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How medtech companies can create value with new-business building

Medtech industry senior executives recently convened to discuss new-business building. Their experiences illuminate what it can do for companies, why it's so difficult, and how to get it right.

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Business building as an organic growth strategy accelerated during the COVID-19 pandemic as incumbent companies sought to replace lost revenue streams, meet quickly shifting customer expectations, and shore up their defenses against nimble digital disruptors. In a 2020 Leap by McKinsey business-building survey of more than 800 executives from a range of industries, sectors, and geographies, 52 percent considered business building a top three priority.[1] It certainly ranks high in the life-sciences industry, including medtech, where business building has the potential to generate huge value in healthcare systems around the world.

Business-building efforts frequently fall short of achieving their intended objectives, however; the survey found that only 24 percent of new businesses launched in the past ten years are viable large-scale enterprises today. According to the 57 senior life-sciences executives who responded to the survey, companies in the industry launched, on average, around four new businesses each in the past ten years. Now 51 percent of them earn at least 20 percent of their revenues from these new businesses (Exhibit 1).[2]

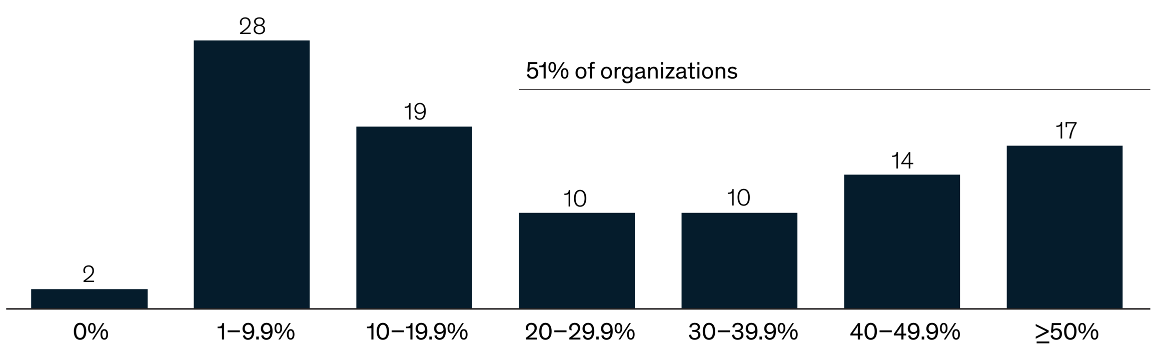
While this is impressive, it still reveals significant room for improvement in the sector. The reasons for falling short include not starting from an advantaged position, bogging down the new business in bureaucracy, and misalignment between new and core businesses. The medtech companies that address these issues will be better able to seize the advantages of business building.

To better understand how medtech companies can launch and scale new businesses, Leap by McKinsey recently hosted a European medtech CEO roundtable (see sidebar, "Lessons in business building"). This article distills the perspectives shared by the hosts, speakers, and attendees during the session.

[1] Shaun Collins, Ralf Dreischmeier, Ari Libarikian, and Upasana Unni, "Why business building is the new priority for growth," *McKinsey Quarterly*, December 10, 2020.
[2] "Why business building is the new priority for growth," December 10, 2020, and supplemental McKinsey analysis.

Exhibit 1

More than half of life-sciences organizations make 20 percent or more of their revenues from new-business building.



[1]Q: *Approximately what share of your organization's revenue currently comes from new businesses launched within the past 10 years?* Excludes responses for "Don't know" and is scaled to 100%.
Source: McKinsey Global Survey on business building, August 2020

Lessons in business building

Our medtech CEO roundtable featured two successful business builders as guest speakers: Hartmut Schaper, the CEO of Munich-based Bosch start-up Azena, a wholly owned and independently operated subsidy of The Bosch Group, and Vijay Singh, COO of Apollo 24/7, the digital arm of India-based Apollo Hospitals, which was founded in 2020.

Azena

Azena, a wholly owned and independently operated subsidy of The Bosch Group,[1] orchestrated the building of the security-camera industry's first standardized digital ecosystem and application marketplace. Its goal? To disrupt the $100 billion building-technology and -service industry, including Bosch's own camera hardware business, by shifting camera systems from closed to open.

As a member of the Open Security & Safety Alliance, Azena provisioned an open operating system and a digital marketplace for developing, selling, and deploying security-camera apps. The ecosystem is already demonstrating that it can innovate more quickly than any one company could alone. When physical retailers started to reopen after COVID-19 shutdowns, they faced a raft of security and safety concerns. Within two weeks, the Azena ecosystem offered a comprehensive COVID-19 compliance solution, including face mask detection and real-time tracking of store occupancy at entrances, crowd detection in shopping areas, and queue management at checkout.

As of November 2021, more than 100 applications were available in the app store, and six camera manufacturers had either launched cameras that run on the Azena operating system or announced commercial availability in 2021. Also, some of the world's biggest building-technology integrators had publicly announced strategic partnerships, and the business unit had grown to 120 full-time employees.

Apollo 24/7

Founded in 2020, Apollo 24/7, the digital arm of Apollo Hospitals,[2] developed and launched its digital health platform in six months, leveraging its formidable physical network, which includes more than 70 hospitals, 120 diagnostic centers, 4,000 pharmacies, 7,000 doctors, and 35 million patients. The digital platform application allows healthcare providers to access an ecosystem of features, such as a product catalog, e-commerce, messaging with reps, lists of webinars and conferences, and tracking of their orders.

In rolling out the platform, the team learned that patients were most interested in easy access to and convenience in using medical consultation, medicine, tests, and well-being programs. These insights led Apollo 24/7 to five initial offerings of the digital platform, including virtual doctor visits available within 15 minutes; at-home diagnostic sample collection; a well-being program; express, hyperlocal medicine delivery; and a mix of wellness and healthcare to manage conditions—all supported with omnichannel health records.

Apollo 24/7 became one of the fastest-growing digital healthcare platforms in India in nine months and attracted 6.5 million users in its first year. It expects to earn $1 billion in revenues and attract an estimated 100 million customers by the fifth year of the launch of the new business.

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[1] The Bosch Group is a Germany-based global supplier of technology and services, with €71.5 billion in revenues in 2020.
[2] Apollo Hospitals is an Indian multinational hospital chain with $1.6 billion in revenues in 2020.

Leap by McKinsey

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The business-building opportunity in medtech

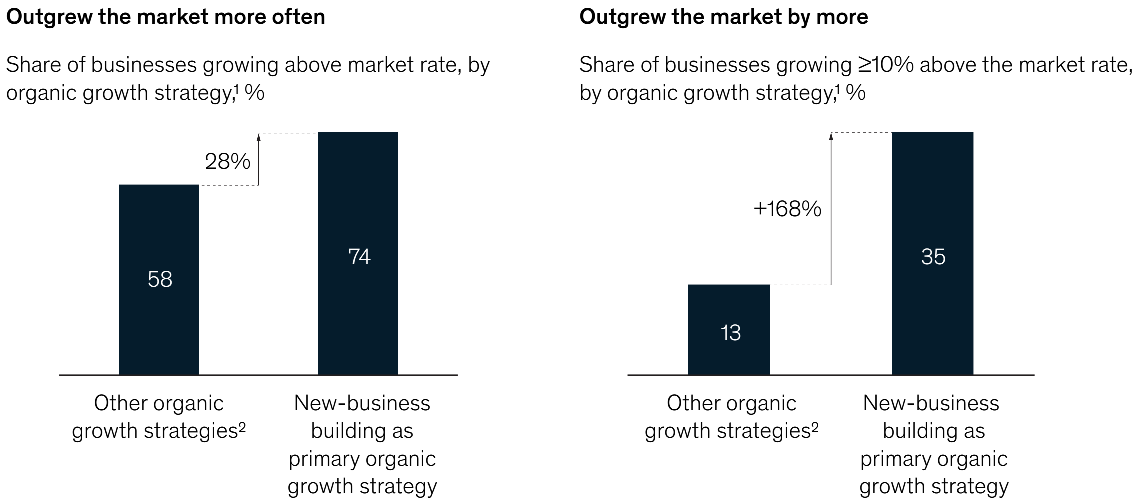
The efficacy of business building to spur organic growth is well documented. According to the 2020 business-building survey, 74 percent of companies with new-business building as their primary growth strategy outgrew the market, compared with 58 percent of companies with other organic growth strategies (Exhibit 2). Furthermore, organizations that rely primarily on new-business building are 2.5 times more likely than those that execute other organic growth strategies to have grown at more than 10 percent above the market rate: 35 percent, versus 13 percent.

In life sciences, many companies, including medtech companies, doubled down on business building during the COVID-19 pandemic to meet the surge in demand for digital solutions to support telemedicine and a host of other virtual business activities. New-business builds in medtech typically fall into one of three categories:

— *Core business launches a new product or business model.* The company can develop a new product by digitally enhancing an existing one. An example of a new business model is a new payment approach, such as going from wholesale up-front payment to a subscription model.

Exhibit 2

Companies that prioritize new-business building outgrew the market more often and by more.



[1]Including businesses with commercial performance as ≥50% of their source of organic growth (in contrast to market forces).
[2]Includes investing in existing products/services, optimizing core commercial capabilities, and creating new products/services where the company had an existing footprint.
Source: McKinsey Global Survey on business building, August 2020, n = 851 respondents

— *Core business unlocks a new customer group.* This could involve targeting a new customer segment through a new channel such as an online pharmacy, expanding into new geographies, or expanding existing products into new categories.

— *Noncore business develops a new revenue stream.* Typically, this could include monetizing data and insights, driving value from software sales, or building a platform or ecosystem (interconnected sets of services through which users can fulfill a variety of needs in one integrated experience).

How to succeed at business building

Based on our research and experience with more than 300 business builds, companies that perform above expectations in business building excel in five areas (Exhibit 3). They adopt a test-and-learn approach, find tailwinds, focus on top talent, secure executive sponsorship, and follow a structured process.

Adopt a test-and-learn approach

By adopting a test-and-learn approach, medtech companies can quickly assess customer reactions to new concepts and products, thereby improving their ability to address customer needs and increasing their overall capital efficiency. This approach requires a mindset shift for the industry, however, given its historically long and highly regulated delivery cycles.

A test-and-learn approach anchors product development in customer feedback. It involves launching minimum testable products (MTPs) and minimum viable products (MVPs) for a chosen subset of customers. Medtech companies can then incorporate this input to accelerate product-development cycles and improve product features.

Exhibit 3

Five practices distinguish companies that exceed expectations from those that underperform.

Practices associated with performing above expectations

● Difference between companies performing above expectations vs below expectations

Adopt a test-and-learn approach	**Find tailwinds**	**Focus on top talent**	**Secure executive sponsorship**	**Follow a structured process**
38% of those that launched at least 4 new businesses in the past 10 years generated >5X ROI from those businesses	52% of those that performed above expectations stated "effective strategy" as a factor for success	39% of those that performed above expectations stated "top-tier talent" as a factor for success	74% of those that performed above expectations stated "CEO/new-business leader sponsorship" as a factor for success	47% of those that performed above expectations stated "structured process" as a factor for success
2.2X	2.3X	2.6X	1.8X	1.9X

Source: McKinsey Global Survey on business building, August 2020, n = 851 respondents

Find tailwinds

Established medtech companies can benefit from actively monitoring market conditions for potential tailwinds that they can use to further extend their distinct advantages—data sets, existing relationships, domain knowledge, or proprietary know-how—and propel their businesses forward. Tailwinds can arise from extreme events, regulatory changes, or paradigm shifts such as the move to digital.

The major disruptions in the COVID-19 pandemic created opportunities for companies to innovate to meet new needs. For example, in 2020 Dyson leveraged its design know-how to expand into the medtech sector by temporarily building ventilators when the market was short of supply.[3] In early 2021, Philips completed the acquisition of BioTelemetry, a provider of remote cardiac monitoring, which was in high demand when in-person hospital testing was restricted. Healthcare providers remotely monitored their patients and reviewed readings; if abnormalities were detected, patients were called in for further investigation or therapy.[4] Businesses that are open to pivoting in these ways tend to endure and even thrive in the face of adversity.

During McKinsey's European medtech CEO roundtable, Hartmut Schaper, CEO of Azena, highlighted that finding a tailwind wasn't enough; it was also crucial to demonstrate real commitment and build on the company's established strengths. He said, "When we first started our journey, we were deliberate in our communication to our partners that, while this is a new business build, we are in it for the long haul, and we will fund the endeavor so it can succeed. Our long-standing history and reputation probably lowered their barriers to partnering with us."

Focus on top talent

Launching a new medtech business is a demanding amalgamation of highly complex activities. As such, the effort demands a management team with a track record for success and superior talent with deep domain knowledge—a combination that's widely recognized in Silicon Valley. According to a McKinsey global talent survey, high performers typically are more than eight times more productive in performing high-complexity activities than average performers; it pays to bring in the A-team.[5]

Like many incumbents in other industries, medtech companies struggle to attract top tech talent while having to compete with tech giants. Compounding the difficulty, medtech companies have typically sought talent with skills in both medtech (the convergence of medical and engineering) and tech (coding, software development, and digital). Companies should instead consider recruiting tech professionals and then developing medtech capabilities internally with a targeted curriculum and a supportive work environment.

During the medtech roundtable, Apollo 24/7 COO Vijay Singh shared that the new business needed UI and UX talent, as well as people who are accustomed to having customer centricity as their north star. That talent was scarce in the parent company, so his team prioritized recruiting people at the big tech firms, which employed people with advanced experience and skills.

Similarly, Azena's Schaper said his company's talent approach involved "a lot of effort recruiting and adapting our hiring processes to support the new venture. For example, we compressed our decision-making timeline to making an offer in less than two weeks, compared to a longer period in our core business. We also put a lot of effort into thinking about how we could attract talent, taking note of what was highly important to top digital talent. Upon discovering that location was extremely important to them, we purposefully located our headquarters in a prime location, to allow for people to get into the office easily by walking or taking a bike or scooter."

Secure executive sponsorship

According to the 2020 global business-building survey, the executives who said their companies' business-building efforts had executive sponsorship performed almost two times above

[3] "Ventilator update," Dyson, May 26, 2020.
[4] "Philips completes the acquisition of BioTelemetry," Philips, February 9, 2021.
[5] Scott Keller, "Attracting and retaining the right talent," McKinsey, November 24, 2017.

expectations, compared with peers whose efforts did not have executive sponsorship. Absent high-level support, the new venture often has trouble securing the funding and resources it needs when other, much larger core business units are vying for their own share of the same limited pool. Executive sponsorship is also crucial for getting the requisite level of visibility, prioritization, and resource allocation within the organization.

During the roundtable, executives described several approaches to securing this support. One senior executive allocated extra resources to accelerate development of a digital platform, another adjusted financial performance thresholds for the new venture, and a third provided frequent and close guidance.

Apollo 24/7's Singh said, "We had to convince our management that, unlike a big business, we had to accept some initial losses to achieve high customer satisfaction rates and have faith that good results would follow. With the executive sponsorship, online pharmacy orders were treated with special care through the pharmacy business supply chain, as our parent understood that it was important for the online business to establish a strong track record in filling customer orders to secure a solid foothold in the online pharmacy market early on."

Follow a structured process

Another practice was twice as likely to occur in companies that exceeded expectations, according to the 2020 global business-building survey: following a structured process in business building. A myriad of activities go into launching a new business, including raising funds, validating the concept with market research, developing the business model, securing needed technology and talent either organically or via a joint venture, developing and testing a prototype, and launching beta versions to secure customer input. A structured process that tracks critical-path activities, sets timelines, and establishes governance is essential to keep the project on track and hitting its milestones.

This is particularly true with large medtech companies, where specific complexities such as regulations and testing rigors present unique challenges to launching a new business. Without a structured process, new businesses often run into high product-development costs or launch badly designed products or products that customers don't actually want. Keeping costs in check is especially important right now, as healthcare systems globally are particularly sensitive to costs in the current environment, given the emphasis on value-based care and reimbursing for outcomes rather than procedures.

Building a new business can be daunting, but it's the key to long-term growth and value creation. With careful attention to the five critical success factors, medtech companies can launch new businesses that create significant growth and sustainable value.

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