Is the Promise (or Threat) of Medical Supply Price Transparency Finally Here?

Depending upon which side of the table you are on, medical device and supply price transparency is either a long-standing threat to prices and margins or a potential opportunity to drive supply savings.

While there have been efforts and businesses focused on supply price transparency in the past, it finally appears that we may be at a tipping point where price transparency will have a major impact on suppliers and buyers.

What has changed? Why is price transparency finally going to have a big impact?

There are four big drivers to consider:

1. Continuing Pressure for Cost Reduction: Reimbursement cuts along with pay-for-performance programs and new business models will continue to put hospitals and other providers under pressure to be more efficient and reduce costs. Supplier related costs represent approximately 40% of total costs for providers, and should continue to be a big area of focus.

2. Maturing of Supply Chain: Hospital supply chain and procurement capabilities continue to mature. As this occurs, expect a much more proactive and sophisticated approach to reducing supplier costs and extracting more value from suppliers.

3. Technology Provides Better Visibility to Spend Data: One key enabler of any procurement transformation and supply cost reduction effort is gaining better visibility to spend data. This simply means understanding what is purchased, from which suppliers, at what prices, and why. This spend data informs sourcing strategies, supplier rationalization, supplier management, and

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other procurement efforts. New tools such as cloud-based procurement software – provided by companies like Coupa, GEP, and others – are helping to provide greater spend visibility.

4. **Changing Supply Ecosystem:** There is an entire cost-out and value-in ecosystem of businesses trying to help providers reduce supplier related costs and bring value into supply decisions. In the area of price transparency, existing players like ECRI and MDBuyline appear to have ever more sophisticated tools and data. In addition, new players like Broadjump, which focuses on supplies as well as purchased services, are entering the price transparency market. Sourcing consultants and cloud-based sourcing tool providers like Curvo help to provide transparency to supply prices.

**Suppliers’ View – Price Transparency Will Be a Big Issue**

Within the supplier community, many see the threat of price transparency as real. A recent survey of approximately fifty MedTech industry executives and participants shows that almost half believe transparency will have a significant impact in the next few years and over three-quarters believe price transparency will have a significant impact within a decade.

There are a lot of potential issues with using price benchmarks. Critics question the accuracy of prices and are quick to point out that the price of a supply item cannot be taken out of context (e.g., the price is tied to a relationship, level of service, purchased volume, share of purchases, etc.).

This context issue is especially important as suppliers start to unbundle (e.g., repless sales model). Over time, however, technology and the ecosystem of businesses providing transparency services should be able to continuously improve the data and address any context issues.

Most medical technology suppliers, as the survey shows, recognize that the real threat of price transparency is coming. Yet, experience shows that many suppliers still struggle with having clear pricing rules and disciplined price execution. If suppliers cannot get a handle on pricing, price transparency should become an important tool to help providers take large chucks of supply costs out.