

Key Steps for Developing a
Surgeon Owned Implant Distribution Company

1. Believe in the Value and Importance of Surgeon Ownership in Distribution

Between 1991 and 2006, while orthopedic implant list prices have risen 171%, surgeon reimbursement has declined by 39% and orthopedics contribution to total hospital profits has decreased from 25% to 2%. (Journal Bone Joint Surgery, Vol 88-A, 2006). The current model of implant distribution is costly, inefficient and diverts resources from product development and the provision of care by hospitals and surgeons.

We believe that trained orthopedic and spine surgeons are the most uniquely qualified individuals to direct the functions of distribution and more effectively negotiate based on significant inventory purchases. By eliminating excessive costs, surgeon owned and operated implant distribution efficiently provides excellent implants resulting in hospital savings, better use of resources, and can serve as ancillary business income to surgeon owners of a well-run distributorship.

Surgeon owned distributorships will be scrutinized and evaluated based on:

1. Honest intent
2. Transparency
3. Compliance with existing laws
4. Merit

2. Carefully Choose Your Business Partners

As with surgery centers, imaging centers, and clinical practice, the success of your business will depend on the commitment level of the owners and successful management of operations.

Considerations:

1. Shared business values
2. Commitment to cost savings
3. Shared interest in this model
4. Similar implant feature preferences
5. Shared hospitals
6. Reputable, ethical, skilled
7. Willingness to consider implants from companies other than the "Big 5"

3. Get commitment

Early on find out who is in and who is not. Financial commitment is one of the best ways to substantiate interest. Consider obtaining an initial amount of seed capital in the early stages.

Choose a Lead Surgeon

A respected, fair surgeon leader is important for partnership development and for ensuring the process moves forward.

4. Obtain Qualified Expertise

Legal

- Find a law firm with extensive expertise in health care law, and specific experience with surgeon owned entities.

Contracting

- Consultant or in-house resource with hospital and implant company contracting experience.

Distribution and Inventory Operations

- Policies and Procedures
- Service representative training
- Regulatory compliance
- Inventory management
- Accounting and Financial management
- Contract implementation and maintenance
- General administration

Consider a Corporate Partner

A corporate partner such as Alliance that can facilitate your success by managing all phases of development of the distributorship while also supplying needed capital. A good corporate partner will:

- ✓ Be experienced and have valuable expertise
- ✓ Reduce the start-up time
- ✓ Provide Legal Opinions
- ✓ Provide valuable hospital references
- ✓ Provide hospital contract templates
- ✓ Provide existing and new vendor contracts
- ✓ Provide combined purchasing power
- ✓ Provide a Turn-Key Operation

5. Timely Implant Identification and Product Review

Note: This is a critical step that without strong leadership and commitment from your partners will result in loss of momentum and potential project failure.

- A. Meet to identify implant companies with desirable implant features
 - i. Adherence to specific design criteria
 - ii. FDA Clearance
 - iii. Implants must be equal or better than those used currently.
 - B. Schedule implant and instrument presentations (Max of 2 or 3 companies per meeting)
 - C. Decide within 1 week of the presentations which implants to trial in surgery
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(Hospitals have increasingly implemented stringent policies with regard to new implant companies. Allow up to 4 weeks from your decision week to the first surgical cases)

- D. Schedule surgical cases with implants under consideration
 (Do not let this process exceed 2 months. If your partners are not scheduling trial cases it is probably a **RED FLAG** that they are having trouble separating from their current rep or company or have other concerns.)

6. Develop a Preliminary Pro Forma

Good information is the key to developing a reliable and predictive Pro Forma. Below is the key information that you will need.

- 1. Total # of joint surgeons _____
- 2. Total # of spine surgeons _____
- 3. Total # of hospitals _____

4. Surgical Volume and Pricing

Procedure/Implant	Annual Surgical Cases	Hospital #1 Pricing	Hospital #2 Pricing
Lumbar Fusion-posterior 1 level			
Lumbar Fusion-posterior 2 level			
Lumbar Fusion-posterior 3 level			
PEEK VBR/Cage (TLIF/PLIF/ALIF)			
Anterior Cervical Fusion			
Knee Replacement (std)			
Unicompartmental			
Bipolar(low demand stem)			
Hip Replacement (Metal/Poly)			
Hip Replacement (Ceramic/Poly)			

7. Early Introduction of Your Distributorship to Your Hospitals (1– 3 months)

Before your hospital will contract with your distributorship, they will want the following:

- A. Information on the Distributorship
 - Name of distributorship
 - Who will own it
 - How it will run
- B. Legal Analysis
- C. Price Matrix – your distributorship can provide a price matrix that applies regardless which implants your distributorship purchases. The hospital's willingness work through internal resistance and other barriers will be proportionate to the potential cost savings they perceive.

At this point, you have completed the stages of Due Diligence:

- ✓ Committed Business Partners
- ✓ Reputable Legal Analysis
- ✓ Obtained Expertise/Corporate Partner
- ✓ Selected suitable implants from willing companies
- ✓ Developed a preliminary pro forma
- ✓ Introduced the distributorship to the hospital and gained clearance to do business

Now you are ready to complete your contracts, purchase inventory, hire your service rep, set up your office, and get started.