

The Hospital OR: Should They Go Rep-Less?

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As hospitals transition from a fee-for-service payment model to a world of value-based purchasing, accountable care, aligned incentives and bundled payments there is continued pressure to reduce costs while maintaining or improving the quality of care. Professional buyers and Value Analysis Committees are leading the cost saving charge because every dollar saved drops straight through to the bottom line of the hospital or health system.

For years' hospitals have reduced their purchase price for implants through a variety of negotiation techniques. The new frontier that has had a modicum of success is going Rep-Less in the Operating Room (OR). This model eliminates the sales representative from the OR and replaces them with hospital or out-sourced personnel.

How Hospitals Are Responding

Hospitals know that implant prices are high and are often largely driven by physician preference. They understand that few surgeons know the costs of the products that they use.¹ They want to curb the influence that manufacturers have on surgeons. To lower costs they have educated the surgeons on the costs of the products they are using, purchased physician practices and offered a gain sharing program on cost reduction programs, standardized product selections, negotiated tougher with implant suppliers and in some cases looked at alternative models of delivery than the traditional sales representative.

In the future we expect hospitals to look seriously at generic implants and determine which surgical cases need the presence of a sales representative. If a sales representative is not required, the hospital would expect a lower price.

Alternative Models



It's easy for pundits to say the sales representative costs too much money; let's replace them. What is required is for someone else to fulfill the role and function that is currently being provided by these highly trained and skilled individuals.

There are several emerging models to the existing sales representative in the OR.

- **Rep-Less Sales Model:** Under this model an implant manufacturer sells their product direct to the hospital at a significant discount (40-50%) and with no local sales representative support. The hospitals that purchase these products hire and train their own personnel to perform the functions of the sales representative. Examples of firms offering products in this manner are: Renovis Surgical Technologies, Royal Oak Medical Devices, Cardinal Health in partnership with Emerge Medical, Microport Implant Partners and Smith & Nephew Syncera. The latter provides training for the OR and central processing personnel.²
- **Remote Assist Model:** Under this model a manufacturer offers a network of tele-conferencing sites at hospitals that allows sales representatives to remotely assist the surgeon during surgery. An example is Bang Surgical. They have an OR Grade video broadcasting system that can be wheeled in and out of any OR. Using the BANG product allows manufacturers to lower their implant price and still offer hospitals case coverage and product support on demand. Another example is Nurep. They have an iPad based tool that is compliant with health industry privacy laws and offers a way for sales representatives to provide real-time assistance to surgeons remotely.
- **Service Line Optimization:** Let's face it, the OR is a service line with revenues and costs. Its purpose is to generate exceptional patient outcomes and earn profits. When a hospital decides it wants to go Rep-Less it must replace all of the functions the sales representative performs and it must maintain and ideally improve the clinical and business operation of the OR. This takes outside advice and expertise. One firm that has created a business model to accomplish this goal for hospitals is Intralign. They provide a readiness assessment, process transformation roadmap, surgical extenders and supply chain services with generic technologies.

Questions to Ponder

Before a hospital can go Rep-Less they must be able to answer many questions. Here are a few of the most essential:

- Will the monthly savings generated be sufficient to warrant the change and is it sustainable?
- Will patient outcomes be equal to or better with a new model?
- What challenges must be anticipated and then overcome when the hospital goes to an out-sourced model?
- How will the change affect the culture within the OR?
- Can the incentives be aligned properly to create a win-win environment?

Parting Thoughts

In our opinion sales representatives are not going away because technology does not sell itself. New surgical instrumentation isn't going to be purchased on EBay and someone is going to have to provide education on the product.

Sales representatives are, however, in real danger of being removed from the OR in many hospitals or having their services provided ala carte. Bundled payments will demand continued and aggressive cost reductions.

A simple solution for manufacturers is to offer product pricing in three tiers:

- **Full-Service:** the standard or differentiated product priced competitively plus the sales representative in the OR. This is the current model.
- **Limited Service:** a lower price for the implant and a fee structure for each sales representative service. Hospitals could choose the service or services they wish to purchase. This what we term negotiated services.
- **No Service:** a markedly reduced product price with no sales representative support in the OR which is what many firms are offering through their Rep-Less model.

Most manufactures are reluctant to eliminate their Full-Service model because offering lower cost models to the hospital erodes revenue growth and profitability.....results that investors don't like to see.

Manufactures should look carefully at the cataclysmic sea of change that has occurred in the pharmaceutical industry relative to sales representative –physician interaction and heed the warning signs before it's too late.

References

1. Okike, K; O'Toole R; Pollack A et al. Survey Finds Few Orthopedic Surgeons Know the Costs of the Devices They Implant. Health Aff (Millwood) 2014.Jan; 33 (1) 103-9.
2. Lee, J. Devicemaker Sales Reps Being Replaced in the OR. Modern Healthcare August 16. 2014

As always we welcome your thoughts and input. Let's start a discussion and elevate the sales profession with a thoughtful and informative discourse.

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