

Value-Based Agreements in MedTech—an Overview

Thematic seminar on value-based
agreements

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European wide Innovation
Procurement in Health and Care

CSA

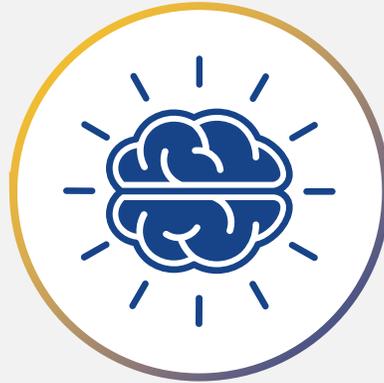
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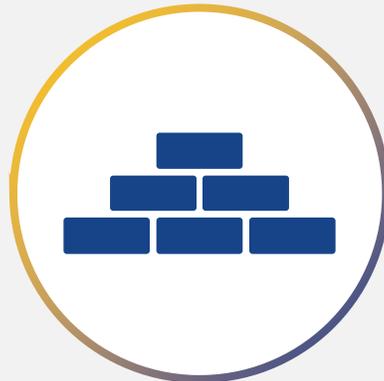
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Objectives for this session



Share current thinking on
Value-Based Agreements
framework and examples



Lay groundwork for
interactive discussion
later today

Multi-year journey underpinning today's first value-based agreement session

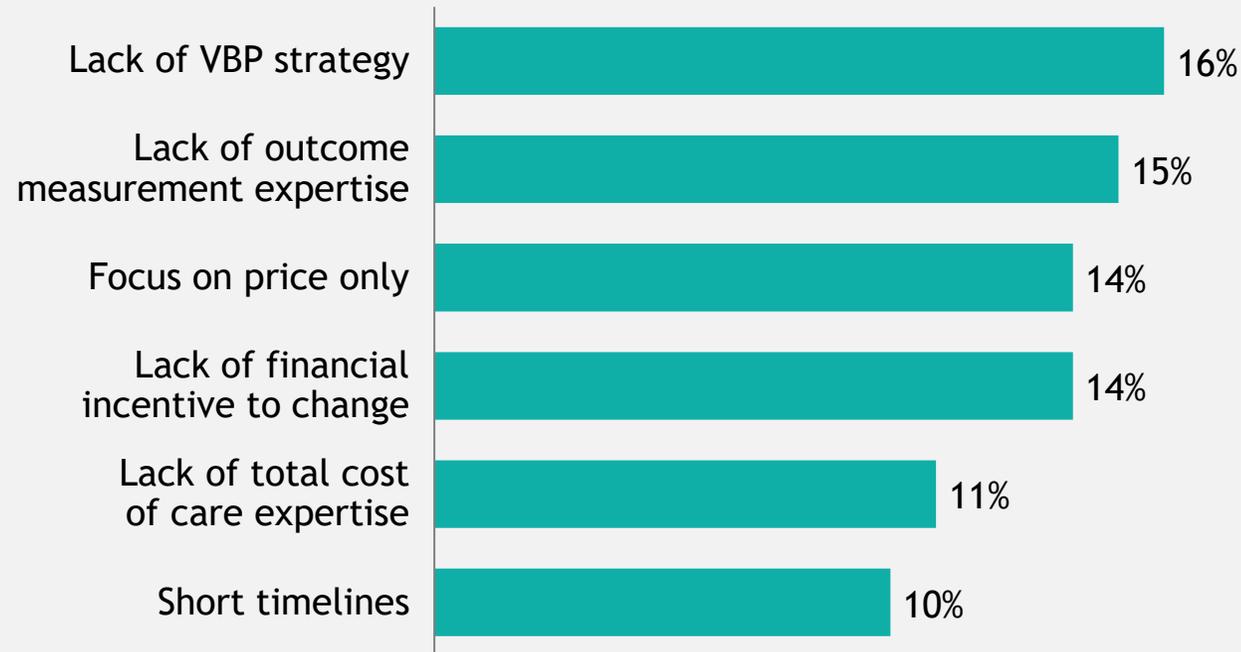


Source: BCG

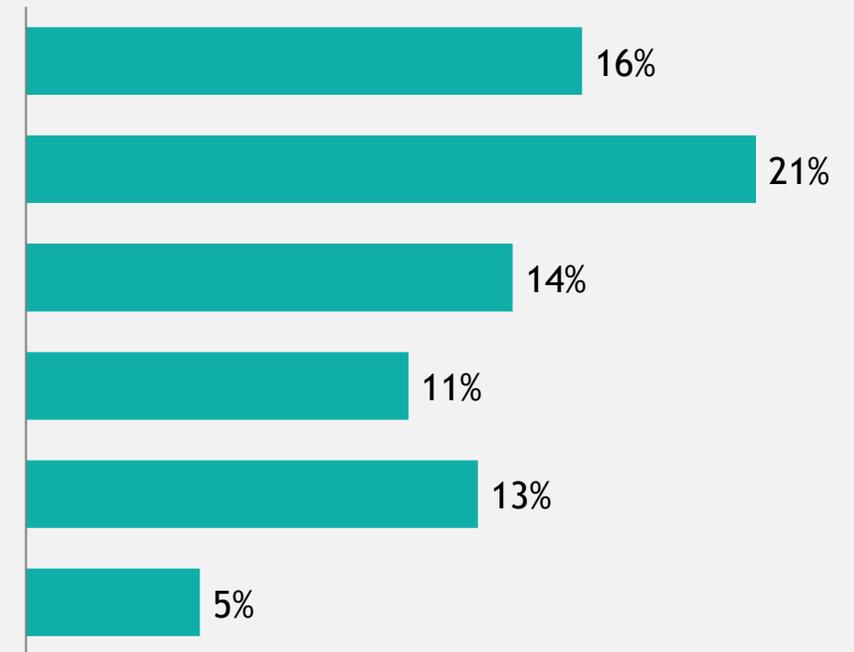


Procurers still see significant obstacles to VBP, which need to be jointly addressed with suppliers

Procurer self-perception
(Top 3 obstacles¹; n = ~35)



MedTech view on procurers
(Top 3 obstacles²; n = ~65)



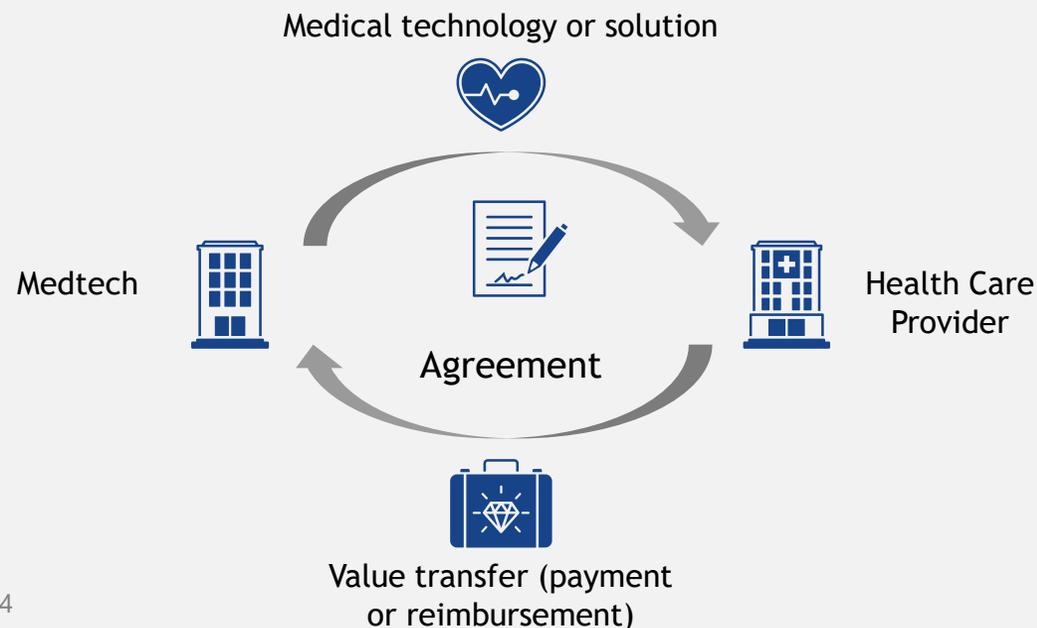
1. Within your organization, what are major obstacles and challenges regarding the implementation of VBP? Please rank the top three from your perspective 2. On the hospital/procurer side, what are major obstacles and challenges regarding the implementation of VBP? Please rank the top three from your perspective'

Source: VBP online survey; BCG analysis

Value-Based Agreements formalize buyer-seller collaboration linked to outcomes

What is Value-Based Agreement (VBA)?

VBA implements an agreement linking value transfer (payment or reimbursement) of a technology or solution to the real-world outcomes or other benefits it provides when used by physicians/nurses or patients in practice



How does VBA relate to value-based procurement (VBP)?

VBA formalizes a procurement process with the use of value criteria and evidence



Five key elements of Value-Based Agreements



Pre-determined
criteria to
structure
agreement



Outcome
measurement and
monitoring



Target values or
range for each
criterion



Patient cohort(s)
definition
including
risk factors



Financial
specifications

VBA taxonomy | five types of value-based agreements

- | | | | | |
|---|--|---|---|---|
| <p>1</p> <p>Process-based care discount</p> <p>Discounts and/or contractually agreed price paid based on achieving process compliance with evidence-based clinical intervention</p> <p>Easy to implement and monitor</p> | <p>2</p> <p>Product or service guarantee</p> <p>Full or part of product cost returned if product usage fails (i.e., process/outcomes not achieved despite correct usage)</p> <p>Cost due to not achieving benefit promised by supplier</p> | <p>3</p> <p>Value sharing by product or service</p> <p>Payment tied to larger cost/full provider cost beyond product price</p> <p>Often broader outcomes/benefits contracted</p> | <p>4</p> <p>Value sharing by alternative payment model</p> <p>Hospital and supplier jointly partake in alternative payment program (e.g., bundle) share same upside/downside</p> | <p>5</p> <p>Fully integrated care provision including value</p> <p>Medtech company takes on full care provision with full upside and downside and reimbursement from payer</p> |
|---|--|---|---|---|

Less

More

Shared value included in the agreement/Collaboration between supplier and buyer

Elements to consider increase with risk and complexity of VBA

	1	2	3	4	5	
	Process-based care discount	Product or service guarantee	Value sharing by product or service	Value sharing by alternative payment model	Fully integrated care provision including value	
 Pre-determined criteria	✓	✓	✓	✓	✓	Specified with payer
 Outcome measurement		✓	✓	✓	✓	
 Target values to achieve	⊗	✓	✓	✓	✓	
 Patient cohort(s)	⊗	⊗	✓	✓	✓	
 Financial specifications	✓	✓	✓	✓	✓	Full upside/downside with medtech supplier
Less					More	

Shared value included in the agreement/Collaboration between supplier and buyer

⊗ Could Have ✓ Must Have

Source: Desk Research; BCG experience; BCG analysis

VBA examples seen across all five types

- 1**
Process-based care discount
 - Perioperative nutrition supplement
- 2**
Product or service guarantee
 - Stryker SurgiCount Promise
 - Stryker fall prevention program
 - St Jude Medical (Abbott) money back guarantee for cardiac resynchro-nization therapies
 - Boston Scientific S-ICD Risk Share Program
 - Johnson & Johnson Plus Antibacterial Sutures agreements
 - Johnson & Johnson Biosense Webster Advantage Program
- 3**
Value sharing by product or service
 - Medtronic Tyrx antibacterial sleeve
 - Medtronic smart sensors for outcomes-based diabetes care
 - BBI risk sharing agreement with UK providers for pressure ulcers
 - Johnson & Johnson - Orthopedic Service Optimization - Risk-Sharing Program
- 4**
Value sharing by alternative payment model
 - Geisinger and Medacta hip and knee replacement lifetime guarantee
 - Swedish bundled payment for joint replacement
 - Philips care improvement innovation partnerships
- 5**
Fully integrated care provision including value
 - Medtronic Diabeter Clinics
 - Fresenius Dialysis Centers



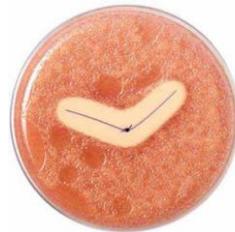
Two examples of Value-Based Agreements in MedTech

Johnson & Johnson—Ethicon Plus antibacterial sutures

Type of example: Product or service guarantee

Johnson & Johnson compensates for investment in antibacterial sutures technology if surgical site infections reduction target is not met

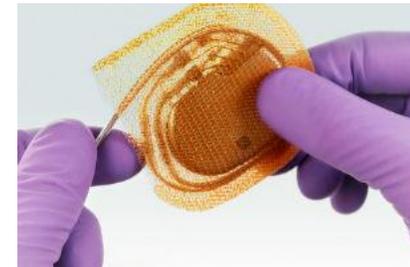
Johnson & Johnson



Medtronic—Tyrx bacterial net

Type of example: Value Sharing by product or service

Medtronic pays substantial rebates toward the cost of removing an infected Medtronic device and implanting a new one in those situations in which the antibacterial envelope is used but fails to prevent infection



Key insights from value-based agreement overview



Key success factors for VBA

- ✓ Start with smaller share of patients and payment to **learn in safe harbor environment**
 - Focus on **succinct patient cohorts**, with different outcome target levels per group
 - Choose **clear**, less multifactorial and **easy to measure criteria** in daily practice
 - Align provider/supplier interests** via VBA on few **strong focus criteria**
 - Establish partnership** that warrants time and resources investment on both sides
 - Generate **data that can be monitored and used as KPI** (as baseline before or in 1st yr of contract, then as benchmark)



Challenges to overcome

- ✗ **Budget impact multi-year** and potentially in different budgets that are currently siloed
 - Legal mechanism** and **risks** regarding court challenges still **unclear**
 - Specifying outcome/cost criteria** and estimating impact/**setting targets difficult**
 - Medtech with limited experience** and established contract models
 - Objective monitoring** (third party without interest in either direction) **needed**
 - Outcome measurement** at contracting authority not in place (to capture baseline and improvement)

Outlook



Value-Based Agreement increasingly used across disease areas in MedTech



Procurers still seeing substantial obstacles, which need to be addressed jointly with suppliers



Medtech and procurer time frames and budget cycles have to accommodate mid-term Value-Based Agreement logic



Value-Based Agreement only one element of broader shift towards procurement value considerations