



# Insights and Sound Bites

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*"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." **Author Unknown.***

## The Changing Relationship Between Medical Companies and Their Customers

Medical device companies have long depended on physician champions to help justify the need for new products in the hospital setting. They are, in the end, the experts and the end users. And until recently, they held the ultimate trump card – "I can always schedule my cases at the competitive hospital across town."

But healthcare reform and the overall economy and cost pressures are setting the stage for a shift in power. CFOs are wielding more influence than ever when it comes to product usage. Ladd Research Group recently conducted research with hospital CFOs to understand their perspective on the changing environment.

CFOs acknowledge that physician preference still carries significant weight in many hospitals. But they suggested that the manufacturers who are counting on physician preference to drive product use are depending on a physician culture that is rapidly diminishing.

Growing physician integration coupled with stronger and more accurate physician performance metrics will help CFOs to drive additional product standardization.

- 1) These performance metrics are a reality in many hospitals today and provide senior managers with a greater ability to compare physicians on outcomes as well as costs. This in turn allows tighter control on product utilization.

- 2) More and more physicians are becoming employees of hospitals as a way to minimize their own financial risk. This integration eliminates their ability to play that trump card.

- 3) More physicians now have a stake in the financial outcomes of the hospitals making physicians more cost conscious than ever.

CFOs admit that although they are quick to "commoditize" many products that companies claim are "differentiated", they are still cautious today when approaching the "product standardization" discussion. So although the shift is noticeably evident, it is still very much a work in progress.

So what is it that CFOs say they are looking for to differentiate a company, if it is not on the basis of product differentiation? Sounding a bit like a "cliché", they are looking for companies to be a "business partner". What it means to be business partner is not well defined, but it would certainly appear that it goes above and beyond the "value add" that has been the focus in recent years.

*"After you've done a thing the same way for two years, look it over carefully. After five years, look at it with suspicion. And after ten years, throw it away and start all over." **Alfred Edward Perlman 1958.***

Alfred Perlman's advice is as relevant today as it was in 1958. Companies that publicly acknowledge the changes in the healthcare environment and take the position of being part of the cutting edge solution rather than steadfastly holding on to the old-school ways, will likely be rewarded by hospital CFOs.