Mounting Price Pressure on the Medical Device Industry

PRESENTED BY:
ROBERT DAIGLE
Market Overview

- The US Orthopedic market is valued at $15 Billion

<table>
<thead>
<tr>
<th>Market</th>
<th>Market $ Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spine</td>
<td>$6.00</td>
</tr>
<tr>
<td>General Reconstruction</td>
<td>$5.00</td>
</tr>
<tr>
<td>Trauma</td>
<td>$3.00</td>
</tr>
<tr>
<td>Sports Medicine</td>
<td>$1.00</td>
</tr>
</tbody>
</table>
Pricing Pressure

- Medical device manufacturers are reporting increasing pressure to lower prices
- Driven by stakeholders interest in lowering their cost
- This pressure is being driven down through the supply chain.
The Value Chain

- 9. Hospital/Surgery Center
- 8. Sales Representative
- 7. Distributor
- 6. Medical Device Company
- 5. Subcontractor
- 4. Distributors
- 3. Processors
- 2. Melt Source
- 1. Raw Material
Hospitals

- Hospital sustainability depends on their ability to reduce cost.
- Hospitals are acquiring Physician Offices, Health Care facilities and Surgery Centers.
- Doctors are now employees.
- Hospitals joined buying groups to benefit from volume discounts.
- Nurse Practitioners and Physician Assistants are replacing many doctor positions.
- Hospitals are falling short of telling physicians they cannot use a certain product. But they are selling them the fact that discounts are lost if ten different products are used.
Insurance providers

- Government insurance

The US government is the largest insurance provider covering almost half of the health care cost.

- Provides Medicare
  - Health insurance - 65 and older
- Provides Medicaid
  - Health insurance – insufficient income
Government vs. Private Insurance

- Private Health Care Providers
  - Negotiate with Hospitals annually to determine reimbursement
  - Negotiate with Customers to determine rates
  - As prices rise, Customers pass cost on to insured
  - Deductibles, Co-pay

- Government Insurance
  - No negotiation
  - Flat rates and sometime declining
Legislation

- 2.3% Medical Device Tax
  - Excise tax intended to subsidize the new health care legislation “Obama Care”

- TRANSPARENT
  - New legislation effective Jan 2014 requires hospitals to provide an estimate of cost for medical procedures
Other Ways to Contribute

- Back to the Supply Chain
- dCAPS
  -- Define and control all process steps
- LEAN
  -- Remove the waste from your operations
- Make it easy and cost efficient to do business with your company.
- Work closely with your customers to identify waste, then remove it.
- Provide solutions. If not, someone else will.
Giving up the Low Hanging Fruit

The stakeholders surrounding the health care industry has driven the cost of health care to an unsustainable level.

Change has already gone into motion. You and your company can be part of it ..........or watch it happen.

Do not get caught standing still.
Robert Daigle
Senior Vice President
Structure Medical, LLC

9935 Business Circle
Naples, Florida 34112

Office: 239-262-5551
Email: bdaigle@structuremedical.com