

Surgeons Form Implant Distributorship

Prices plummet when docs cut out middlemen and deal amongst themselves.

Since it was founded in 2004, the surgeon-owned distributorship, Inland Spine Products, has been so successful in reducing implant costs for local hospitals that last year it formed a consulting firm, Alliance Surgical Distributors, to help other like-minded physicians set up similar partnerships. Today, surgeons at 7 hospital systems in California, Colorado and New Mexico have started their own implant distributorships, selling implants for joint replacement and spine surgeries to other facilities for less than a traditional medical device distributor. At a time when surgical facilities are struggling to find ways of keeping pricey implant cases profitable, could these doctor-owned distributorships catch on?

Surgeon-owned distributorships like Inland Spine Products “work very much like outpatient surgery centers,” says Angela Carlson, president of Alliance Surgical Distributors. They yield the best results “when you have a local group of doctors who work together and share a common vision, similar business ideals and similar clinical ideals.”

John Steinmann, DO, and 3 other surgeons

formed Inland Spine

after seeing implant costs rise at an annual rate of about 13%, while reimbursements and hospital profits were shrinking. “The escalation of orthopedic implant prices is a direct result

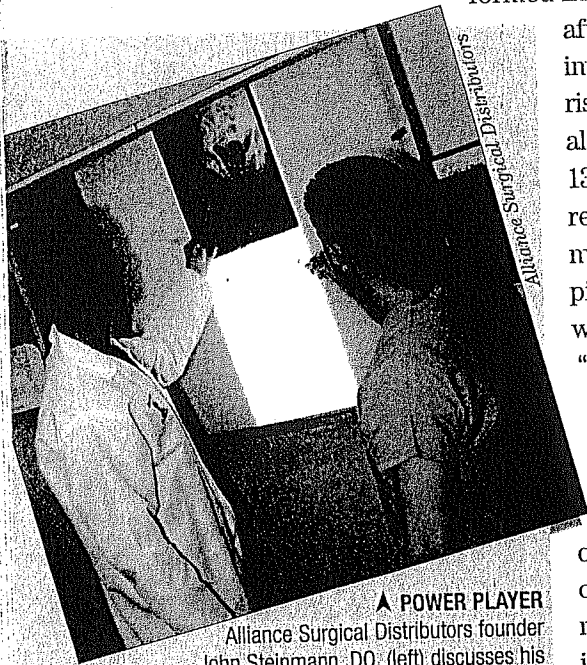
of the absence of effective market forces in this industry,” says Dr.

Steinmann. Ms. Carlson explains that the traditional model has failed to keep prices in check because the person who chooses the device — the surgeon — is not the same person who’s negotiating prices with the supplier. That burden falls to the surgical facility administrator or materials manager, whose leverage is further limited by the fact that implants are often purchased one at a time. Dr. Steinmann and his partners believed that by combining their clinical expertise, negotiating directly with manufacturers and purchasing implants in bulk, they could create a more efficient and affordable distribution model, passing the savings on to hospitals and surgery centers.

Ms. Carlson says she and the 4 physician-owners of Inland Spine spent “quite a bit of time” working through the legal and logistical issues involved in setting up the distributorship before opening for business in 2006. “On a federal level, we are confident that this model is going to pass scrutiny,” says Ms. Carlson, who notes that they follow the same rules as other types of physician-owned ancillary services. “We’ve always been transparent and honest in our business dealings” by disclosing ownership and the company’s structure, she says.

The company initially had to combat some skepticism from the hospitals. “They get told all the time, ‘We’re going to save you money,’ and it so rarely translates into true savings,” says Ms. Carlson. According to Inland Spine’s own analysis, the company saved 3 California hospitals 34% in implant costs between May 2006 and May 2008. The company conducted a price comparison of 4 implant systems it supplied to the hospitals for total knee and hip replacements, posterior lumbar and anterior cervical spine cases over the 2-year period. The total cost of the implants the company sold to the hospitals was \$2,058,217, as compared to the \$3,099,192 the facilities would have paid if they’d contracted with traditional vendors. The analysis was presented at the 2009 annual meeting of the American Academy of Orthopaedic Surgeons.

— Irene Tsikitas



▲ POWER PLAYER
Alliance Surgical Distributors founder John Steinmann, DO, (left) discusses his implant needs with a service representative.