



The Looming Threat of Price Transparency

What MedTech Manufacturers Need to Know

A White Paper by
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Introduction: Hospital CEOs are focusing on Supply Chain

Hospitals and health systems around the globe are under tremendous pressure to reduce costs, enhance quality, and improve outcomes. In fact, a recent survey by the American College of Healthcare Executives¹ showed financial challenges as the number one concern of hospital CEOs¹. In the face of these pressures, many hospitals, and other buyers of medical technologies, are turning to the supply chain as a potential source of cost reduction

There's an emerging recognition by hospitals that becoming smarter buyers of goods and services is a huge under-leveraged opportunity. The Association for Healthcare Resource & Materials Management has initiatives underway to better align the supply chain with costs, quality, and outcomes. Despite spending \$300 billion on medical technologies globally, many hospitals and other buyers have traditionally lagged behind other industries in supply chain and purchasing sophistication.

Historically, physicians have been the key influencer or decider in the buying decision and have, in many situations, lacked even a basic awareness of price. A recent report in Health Affairs showed physicians have very low awareness of prices of certain implants². Making physicians aware of the price and effectiveness of various devices is critical. Moreover, smart buyers are using price benchmarking to enlist physicians to help put pressure on suppliers.

Some have argued that the lack of transparency in value, and opaque pricing have led to higher healthcare costs. In fact, opaque pricing in parts of the medical device industry has been the focus of U.S. Congressional studies. In July, U.S. Sen. Angus King, proposed banning suppliers from preventing hospitals from sharing pricing information and requiring medical technology companies to report prices³.

Transparency Threat: Convergence of Forces

Now there is a convergence of forces that make transparency more of a threat than ever for hospital suppliers. This is especially true for suppliers who sell physician preference items (PPI). The forces converging to make transparency more of a threat than ever are:

- **Accountable care and value-based purchasing:** The movement from fee-for-service to accountable care and value-based purchasing makes hospitals increasingly accountable for patient outcomes and downstream costs. This means outcomes and understanding value are more important than ever.

- **New start-ups:** with \$300 billion in supply spending annually, there's a huge business opportunity to help hospitals take cost out and bring value into the buying decision. New start-ups like ProcuredHealth and SharedClarity are helping to bring transparency to outcomes and value, and share it across hospitals.
- **Physician employment and aligned incentives:** physicians are increasingly being employed by hospitals. Physician employment helps align hospital-physician interests and create shared destiny around buying and utilization decisions
- **Maturing hospital supply chain:** more mature supply chain organizations will have the political clout, best practice tools, and skills to leverage transparency like never before.
- **Consolidation:** hospitals continue to consolidate. In addition, in the U.S., many hospital systems and hospitals are partnering to form regional shared services centers or buying groups to focus on leveraging purchasing power and creating common care pathways.
- **Government activism:** governments, struggling with debt and rising healthcare costs, are turning to price referencing as a means for reducing healthcare costs.

Price Transparency is a Real Threat for MedTech Manufacturers

In total, there are three key areas of transparency emerging. These are price, value, and outcomes transparency. There are many new entities working on bringing transparency to all of these areas. With the Internet, big data, and continued pressure on reducing costs and improving quality, expect that there will be an acceleration of pressure due to transparency.

In the near-term, price transparency is the easiest and biggest lever for buyers to utilize to drive savings. If you work in Med-Tech, having a plan to smartly deal with the growing price transparency is critical to managing your value and margins.

Best Practices for MedTech Manufacturers

While some of the forces that are in effect are outside the control of MedTech manufacturers and other hospital suppliers, there are quite a few measures that we see leading companies starting to employ to take back control when it comes to effective pricing. Many of these companies understand that transparency is inevitable as buyer sophistication increases and the best offense is to have a solid defense.



1. Internal Transparency: One of the first areas to tackle is providing pricing transparency within the internal organization and most importantly the sales and sales leadership organization. We have seen in our experience that when sales management and executives have access to detailed information on Net Prices inclusive of all discounts that are offered across the value chain, the ability to price effectively can be increased quite a bit. A big part of this is being able to effectively employ solutions that help analyze pricing and discounting patterns across product families, segmented customer groups and disparate geographies. In addition, when employing cross promotion programs between different product families, being able to reconcile and allocate the true discounts for each product family can help one make better informed decisions when it comes to pricing.

2. Pricing Discipline: A direct result of the internal pricing transparency is the environment it creates for pricing discipline. With increasing transparency comes increasing visibility into price variability. By concentrating on controlling the price variability that enters the market, and therefore the introduction of outlier prices that could dramatically influence margins and revenues either by competition or procurement pressures, manufacturers are aware of and able to justify each price point being offered. The need for visibility into these price points, which ideally should be net of upfront discounts and all rebates, fees and other back-end discounts, itself provides the necessary justification for aligning contracts and agreements to prevent maverick pricing. It is imperative that each offered price is thoroughly reviewed through an automated workflow that usually involves price floor and ceiling checks before being approved for contract on the front end of the process. The transactional results of the contract should be consumed by pricing analytics to calculate gross-to-net prices and review price scattering performance on the back end.

3. Cross Promotion: Companies are also taking advantage of the ability to create increasingly creative discount structures that enable the company to offer value between multiple products vs. just straight discounting on a single product. Examples of these include offering discounts on an existing best-selling product for performance on a new market introduction. Another use of this strategy can be seen in the case of providing rebates when a group of products is bought and used together as part of a procedure. These programs when structured correctly as a mix of upfront discounting and backend rebate programs, can be extremely effective in ensuring that the true total discount is not visible to external entities. However, when such programs are used, it is important that to have the right systems which can then help one view the total discounts very clearly in internal analysis.



4. Innovative Contracts: We also see leading MedTech manufacturers increasingly invest in and benefit from the ability to quickly bring new innovative pricing and discounting programs to market. The overarching need that manufacturers and suppliers have in this market is that of being able to react quickly, effectively and efficiently. The marketing, pricing, sales and finance teams need to be ready to handle these innovative programs before they are put in place. By being on the leading edge of complex procedure and even outcomes based rebate programs, these companies are able to take advantage of the market forces and continue to thrive in a new reality. Examples of these include programs that measure patient retention vs. a baseline ratio, cure rate against a percentage threshold and number of procedures performed and their success. Moreover, these strategies and accurate calculations need to be executed in the context of an ever-changing customer membership and eligibility set while utilizing non-traditional data sources. Such agreements that can benefit the customer by measuring supplier value are the future of MedTech contracting.

Conclusion

To enable sales teams to combat the reality and the threat of price, value, and outcome transparency, they have to be empowered to react quickly, effectively, and efficiently. The threats are real and evolving rapidly. The convergence of the factors listed above require MedTech manufacturers to continue to explore ways to alleviate risk proactively, rather than waiting to react to the situation influenced by increased transparency. Manufacturers can set themselves up for success by putting systems and processes in place that allow their teams to adopt the best practices listed above.

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Christopher Provines has over twenty-five years of global healthcare experience. He began his career in hospital finance and reimbursement. After graduate school, he joined Johnson & Johnson and later moved to Siemens Healthcare. His roles have included vice-president-level positions at both companies. He has extensive global experience in a variety of functions, including strategic pricing, reimbursement, health outcomes, finance, procurement, commercial excellence, key account management, and business improvement. He is a world-leading thought leader in selling, defending, and capturing value in healthcare. Chris has written many papers, articles, book chapters, and books. He is on the board of advisors for the Professional Pricing Society and is an award-winning adjunct professor at Rutgers University, where he teaches in the Supply Chain Management and Marketing Sciences Department. His research interests include the transformation of healthcare supply chains and the implications for suppliers. Chris earned his MBA from Rutgers University. E-mail: chris@valuevantagepartners.com

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References & Additional Resources

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