

Medical Device Buying and Selling Demands Collaboration

As I enter my 15th year associated with medical devices (mostly orthopedics), I continue to seek a level of understanding for the financial structure supporting health care. For years we have heard of doom & gloom for our hospitals, with figures that discourage even the most optimistic forecaster. Recovering predictions have embraced such draconian solutions as; closing as many as a third of our hospital facilities, to dismantling our current healthcare infrastructure, to a last recourse of a nationalized system. Yet as you listen to various reports, it appears profitability from this non-profit segment range from a low-end of 1-2% to a high end of 4-5% with capital expenditures projected to increase 15+% during the next five years. The insurance side continues their double digit earnings news at Quarterly calls, while employing a new round of access this time in prescription drugs. Meanwhile the medical device manufacturers are now announcing slower sales increases with high single and low double digit figures. Considering all of this, I venture if there is immediate pain, it resides with the insured consumer, or the multi-supported arena of indigent care which is the subject for another blog! But admittedly, determining profitability is a complicated review at best, particularly in the world of non-profit hospitals. Besides their focus on running efficient and profitable operations, they also manage endowments & grants, which of course are impacted by invested markets. Further they struggle with a myriad of regulatory restraints that produce anything but efficiency.

As I meander through this quagmire of complexity, it becomes increasingly clear that something is broken, and where-there-is-smoke, there-is-fire. At whatever level of acceptance one has for their blight, it is clear our health care system is in trouble – with negative trends. Having been at the “heart” of the medical device debate for some time now, I have been concerned with the business continuity of an arrangement where buyers & sellers try to create an economic agreement, yet seemingly refuse to develop an understanding of the other’s needs. The underlying cause and effect for this have been obvious for some time, given the tri-influences of physician preference products:

- ❖ The hospital buyer feels he is the “customer” and therefore should control the process through volume and supply chain initiatives
- ❖ The supplier seller believes this activity to be clinically oriented with physician buyer focus and considers the economics to be inefficient and a deterrent to quality care
- ❖ The physician decision maker is uncomfortable with economic issues and even more uncomfortable with non-clinical influences telling them how to practice medicine

Given the inability of these parties to collaborate, in fact gives us a starting point. But let’s recognize that historically each side has been given “marching orders” that led to huge barriers at local touch levels. Therefore this “begs” a top-down involvement to establish a new business platform. From the buyer side, the Hospital CEO has to step forward to set the local stage, eliminating various “subplots” within care delivery, and not off-loading this responsibility to a reporting entity that has neither the clinical influence, nor the innovative spirit to collaborate. On the part of the manufacturer, Top Executives need to step forward and balance the economic realities within their clinical strategies. This demands visible leadership in establishing the importance of a direction change. As for the Physician Decision-maker, no longer can they stand on the sideline, holding court separately with the buyers and sellers. Each physician needs to “come to the table” presenting a clinical rationale justifying usage of product and protocol. This means taking on the administrative tasks that clarify his training and beliefs and could involve addressing Clinical Board Review.

Make no mistake, the business model for buying and selling demands this collaborative effort, or the model will change and maybe into something none of us want.