKP's 9th European Medical Technology Strategy Forum, contact Joerg Kruetten at joerg.kruetten@simon-kucher.com

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