

Medtech: Joining the digital party

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From big data and social media to wearable tech and the Internet of Things, the digital revolution undoubtedly is causing huge changes in the interaction of customers and patients with healthcare.

However, Russell Reynolds Associates' research suggests that capitalizing on digital transformation may not be sufficiently high on the priority list for the medical technology (medtech) industry, compared with both the wider healthcare sector and other industries. Medtech companies would clearly benefit from more widespread adoption of digital internally, as well as in serving customers.

This report examines the barriers to digital transformation within the medtech industry and the key issues that medtech companies need to address.

TABLE OF CONTENTS

Digital disruption in healthcare—the new normal	3
Appetite for change	3
Medtech chasing the pack	4
Digital opportunities in medtech	4
Strategic clarity	5
Organization and team structure	5
Ownership of digital	6
The right people	6
Route to the top	7
The next step on the digital journey	8
The right leadership	8
Digital innovation expertise	8
The right structure	8
Digital leaders of the future	8

Digital disruption in healthcare— the new normal

Digital transformation / [dij-i-tl trans-fer-mā- shen] n.

The realignment of, or new investment in, technology and business models to more effectively engage digital customers at every touchpoint in the customer experience life cycle. Digital transformation is a formal effort to renovate business vision, models and investments for a new digital economy.³

It's estimated that around 4.9 billion Internet-connected devices currently are in use. This is expected to reach 25 billion by 2020.¹ The disruptive impact of digital innovation will be felt more and more across all industries and will threaten existing business models that have yet to embrace it.

In the healthcare sector, the explosion of connected devices is opening up new forms of interaction among healthcare providers, payers and patients. Patients-turned-consumers expect an increasingly digital experience in all facets of life—healthcare included. Compounded by healthcare reforms, rising cost-consciousness and easier access to health information, digital presents unique opportunities and challenges for the industry.

For example, big data is creating opportunities for new markets, revenue streams and entirely new business models for treatment and diagnosis. Many of these already are well within the capabilities of medtech companies, provided they can structure an appropriate payment model.

Potential cost savings is another key driver of digital adoption. According to research by Goldman Sachs, the United States alone could save \$305 billion in healthcare spending through digital health technologies that eliminate unnecessary or repetitive care. Chronic disease management represents two-thirds of the total savings opportunity.²

APPETITE FOR CHANGE

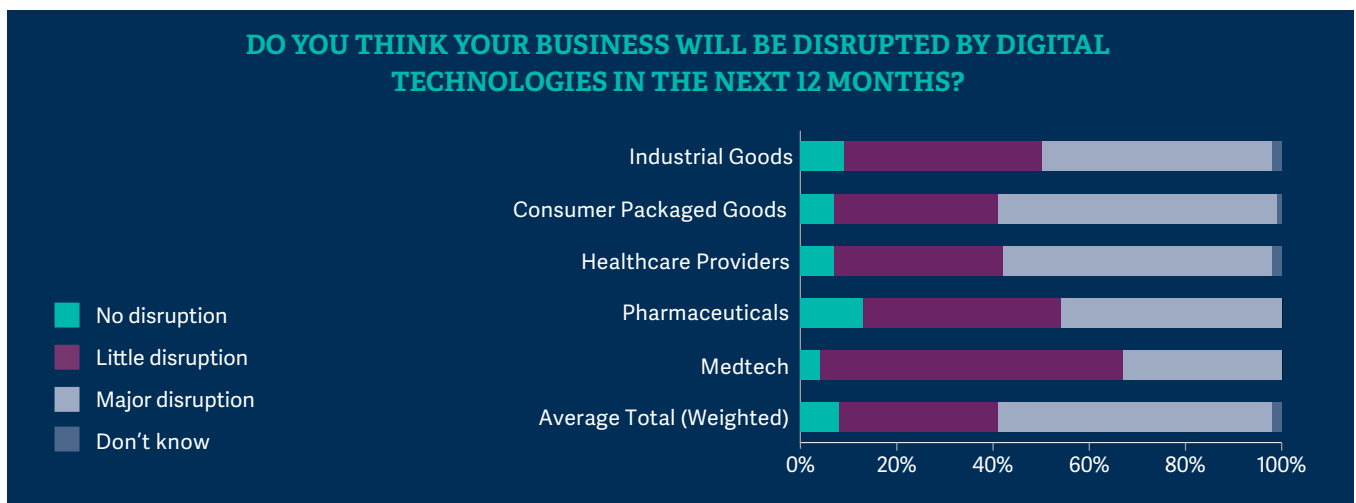
Our conversations with physicians, major hospital networks, payers and the startup community reveal a general willingness to explore digital health as a viable component in daily healthcare practice.

It's clear that digital health technology is starting to find a place in larger health systems and will percolate throughout the healthcare sector in the future. For example, a number of large, integrated delivery networks are using remote monitoring and telemedicine to drive patient compliance, track developing conditions and adjust treatment regimens.

Medtech chasing the pack

Compared with the healthcare sector as a whole, however, our research shows that, with the exception of a handful of early innovators, the medtech industry appears less convinced that it is in the midst of a digital transformation (see box at bottom of page).

Our survey of more than 2,000 executives across a range of industries reveals that only 33% of medtech companies foresee digital technologies as a major disruptor of their business over the next year. In comparison, 57% of businesses across all industries expect to see major disruption.



To further understand how medtech compares with other sectors, our research covered several key aspects of successful digital transformation: a clear strategy, the appropriate organizational structure, ownership of digital within the organization and leadership from the right people. The results for each of these areas are discussed below. This is complemented by an analysis of healthcare companies in the Fortune 500 and FT 500 and the extent to which they have a prominent digital leader.

DIGITAL OPPORTUNITIES IN MEDTECH

A small number of medtech businesses already have embraced digital innovation and are leading the field by capitalizing on the following:

Wearable technology

Sensor technology has led to the development of some digitally enabled medical devices—wearable devices—to collect and transmit data from patients in real time. Used for clinical trials, remote patient tracking and home health monitoring, among other things, the analysis of real-time data output allows changes in patient behavior to be

detected as it's happening and adverse outcomes predicted in advance. This technology is expected to evolve from wearable technology such as simple fitness bracelets to sophisticated implanted medical devices.

Big data

The massive amounts of patient data now available to medtech companies in relation to diagnosis and treatment are fundamentally changing the relationship among providers, payers and customers and are opening up opportunities for entirely new business models.

Efficient business processes

Adoption of digital technologies across normal business processes and operations potentially can result in significant efficiencies and cost savings.

Social media

With customers/patients increasingly expecting to interact digitally with their providers, utilizing social media opens the door to a new type of two-way conversation.

STRATEGIC CLARITY

According to our cross-industry survey findings, nearly three-quarters of medtech companies have a digital strategy. However, this is a relatively low proportion compared with many other sectors, including retail banking and consumer financial services (89%), pharmaceuticals (81%) and consumer packaged goods (78%).

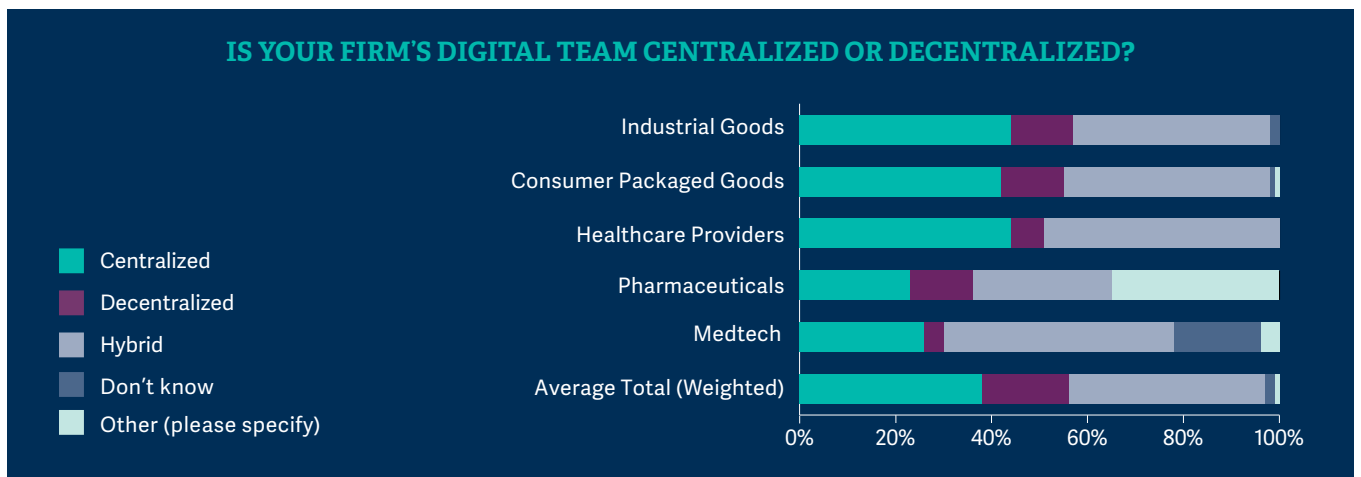


ORGANIZATION AND TEAM STRUCTURE

Only 19% of medtech businesses say their organization is structured in the right way to realize the new opportunities that digital presents. Surprisingly, a third don't know if their organization is structured to take advantage of digital opportunities, suggesting that even if a strategy exists, it rarely is being communicated and/or implemented effectively.

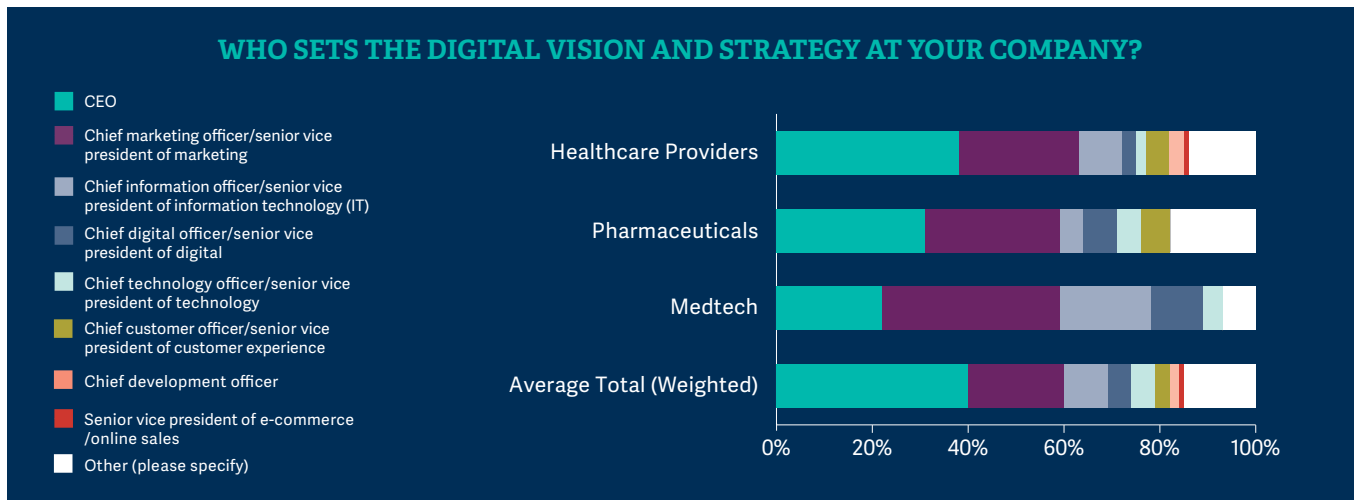
Our survey also looked at the extent to which digital strategy is the responsibility of a single, centralized digital team under a single digital leader. Across all industries in the study, 38% of companies have a centralized, standalone team, while 41% of respondents say they have a hybrid team comprising a centralized function, with some business units retaining individual ownership of digital. In comparison, 26% of medtech companies have a centralized team and 48% a hybrid team.

Almost a fifth of medtech respondents say they don't know how their digital team is organized compared with almost none across all other industries surveyed—once again suggesting the need for improved communication and implementation of medtech's digital transformation efforts.



OWNERSHIP OF DIGITAL

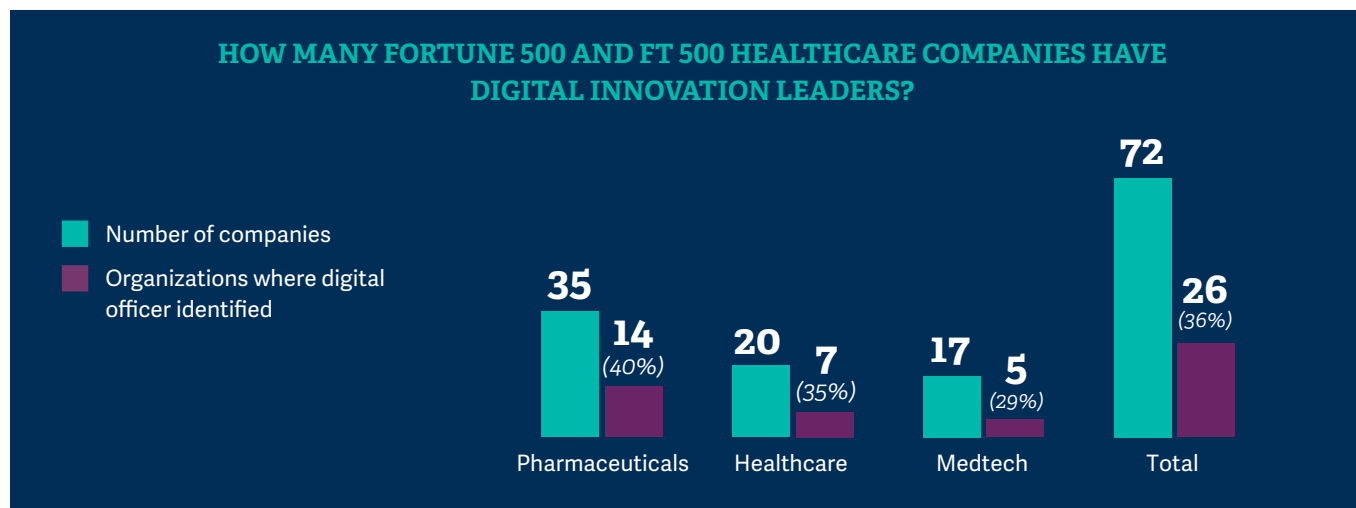
Within medtech, digital most often is driven by the head of marketing (37%) or the chief executive officer (CEO) (22%) and, to a lesser extent, the chief information officer. Again, medtech diverges from the executive ownership trends seen across other industries. Twice as many CEOs in other industries take ownership of digital vision and strategy compared with the medtech sector. Perceptions within an organization about who is driving digital can be a key factor in successful transformation. Ownership of digital transformation needs to start with the CEO and senior C-suite executives and cascade down through the organization.



THE RIGHT PEOPLE

Although executive ownership of digital generally lies with the CEO according to our survey, only half of all participants are confident that they currently have the right people to define and implement their digital strategy. This is a common theme across all industries, including medtech.

Our separate analysis of Fortune 500 and FT 500 healthcare companies, representing a slightly different sample population from our survey, supports this view and shows that only 36% have a senior, prominent digital innovation executive. Within the sector, it appears that medtech still has a way to go in comparison with its healthcare peers: Forty percent of pharmaceutical companies have a digital innovation leader, for example, compared with 35% of healthcare providers and only 29% of medtech companies.



Across healthcare, only three executive digital leaders are featured on their company’s website, raising questions about the prominence of this role on the executive team within healthcare organizations. Notably, none of the medtech companies in our Fortune 500/FT 500 analysis has a digital innovation leader on the executive team.

ROUTE TO THE TOP

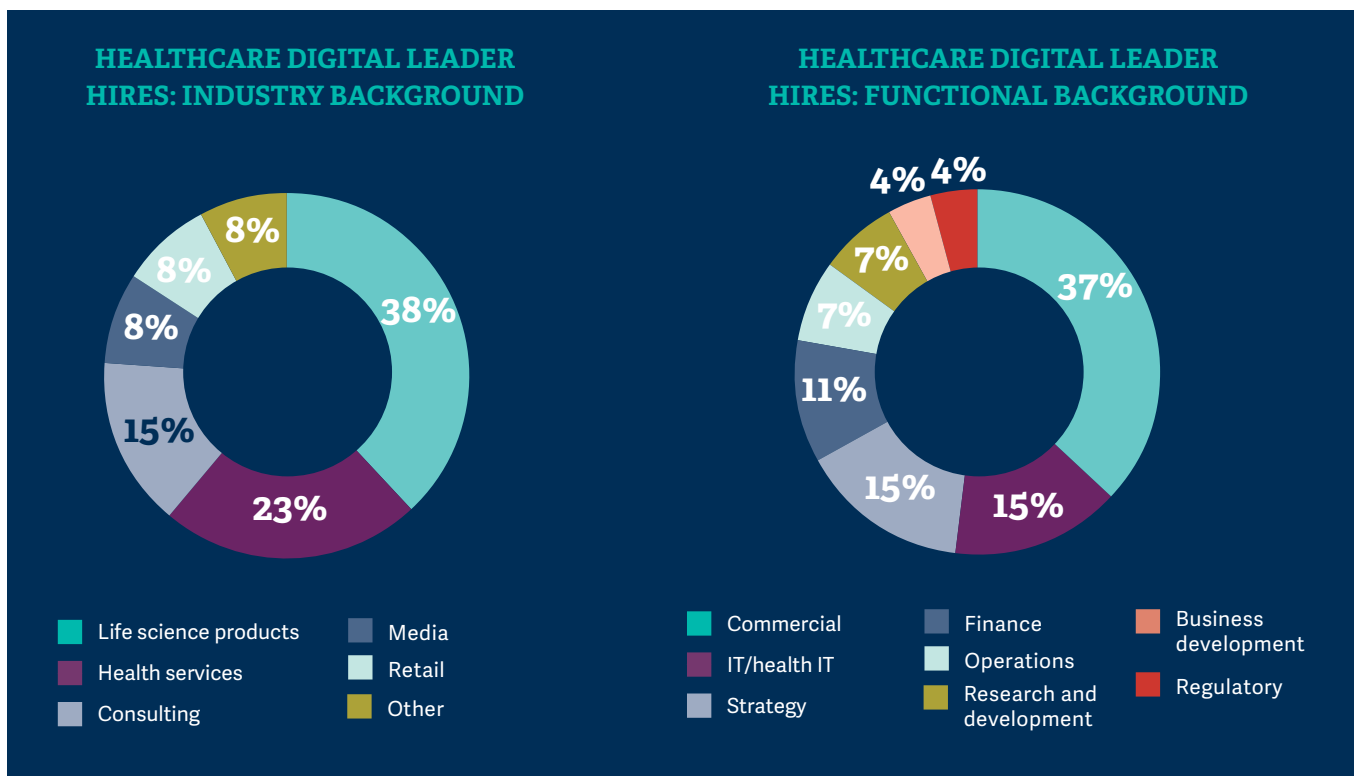
A high proportion of external and out-of-industry digital leader hires across healthcare suggests that talent with the necessary skill set to drive digital transformation at all levels, including among boards of directors and senior executives, currently is scarce within the industry. This especially is true in the medtech sector: Eighty percent of digital innovation leaders are external placements, half of whom were hired from outside the industry.

Across healthcare as a whole, 40% of digital leaders are out-of-industry hires, with the majority coming from the consulting, media and retail sectors.

Whether hired from inside or outside the healthcare industry, digital innovation leaders generally have a functional background in commercial, IT/health IT or strategy.

Digital leadership from the board of directors sends out a clear signal to the rest of the business. Since 2013, we have seen the number of digital board director appointments more than double across all sectors globally.

Interestingly, 80% of digital innovation leaders in the medtech sector are women compared with 57% at pharmaceutical and health services companies.



The next step on the digital journey

Digital clearly is a major disruptive force within healthcare, but most medtech companies appear relatively unprepared for it. Having a digital strategy is only one part of the story; a pervasive “there’s still time” mentality sometimes has resulted in unclear communication of the strategy, further hindered by a haphazard organizational structure and talent gaps.

In order to catch up, seize the digital opportunity, and reap the potential revenue and cost-savings opportunities available, there is a pressing need for medtech companies to take a bolder approach to digital transformation. In turn, this will require the following:

The right leadership

CEOs need to drive and support their organization’s digital strategy and ensure buy-in and engagement from the top. Experience suggests that the key to securing competitive advantage is to embrace digital as a solution from within the business, with effective governance at the board level and internal communication critical to success.

Digital innovation expertise

While addressing the digital transformation challenge is not simply a question of hiring a chief digital officer, a high-profile appointment in this type of role often is required in order to facilitate and implement an effective digital strategy to enhance the digital expertise throughout the business.

The right structure

Finally, medtech companies must make sure they have the appropriate structure in place to support an effective digital transformation across all functions within the organization, including research and development, marketing and operations, as well as at the strategic decision-making level.

DIGITAL LEADERS OF THE FUTURE

The medtech sector’s future CEOs and senior digital leaders will have to think across the entire healthcare value chain from payer to patient in order to maximize the potential of digital.

Although the right leadership is only one part of the picture, it is essential that medtech companies understand the qualities that have been important in leading digital transformation in other industries. Based on extensive psychometric assessments and in-depth interviews with existing digital transformation leaders in North America and Europe from a range of industries, our research suggests that these qualities are:

Innovative

By being open to new opportunities, being inquisitive and possessing an abstract thinking style, digital transformation leaders tend to think “outside the box,” challenge traditional approaches and generate innovative solutions.

Disruptive

The ideal candidate has an entrepreneurial spirit, is willing to take calculated risks and go against the grain, and is skilled at cutting through bureaucracy.

Bold in leadership

A digital transformation leader should be able to take the initiative and test limits, be decisive, identify limitations and lead from the front.

Socially adept

Attempting to understand people, adapting to different audiences and exhibiting social confidence are key qualities to look for.

Determined

Successful digital leaders tend to seek high levels of activity, are optimistic and are achievement oriented.

Acknowledgments

The authors would like to thank the more than 2,000 executives who participated in the survey study. They also would like to thank the digital leaders who took part in the psychometric assessment and interview studies. Your valuable contribution made this research possible.

The authors would like to thank their colleague, Tuck Rickards, for his contributions as a global digital expert. In addition, they would like to thank Nora Viskin and Neha Rajdev for their precious research support. And finally, a special thank you goes to Lauren McCourt's valuable partnership and kind persistence to help bring this paper to fruition.

1 Press release, Gartner, Inc., January 26, 2015, <http://www.gartner.com/newsroom/id/2970017>

2 "The Digital Revolution Comes to US Healthcare," Goldman Sachs, June 2015, https://www.wageningenur.nl/upload_mm/0/f/3/8fe8684c-2a84-4965-9dce-550584aae48c_Internet%20of%20Things%205%20-%20Digital%20Revolution%20Comes%20to%20US%20Healthcare.pdf

3 "Digital Transformation by Any Other Name?" *Forbes*, July 31, 2014

Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for boards of directors, chief executive officers and key roles within the C-suite. With more than 370 consultants in 46 offices around the world, we work closely with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, environmental and political trends that are reshaping the global business environment. Find out more at www.russellreynolds.com. Follow us on Twitter: @RRAonLeadership



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