REBATES AND BUNDLES

{ WE CAN DO BETTER }

by Chas E. Sanders

There has been a strong kinship between the medical device industry and physicians for many years. The two have collaborated on product development and bonded through technical service. These relationships have been predicated on the access to and development of new innovative technologies coupled with excellent clinical support to deliver these technologies to patients. Over time, these tight personal relationships often superseded other relationships, such as those between physicians and hospitals. However, we are entering a new era of healthcare in the United States.

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In recent years, the development of new innovative products has declined compared to the technology boom of years past. Concurrently, specialized fellowship programs have grown, and with them, so has the technical expertise of physicians utilizing medical devices, thus reducing the need for constant clinical support. Beyond extensive training through fellowship programs, today, physicians also have the luxury of choosing from many vendors offering the same class of products. For example, if we consider just the atherectomy market, there are products from Philips, CSI, Boston Scientific, Angiodynamics, BD, and Medtronic that are widely (and often interchangeably) used. This diverse optionality lends less reliance on a specific company or its representative.

Additionally, physicians now have more control over the service site for which they choose to perform their procedures. Historically, physicians would perform their cases in the hospital. These physicians rarely earned more than the professional portion of reimbursement from payers (≈15% of global reimbursement). This left hospitals to appreciate supernormal profits for many procedures. Given these margins, physicians were often able to choose the products they wanted with little needed regard for the cost to the hospital.

Today, many physicians leave the hospital to operate their own office-based lab (OBL) or ambulatory surgery center (ASC). Studies have demonstrated that outcomes improve, patient and physician satisfaction scores are higher, and the overall cost is lower for procedures performed in the OBL/ASC site of service versus a hospital. In these sites of service, physicians can also appreciate a better financial position where they can share in both the risk and reward of earning the entire global reimbursement for a procedure. Even with this enhanced financial opportunity for physicians who take the risk (or leap) to open their own facilities, OBLs/ASCs are still reimbursed at considerably lower rates than their hospital counterparts for the same procedure by the same physician – often up to 50% less. There has been tremendous growth in the number of these centers operating in the US over the last couple of years. While the exact number of OBLs in the US is hard to determine due to regulatory requirements, it is believed well over 700 OBLs are performing endovascular procedures today. The opening of new OBLs is growing well above the 16% expected annual growth rate of the ASC market.

This migration from hospitals to OBLs/ASCs forces an exciting evolution in the relationship between the device industry and physicians. For many physicians, this is the first time they have had to weigh in on pricing. In the OBL/ASC site of service, pricing is critical and is a significant predictor of future success. With the movement of cases from hospitals to OBL/ASC facilities, device companies are seeing an erosion of their average selling price (ASP) versus what they enjoyed traditionally. At first, many device companies thought these facilities may be a fad and would not gain the traction we are now witnessing. However, it is becoming increasingly clear that the migration of procedures out of the hospital will continue, and many different organizations, including CMS and private payers, support this.

Given this trend, what happens to those existing relationships between device companies and physicians as we advance? Device companies will need to change and become more dynamic in their approach to physicians who work in an OBL/ASC. Unfortunately, to this point, we have not seen a drastic shift in the value proposition device companies offer to physicians.

Partnerships with physicians have been and will continue to be critical for developing future products and techniques. In addition, the device companies will need to ensure their profitability while delivering products at a price point the market can bear. Some companies have tried multiple strategies to leverage market share and price to accomplish this. Most common among these strategies are offering "Bundles" and "Rebates."

Bundles

With "bundle" programs, if a customer buys products A, B, and C together, a device company will reduce the cost of all three products to offer a better-bundled price than buying products A, B, and C separately. The industry positions this to increase its market share and revenue per case. A "bundle" program is a strong strategy if a device company has an outstanding or novel product that it can leverage against other products.

We believe that "bundle" programs translate into reduced optionality for physicians. They could also put physicians into an untenable position if forced to choose between price and their clinical preferences. Even if a physician is an avid user of all products from a specific company, why would we need such a program? If the margins are there to offer a discount, why not provide those prices up front? Doing so would be in the patient's best interest and forge a more collaborative relationship between physicians and their industry partners.

Rebates

With "rebate" programs, if a customer achieves specific benchmarks in product utilization, a device company will offer a rebate check or credit for future purchases. Essentially, this is a message of "the more you use, the more you save." This strategy may garner a few more units purchased if a customer is on the cusp of hitting a rebate tier during the end of the quarter or year.

Optically these "rebate" programs seem to be predicated on distrust. A more open dialogue around the projected volume of use could do away with these programs. Physicians could communicate their anticipated usage and set their pricing appropriately based on these forecasts. Granted, both sides can sometimes overpromise and under-deliver in sales negotiations. However, should physicians not be afforded fair pricing upfront, and if they do not meet volume commitments, prices can be reassessed? There would be less gamesmanship and faster development of physician and industry relationships.

We are at an inflection point in healthcare delivery in the US. The clinical opportunity for both patients and physicians in the OBL/ASC sites of service is inspiring. With this shift out of the hospital, the relationships between physicians and industry will also need to evolve. These relationships can be more collaborative and focused on patient care in the future. To achieve this, device companies need to reframe their relationships with and offerings to physicians. One way to reframe these relationships is to offer fair and transparent pricing without hooks. Doing so will create meaningful partnerships as we enter a new era of healthcare delivered in outpatient facilities. V

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