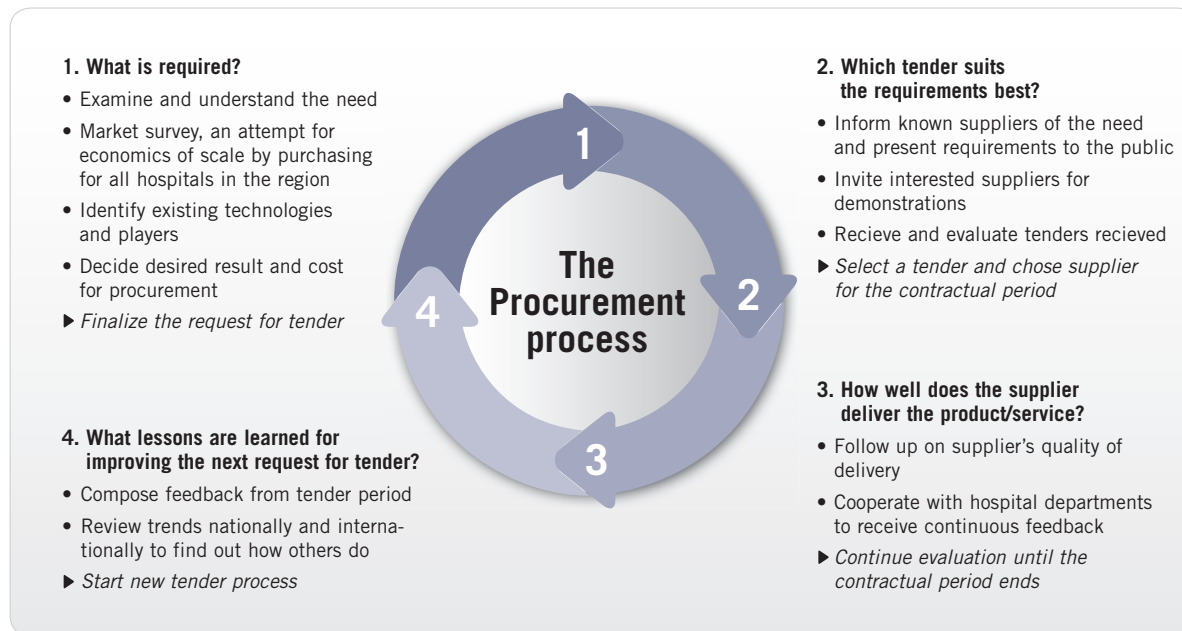


MedTech Procurement process

OPTIMIZING VALUE WITHIN THE PUBLIC DOMAIN

As a company selling products on a business-to-business or business-to-consumer market, you are relatively free to choose the marketing and selling approach that you find most suitable for the occasion. For MedTech companies operating on the Swedish market, the situation is different.

Normal business-to-business companies can benefit from studying MedTech suppliers and the conditions wherein they operate. The business follows the law of public procurement which sets boundaries for all actors on the market. The procurement system within the MedTech industry has received a lot of attention in media lately. It has been criticized from both suppliers of MedTech products and the county council's sourcing divisions. Does the system deserve the criticism?



In a European perspective, the law of public procurement has its base in EU directives, but is adapted by each member nation to suit its needs. Across the European Union, business bound by the directives makes up for 12% of the EU GDP. In Sweden, it is the LOU (Lagen om offentlig upphandling) that regulates this process, which is applicable for MedTech companies as well as for others selling to public organizations. An overview of the formal steps in the process from the county council's perspective is presented in Figure 1. In addition, the supplier's selling efforts also span other activities, e.g. approaching physicians for marketing purposes and to get feedback.

From interviews with suppliers, governmental bodies and domain experts, several weaknesses in the current procurement system for the MedTech industry have been identified. Discouraging innovations is one major issue. The goal of the healthcare system is clear: to provide good care to each patient and at the same time be able to tend to everyone in need. Nonetheless, the patient's need is not always put first. It is not uncommon that an innovative supplier that provides a greater value to the patient loses the procurement to an established actor with a traditional, less value-adding, product.

The county council's sourcing departments does not have the mandate to take all benefits of an innovation into consideration. Sourcing is always about making a cost-benefit analysis, but with continuous budget cuts, the importance of low cost increases. Performance beyond the minimum requirements becomes less important, which hinders good innovations to reach the patient. It is hard for innovative suppliers to show the increased value they provide and be able to charge a high enough price to get a return on investment for their innovation. "Innovation procurement" (Innovationsupphandling) has been introduced in other European countries. It is now being discussed by Swedish governmental organizations. The purpose is to increase the likelihood of selecting a supplier with an innovative product that responds to an opportunity for improvements, rather than an existing need. This is a large challenge today. Some suppliers, however, succeed in this environment and manage to market and sell their products to a greater extent than others. ■

Figure 1. The public procurement process from the county council's perspective



Who decides

which MedTech supplier is selected?

■ The physicians who are going to use the products have an important role in the public procurement system. It is they who can state a generic need to the county council who will start to look for relevant suppliers. They can place requests for new products to be sourced by the county council. As a consequence, the physicians are a clear target group for MedTech companies to market new products/technologies towards

■ A reference group is created for each procurement process. This group includes representatives from all concerned departments at the hospitals, paired with legal experts from the county council. In the regions Västra Götaland, Malmö and Stockholm the group also contains independent experts, such as physicians and nurses

■ Based on the reference group's suggestion which, in turn, is based on the physicians' needs, the county council evaluates all offers from suppliers and makes the final purchasing decision



SUCCESS FACTORS

Is there a certain way for a MedTech supplier to act to be assured success?

Common traits and success factors are found when looking at companies that have succeeded in the MedTech business. Most importantly, and maybe seemingly obvious, the supplier must know what the hospital wants in a product. Not only by studying the enquiry, but more importantly by keeping a dialogue with the purchaser and users. Most of the work in the process is therefore located before the purchase commences. In addition, not all purchasers value the same attributes in a product,

especially not across different county councils. Feedback from all tenders, regardless of outcome, should be carefully considered in order to optimize performance for the next occasion. It is mandatory for the county council to provide feedback, but the supplier has to ask for it. Furthermore, getting support from clinical studies and well-reputed physicians, who believe in the product and can serve as ambassadors, is of significant importance when the previously unused product is introduced. ■



Figure 2. Summary of Triathlon's generic findings on how to achieve success as a MedTech supplier

Pitfalls

What to avoid as a MedTech supplier?

As success factors for a MedTech supplier that has won a procurement surface, some of the obstacles and possible pitfalls are also revealed. A common problem is that products are too sophisticated in relation to what the purchaser requires. It can be hard to motivate the price of high-end products if the difference from a traditional, cheaper, product is not clear or well communicated. The MedTech supplier must also be aware that any physician taking a stand for such an innovative product risks their reputation whereas selecting a traditional, well-tested, product is safe.

Even if the innovative product is successful, there is insufficient reward as to provide incentive for the physician to take the risk. Another pitfall is to forget that the decision makers are, after all, human. Even if the procurement law states objectivity as a virtue; inferior performance in an ongoing business relation, such as failing to deliver as promised, may linger and affect the next procurement. ■



THE CHANGE TOWARDS HEALTH ECONOMY

Much of the attention in media focuses on where the procurement process is heading. Across the world, in other business areas, there is an increased focus on global footprint where every aspect of a firm's actions should count. In the MedTech industry, the trend is to discuss Health Economy as a procurement factor. Should the county

council take more factors into consideration than the price, ease of use and quality of the products? What if a more expensive product would enable patients to recover faster, so they would not have to go back to the hospital for a second time? What if such a product enables a patient to go back to his or her daily work much faster and thus contribute to society instead of being an expense? In a perfect health economy, all these factors would be known and the MedTech supplier providing the ultimate product/service that grants society the greatest benefit over time would be chosen. However, big challenges must be managed before this can become reality. The health economy trend has been discussed for a decade, but still no change of mandate for the county council has been made in this direction. The change has to start on a national level and through politics on a long-term basis. ■

DRIVERS FOR AND AGAINST HEALTH ECONOMY

Drivers for health economy:

- Long-term benefits to society as a whole, as quicker recovery of patients will improve efficiency
- Health economy provides incentive to base innovation on patients' needs and allows for higher return on investment for useful innovations
- Media attention, putting pressure on policy makers, leading to increased awareness of the benefits of health economy

Drivers against health economy:

- Not strong enough incentives for hospital managers to adopt new products as failure may invoke media attention and criticism, whereas success can be left unnoticed
- Cost occurs at hospital and county council whereas the gains are made somewhere else - no one has the full picture or the mandate to make a decision that optimize benefits for society from a health economical perspective
- Practical difficulties to calculate health economy benefits; hard for any actor to know all the consequences

TRENDS



The MedTech industry is young and what shape it will take is yet to be decided. Swedish MedTech suppliers have seen a trend towards higher focus solely on cost. A driver for this is that the county council has an incentive to decrease subjectivity in the process as this may lead to expensive appeals. Having a set of demands and then just selecting the supplier who offer these at the lowest price becomes tempting. This trend can in many cases be opposite that of the one towards health economy.

Another trend is that the county councils are consolidating and renewing their organization to achieve economics of scale and increase access to knowledge of how products are being used at hospitals. Through consolidating the needs of all hospitals in the regions and making larger procurements, cost-savings for the process is achieved. Furthermore, it becomes easier to find expertise in the area of a given procurement to help set suitable requirements. The change is mainly seen in the three largest regions in Sweden. ■



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