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A New Sales Model for a Changing Orthopedic Market

It's no surprise that the market for orthopedic products is robust and rapidly expanding given the dynamics of an aging population and an insatiable demand for medical technology. Aging Baby Boomers want to live longer, more active lives and often are willing to pay for that privilege. With the increased patient demand for orthopedic services, one would expect orthopedic surgeons to have the freedom and control to purchase whatever products and implants they feel is necessary to provide good patient care. Unfortunately, this doesn't appear to be the case.

The Problem

Orthopedic companies are experiencing longer sales cycles and more complex sales processes. In the past, the device and product preferences of the surgeon had significant influence on the purchasing practices of hospitals. Previously, if a new product was introduced on the market, hospitals often would purchase those products simply in response to requests by their surgeons. The responsibility for the selection and ordering of devices often was the sole purview of the operating room (OR) staff. Surgeons scheduled surgical cases, placed device requests, and the OR filled the requests. The hospital purchasing or materials management departments were secondary to the sale and merely were responsible for basic pricing and paper work activities. Unfortunately, in many hospitals this is no longer the case.

Many companies are struggling with hospital purchasing processes

that require new or next-generation products to be reviewed by committees charged with reviewing the clinical and reimbursement performance of the products. Price negotiations have become more aggressive than in the past, and many hospitals are attempting to implement capitation programs to limit their expenditures for orthopedic devices. Often, companies are struggling to maintain their margins when re-negotiating contracts in well-established hospital accounts.

Pricing Struggle

Why does there appear to be a life-and-death struggle between device manufacturers and hospitals over the pricing of new technology? Both sides agree that these new products improve the clinical outcomes for patients and offer new solutions to physical ailments.

The principal dilemma is related to the different methods of revenue generation for each party. Hospitals are locked into a regulatory environment where a large portion of their revenue base, especially in orthopedics, is controlled by Medicare and Congress. For the first time in many years, orthopedic services delivered in the hospital inpatient setting experienced a minor reimbursement increase. But this minor increase fails to make up for several years of flat or declining reimbursement and, like orthopedic companies, hospital costs have risen steadily over the years—leading to either declining hospital margins or total losses in certain service categories like orthopedics. Paired with the increased

patient demand for orthopedic services, hospitals see this as a recipe for disaster.

Orthopedic companies, on the other hand, are not restricted by the strict reimbursement and regulatory environment that their hospital customers experience. Unencumbered by this restrictive environment, companies are free to increase their pricing as necessary to achieve their desired margins. These conflicting business environments have prompted hospitals to implement a number of measures in an attempt to control the rising costs of implants and devices.

Hospital Control Measures

Many hospitals have established special committees to assess, measure and control the purchase of new products. These committees are sometimes called Technology Management Committees, New Technology Committees or even Purchasing Committees. The committee structures afford the hospital an opportunity to review the clinical and economics for a new product and arrive at a purchasing decision.

Standing members of these committees may include individuals responsible for managed care contracting, maintaining the hospital charge-master, managing medical records, overseeing the hospital finance or reimbursement departments and a key physician such as the hospital's medical director. In most cases, the committee would not include the orthopedic surgeon as a primary member but may provide an opportunity for the surgeon to present on a new product under consideration at some point during the review process.

The committee usually reviews both clinical and financial information related to the product. The clinical analysis would include a review of relevant clinical journal articles, technology assessments, treatment plans and clinical discussions with the surgeons. The financial analysis normally would include a review of the coverage and payment for the product from the hospital's primary

insurers such as Medicare, Medicaid, Workers' Compensation and key managed care insurers. The financial analysis would include a detailed review of patient demographics, payer mix, relevant coding (CPT, HCPCS, DRG, APCs, etc) and existing coverage rules.

This process, as well as many others newly implemented at hospitals across the country, has had the effect of reducing the influence of the surgeon on purchasing decisions. It's also added significantly to the sales cycles as sales representatives, ill equipped to understand and navigate these new processes, struggle to move the sales process forward in a timely manner. Using existing sales methodologies, sales representatives often run into trouble while navigating these new hospital systems.

Hospital Survey

In a recent national hospital survey performed by Technology Access Partners, 85% of respondents indicated that their facility had a new technology committee that was responsible for reviewing the purchase of new medical products. Among hospitals surveyed, 89% responded that their facility performs a clinical, financial and reimbursement analysis.

When asked about their expectation of their device suppliers 82% of hospitals responded that they would expect the manufacturer to supply not only the clinical information related to the product, but also the reimbursement and economic information.

The New Sales Model

What once was a relatively straightforward process, primarily driven by the surgeon, now has become a process controlled by committees. With multiple committee members and multiple agendas, the sales process often runs aground somewhere and fails to get back on track in a timely manner—or sometimes not at all. In addition, due to the pricing struggle around these products, it's necessary for salespeople to have a good understanding of how the

hospital customer earns revenue—ie, a solid understanding of reimbursement, managed care contracting and overall hospital finances. While it's not necessary for salespeople to be experts in this area, it is important for them to have a working knowledge of the information.

Although the influence of the surgeon has been reduced in this new environment, the surgeon still plays an important role in the process. The surgeon should be capable of functioning as a clinical champion and facilitate the sales relationship with the hospital. Many sales representatives select their key surgeons based on expected utilization and often fail to consider the broader role of a strong clinical champion in the sales process. The role of the clinical champion is important, even when it comes time to re-negotiate contracted pricing with a hospital customer in subsequent years.

The new sales model would be one that directs sales representatives to strategically select both their surgeon/clinical champion and the hospital facility in which the product will be used. Since reimbursement varies among each hospital, it is possible to select hospitals most appropriate for certain types of products. Furthermore, the new sales model would be one that helps sales representatives partner not just with their surgeon, but with the hospital as well. To effectively partner with hospital customers, sales representatives should understand the hospital's business model and endeavor to make the hospital successful. Companies can assist in this process by providing appropriate value-added services that show a dedication to the hospital's business and engage the hospital very early in the sales process in order to avoid prolonged sales cycles. ♦

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