

## Lowering the Cost of Spine and Orthopedic Implants

*Successfully navigating the sales tactics of implant reps requires product expertise*

BY TIM BURNEY



Implant costs make for one of the largest expenses—if not the largest expense—in an ASC with a spine and/or orthopedic focus.

Because of their complexity and the quantities required, managing spine and orthopedic implants presents a unique challenge for ASCs. For those same reasons, they also offer ASCs a great opportunity for cost savings.

Spine implants frequently have 80 percent-plus gross margins. Their prices are highly variable across facilities, and sales representatives and their distributors often make 20–50 percent commissions. A pedicle screw that costs \$40 to manufacture often sells for \$1,000 or more. The savings potential is significant, but product-specific and clinical expertise, combined with a knowledge of the negotiating tactics that device sales representatives employ, is required to extract maximum savings and profits.

### Discounting Off List Price

List price does not mean much in the spine industry because list prices are arbitrary, variable across vendors and highly inflated. Manufacturers sometimes try to impress facilities with a large “percent-off-list” discount. Accordingly, they inflate their list prices and offer big discounts off those prices. The end result might be that while the percent off is a big number, the actual dollar amount paid for those implants is higher than the amount paid for equivalent products from other vendors.

Successfully negotiating prices entirely independent of list price requires ASCs to take the time to gain an in-depth understanding of what the prices should be and setting cap prices



appropriately. Compare pricing of similar items from multiple vendors, especially if you can leverage someone with the detailed product knowledge to recognize subtle differences between competitive brands. Network with peer facilities in your region and across the country to gain a better feel for the range of pricing that exists. Make use of subscription-based pricing databases, and lean on past experience of your employees, partners and consultants.

### Upselling ‘New/Premium’ Technology

The vast majority of implants that are marketed as “new” or “premium” are only slightly different—but not necessarily better—than the dozens of other similar products on the market. For example, in 2015, there were more than 150 Food and Drug Administration (FDA) 510(k) implant clearances by 75 different spine implant companies. By definition, implants cleared via

the 510(k) process are “substantially equivalent” to existing products on the market. Compare that to the three spine implants that were approved via the pre-market approval process by which truly unique products are FDA approved. With dozens of manufacturers of spine implants each usually offering dozens of product lines, ASCs must gain substantial product-specific expertise to see through a sales pitch for a “new” or “premium” device to identify products deserving of higher prices. This is where your surgeons or an unbiased third party with specific expertise can help determine if a new product represents a true technological advance or if it is more of an incremental change that may not warrant a price premium.

### Shifting Costs from Implants to Disposables

Imagine that you just successfully negotiated a \$500 discount on your

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transforaminal lumbar interbody fusion (TLIF) cages. Before you sign the final agreement, check it carefully. Did the supplier just add \$500 (or more) to the “disposable TLIF kit” that is used with each TLIF cage and create additional expense that was not on your radar screen during your price negotiations?

Even if implants are carved out and fully reimbursed, the facility eats the full cost of disposables. Disposables can be as much as one-third of the supplier’s total charges on spine fusions. It is important to know how the cost and utilization of disposables relates to their respective implants. To get a complete cost estimate, ask your sales representatives what the total procedural costs—including disposables—are expected to be, then compare total procedure costs against your price targets, competitive quotes and payer contract terms.

### Hiding Costs in Massive Price Lists

The sheer size of a vendor price list, usually thousands of items, lends itself to intentional or unintentional hidden costs that can easily go undetected by materials managers. Unless you review every line item in a supplier-provided price list, hidden costs, like disposables, can be present.

Even if an ASC has established cap pricing on particular product categories, charges for “non-conforming” items could be added on top of those prices. For example, while it might look like all the items with a description of “anterior cervical plate” are at the desired price point, many other subcomponents—for example, set screws and caps—could be added into the surgery to make it a complete—and more expensive—implant construct. It is important to know which

components go together to accurately understand procedure costs.

Additionally, some items might be priced higher than the agreed-upon category pricing. Suppliers often take the liberty of deciding that some of the “premium” items in their price list do not fit into any of the ASC-prescribed pricing categories and, then, assign arbitrary prices to those items. Unless you closely examine every part number in each of your supplier’s price lists, it is likely that numerous inflated prices are hidden in those lists. Require suppliers to explicitly map each line item to your cap pricing categories and have them explain any non-conformances.

### Leveraging Surgeon Relationships

Some sales representatives try to gain the support of surgeons before approaching administration and/or materials man-

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—Tim Burney, *Advantien*

agement. They understand—and sometimes try to exploit—the disconnect that can exist between the surgeons and the ASC’s purchasing experts when surgeons are largely unaware of the costs of the products they use. That leaves materials managers in a difficult position. It is their job to get the best pricing possible, but they do not want to prevent surgeons from using what they want.

To successfully overcome this challenge, you must be able to tell representatives exactly why the pricing needs to be lower. You must explain how their products compare to similar products currently used at your facility and know how to counter their inevitable argument that their product is different/better and deserving of a higher price. You might also need to be able to provide the same technical explanation to the surgeons who work at the ASC to gain their support. Simply demanding a bigger discount will not be as effective as providing the technical and clinical rationale for why the product needs a particular price point.

Surgeons often have the knowledge needed to be your technical/clinical expert and assist with vendor negotiations, but they often lack the time or desire to get involved with pricing. Show your surgeons a simple table that compares supplier prices for like items, and ask them to at least support getting the outliers to the lowest common denominator. Seeking the guidance of third-party implant management experts can augment your in-house knowledge; just make sure that the third party has the product expertise for your facility’s specific implants.

#### Value-Based Alternatives

Meaningful savings can be achieved from existing vendors by understanding and navigating the tactics described above. An even greater level of savings can be realized with value-based or lower cost suppliers.

Hundreds of companies have FDA clearance to sell their spine and orthopedic implants in the US. Most of these implants are as safe and effective as

the name-brand implants. They might even be almost indistinguishable from the name-brand items but offered at prices discounted 50 percent or more.

Surgeons typically need an incentive to make such a switch. Surgeon owners of an ASC tend to be the most receptive due to the inherent financial alignment. Even then, convincing surgeons to make a change from the representatives and products they are comfortable using will require providing them with alternative and lower cost products that meet or exceed their clinical and technical requirements, as well as quantifying the improved profitability that will result from the switch.

Substituting value-based implants for just one or two implant types can have a dramatic impact on an ASC’s bottom line, while preserving surgeons’ preferred representatives and products for their remaining utilization. For example, polyetheretherketone (PEEK) interbody cages are one of the least differentiated categories of spinal fusion implants. Substituting value-based PEEK while retaining the surgeon’s preferred “metal” representative might save 10–25 percent of the implant cost for a spinal fusion.

#### Knowledge is Power

There are many ways to reduce implant costs, but maximizing savings and profits requires navigating the sales tactics of the device companies and, perhaps most crucially, leveraging or acquiring an intimate understanding of the technical and clinical aspects of the implants. Given how much of an ASC’s expenses spine and orthopedic implants may represent, it is well worth the effort to acquire and leverage the product-specific expertise needed to maximize implant value. «

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