

## **Beyond the Device: The Necessary Reality of Tomorrow**

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*"[The future] is about understanding emerging technology and optimizing the way different components of care ultimately tie to health and outcomes. These two trends ... will drive fundamentally different ways of doing things."* - Jay Galeota, Sr. Vice President, Global Human Health, Strategy and Business Development, Merck (E&Y 2011 Industry Report)

What do a car, an iPod, and a diagnostic medical device have in common? All three are forms of hardware that are at a competitive disadvantage without an integrated service component. Indeed, no medical device—however useful, clever, or even ingenious—exists in a vacuum outside a connected Web of other products, services and stakeholders. The opportunity awaiting you is to leverage this Web to create value above and beyond your current products. With healthcare facing increasing competition from brands, generics and low-cost international suppliers, and with government pricing pressure and public policy volatility, coupled with burgeoning consumerism in healthcare, the time is right for business model innovation.

### **Reinventing the Entertainment and Automotive Value Proposition**

One example of business model innovation is the iPod/iTunes combination. A decade ago, Napster and other free music-sharing services were threatening to collapse the music recording industry. Then, Apple transformed this grim situation by introducing a combined hardware+services solution. To implement this model, Apple had to create radically new types of contracts with record companies, while at the same time convincing consumers to purchase music via a new distribution channel. Similarly, innovative healthcare models will likely require radically new payer contracts and disruptive distribution channels.

A second example can be seen in the U.S. auto industry, which recently came within inches of collapse. Yet, during those dark days, one aberrational bright spot was occurring. Car companies were marrying services with their vehicles, and doing so drove both revenue and profits. In fact, while GM was losing billions, OnStar became a profitable \$1B division. And while Ford Motor Company was turning down the government's bailout money, it accelerated its investment in FordSync. Each of these telematic services added value above and beyond a car's inherent transportation value. They provide safety, entertainment and peace of mind, and as a result, have become a top-five purchase criterion for new car shoppers.

Does this sound far removed from the world of medical devices? It shouldn't. In May of this year, Ford announced research programs with healthcare companies, WellDoc and Medtronic. The programs seek to integrate Class II Medical Device software services into Ford vehicles, thus transforming the car into an access point that delivers health management content to drivers in a safe, targeted and supportive manner.

### **The Unmet Need for Innovation**

What does this kind of innovation mean on a broader scale? Let's step back a moment and consider three fundamental realities of the emerging healthcare marketplace:

- First, we now have what could be described as a “perfect storm” in terms of concomitant demands for increased quality and clinical results from any product or service, an aging population exacerbated by a chronic disease pandemic, commoditization and competitive pressures among healthcare manufacturers, and decreasing healthcare provider resources. Importantly, barring a disruptive scenario, this situation is unlikely to improve.
- Second, the market—the consumers and payers of healthcare—are demanding decentralized, efficient, technology savvy methods for delivering patient care.
- Third, because of advances in technology, there is now a broad opportunity to tap into telecommunications technologies—especially mobile devices, which have become ubiquitous among patients worldwide. By leveraging this “mobile internet tsunami,” healthcare companies can begin to connect devices, medical applications, patients and healthcare professionals in ways never before imagined. As a result, these integrated solutions can address issues ranging from therapy adherence to chronic care management or even fraud, waste and abuse.

## **The Innovation Solution**

All of these elements speak to a real opportunity for product+service integration that links devices together in a wrap-around, service model encompassing patient engagement, mobile technologies, analytics, care team coordination, and continuous monitoring and feedback (from coaching to intervention). In other words, it’s no longer about devices or “widgets”, but rather, higher-value solutions.

### **What does this mean for your strategy?**

It has become essential to understand that the distinctions between and among devices, products and services, will increasingly blur over time, with customers of all types demanding holistic solutions, rather than just components, to support their needs. Therefore, it is critical to look at whatever business you are in today—in most cases, making some kind of widget, such as a device or medication—and recognize that if five years from now you are only delivering a product with the same intrinsic value as today, you will then experience margin and share erosion as your competitors relegate your products to a mere sub-component of their holistic solution. The key will be in wrapping previously siloed widgets together with other products and services to provide comprehensive solutions of unquestioned value.

Thus, you need to ask yourself, “is our company simply supplying widgets?” If the answer is ‘yes,’ you need to quickly craft a new vision. Consider that going forward, success in the healthcare space will increasingly hinge on two service models:

1. Efficiently providing the right information to the right people, in the right place, at the right time  
and
2. Seamlessly turning that information into knowledge, actions, and better health outcomes, through the integration and transformation of data from your devices and other sources into proven medical value for your customers.

The fact is that, over time, the definition of value in our industry will shift to a broader, higher plane, with the trend towards connectivity, integration and data-leveraging; quickly creating winners and losers across healthcare. Keep in mind, too, that your current competitive landscape will look much different in the future, as companies outside your industry enter your space in order to mine your business opportunities. Companies like AT&T (also a WellDoc partner), for example, have already begun to make serious moves within our industry.

So whether you make a scalpel, a syringe, a pump, a pill or a diagnostic device—each one is a widget designed to do one thing well. However, today, they largely don’t interact with a larger ecosystem, and often not in a data-centric way (such as through connectivity with an electronic health record). Tomorrow, your widget will need to continue to do that one thing well, but it also must connect into the broader

healthcare ecosystem to share its full value and tap into the value of other devices and inputs around them.

Particularly in healthcare, there is an especially strong influx of IT, telecom, systems integrators, service providers, and data analytics companies moving into the market. Time is of the essence for medical device companies to learn to work collaboratively with these companies, before their competitors do.

Bottom line: are you actively envisioning your company's future? And do you see an integrated product+service that meet the most strategic needs of your current (and future) customers? Failure to do so could risk your company's future.