In this article, the author explains why having a plan for dealing with growing pricing transparency is critical to managing your value and margins for professionals working in pricing or value management in the medical technology (MedTech) industry. Chris Provines is a 24-year veteran of the healthcare industry having held executive roles at Johnson & Johnson and Siemens Healthcare. He is the CEO of ValueVantage, and the author of Strategic Pricing for Medical Technologies (2012), and his newest book Healthcare Value Selling (2014). He is on the PPS Board of Advisors and an Adjunct Professor at Rutgers University where he teaches in the MBA program. He can be reached at chris@valuevantagepartners.com.

The Growing Threat of Price and Value Transparency to the Medical Technology Industry

United States Hospitals are under tremendous pressure to reduce costs, enhance quality, and improve outcomes. If you think this is an exaggeration, look at the American College of Healthcare Executives’ most recent annual survey on issues facing hospitals1. The top five concerns of hospital CEOs are financial, healthcare reform, and quality.

The hospital supply chain is now coming into focus as a potential source of value and way of helping to meet these challenges. The Association for Healthcare Resource & Materials Management has initiatives underway to better align the supply chain with costs, quality, and outcomes2. Despite spending $300 billion on drugs, devices, and other supplies, the U.S. hospital industry has traditionally lagged behind other industries in supply chain and purchasing sophistication. For hospital suppliers who feel like they are under lots of pricing or value pressure now, you haven’t seen anything yet.

One of the challenges many hospitals face is aligning the clinical side with supply chain. Usually, the individual with the most influence in the buying process is the physician. A recent report in Health Affairs showed physicians have very low awareness of prices of certain implants3. Beyond price awareness, transparency to prices and value has been an issue. Some have argued that the lack of transparency in value and opaque pricing has 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.

Whether you agree or not that a lack of transparency has contributed to higher costs, it’s hard to argue against the idea that better transparency will help hospitals in negotiations and in buying decisions. Price transparency could be a lever for purchasing people to negotiate deeper discounts from suppliers. Likewise, value transparency, leveraged by value analysis committees, will help hospitals decide which device, drug, or supply item is the best choice for their circumstances.

One might argue that hospitals have already had access to transparency. In the past, hospitals could have leveraged their group purchasing organization (GPO) for basic price benchmarking. Likewise, hospital buyers could have turned to other third parties for basic price, performance, and feature comparisons for many capital equipment and other supply items. Also, there have been many health technology assessments done for important new or controversial technologies. So, what’s different now?

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 in the U.S. alone, 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**: 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 to focus on leverag-
ing 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.

In total, there are three key areas of transparency emerging. Figure 1 provides a summary of these.

What does all this mean for suppliers? From a pricing and value management perspective, smart companies are taking the following actions to deal with this threat:

1. **Actively Manage Regional and Global Pricing Rules:** This means putting in place clear rules for how customers earn a discount and backing the rules up with a process to measure and manage price. This often includes investments in price management software and tools. It also includes smartly managing price variation across markets. Given the differences in the healthcare systems and economics around the world, it’s unrealistic to have one single global price. However, price differences across markets should be well thought through and defendable. Allowing local operating units to set prices independently is a recipe for disaster. As an example, if you work in the U.S., just ask yourself what would happen if U.S. hospitals suddenly had access to your prices from around the world? It’s not that far fetched of an idea. With the growing transparency and smart entrepreneurs trying to make money on $300 billion dollars in annual spend, it’s bound to happen eventually.

2. **Get a Handle on Your Value:** Many companies struggle with understanding the value of their solutions. If you think this is an exaggeration, just count how many of the solutions in your sales bag have a clear, quantified value proposition. This includes aligning the value proposition to the key elements of healthcare reform if you sell in the U.S. If you don’t control the value message, there are now start-ups that enable hospitals to create value analyses and share these through the web with other hospitals.

3. **Prepare the Sales Team to Sell and Defend Value:** With all of the changes in healthcare, no function is under more pressure and is more critical to the success of the company than the sales organization. Yet, the MedTech sales organizations probably face the biggest change in this new market. Beyond the traditional clinical selling skills, sales teams now need to know how to: navigate the new buyer, use and connect value to the customer’s varying reimbursement models, call on new stakeholders, and defend value against sophisticated buyers. It’s not an easy job. Smart companies recognize that the sales team is the frontline in helping to defend value against the emerging transparency. Ask any purchasing agent and they will readily admit that they try to use price or value references to negotiate with and intimidate salespeople. With greater transparency on the horizon, salespeople need to be prepared to deal with this.

It feels like there has been more change in healthcare in just the past few years than in the previous twenty years. If you work in pricing or value management in MedTech, having a plan for dealing with the growing transparency is critical to managing your value and margins.

**References**

2. See www.ahrmm.org.